Valuation and Sustainability: Are Rating Tools Enough?

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Introduction

- Research
- Sustainability – What does it mean?
- How is it measured?
- Star Rating Analysis
- Valuation
- Issues Identified in Assessing Sustainability in Valuation
- Suggestions and Conclusions
“Buildings that are designed, built and operated with low environmental, social and economic impacts, whilst enhancing the health, welfare and quality of the people that live and work in them.”

NZ Ministry for Environment
## Advantages to Owners and Occupiers

<table>
<thead>
<tr>
<th>BENEFITS</th>
<th>OWNERS</th>
<th>OCCUPIERS</th>
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<tbody>
<tr>
<td></td>
<td><strong>Reduced operating costs</strong></td>
<td><strong>Reduced operating costs</strong></td>
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<td></td>
<td><strong>Enhanced brand</strong></td>
<td><strong>Enhanced brand</strong></td>
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<td></td>
<td><strong>Mitigation of future regulatory impacts</strong></td>
<td><strong>Mitigation of future regulatory impacts</strong></td>
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<td><strong>Reporting to stakeholders</strong></td>
<td><strong>Reporting to stakeholders</strong></td>
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<td></td>
<td><strong>Tenant retention</strong></td>
<td><strong>Employer of choice, employee retention</strong></td>
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<td></td>
<td><strong>Increased rents</strong></td>
<td><strong>Enhanced building environment</strong></td>
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<td></td>
<td><strong>Differentiated position of asset</strong></td>
<td><strong>Improved productivity</strong></td>
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<td></td>
<td><strong>Shorter letting up periods</strong></td>
<td><strong>Decrease their footprint on the planet</strong></td>
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<tr>
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<td><strong>Increased market share</strong></td>
<td><strong>Stronger tenant/owner/manager relationship</strong></td>
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<td></td>
<td><strong>Higher net revenue return</strong></td>
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How is it measured?

- **Rating Systems**
  - **Green Star (LEED / BREEAM)**
    - Design focused / New buildings primarily
    - Environmental focus
    - Weighted categories
    - 6 stars (4 stars and above)
  - **NABERS (Energy Star)**
    - Operational performance
    - Building data
    - 5 stars
  - Austria – Energy Rating certificates
NABERS

- NSW Government Scheme
  - Incorporates ABGR (Energy)
- 208 buildings
  - 56% (113) in NSW
  - 11% (21) ACT
NABERS

- Energy Rating
  - 202 buildings
  - 47% 4* or above

- Water Rating
  - 128 buildings
  - 22% 4* or above
GBCA – Green Star

- 109 Certified buildings
- 1 in 2004
- 65 in 2008
- 95 are office buildings
### GBCA – Green Star

<table>
<thead>
<tr>
<th>State / Star Rating</th>
<th>Office Design</th>
<th></th>
<th>Office As Built</th>
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<tr>
<td></td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>4</td>
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<tr>
<td>VIC</td>
<td>5</td>
<td>16</td>
<td>3</td>
<td></td>
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<tr>
<td>NSW</td>
<td>8</td>
<td>6</td>
<td>3</td>
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<tr>
<td>SA</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>2</td>
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<td>QLD</td>
<td>10</td>
<td>10</td>
<td>2</td>
<td>1</td>
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<tr>
<td>ACT</td>
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<td>2</td>
<td>1</td>
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<tr>
<td>TAS</td>
<td>1</td>
<td>1</td>
<td>0</td>
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<tr>
<td>WA</td>
<td>4</td>
<td>2</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>32</td>
<td>44</td>
<td>11</td>
<td>2</td>
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Valuation

- Valuation of commercial real estate utilises the Discounted Cash Flow (DCF) and Income Capitalisation, basis for assumptions is founded on the comparative analysis of transactional data.
- Comparable evidence – or lack thereof in regards to ‘sustainable buildings’
- Variables – how does sustainability fit in?
- Common perception of ‘added value’ or is it a discount for ‘non sustainability’?
- Or is sustainability just another parameter within the heuristic characteristics of a building?
Integration of energy efficiency and LCC into property valuation practice

**Cognition**

**Society in general**
- CO2 reduction
- Saving limited resources
- Indirect social benefits
- Psychological benefits (improved health)

**Problem**
- Positive/negative external effects of a property but no sufficient market value impact

**Solution**
- Restrictions/penalties/public grants for negative/positive external effects by Government

**Effect**
- “Limit of System”

**Tenant - intangible**
- Wellbeing of employee
- Corporate responsibility
- Occupational health and safety
- Productivity of core business

**Problem**
- Recognized claimed improvements but limited market impact

**Solution**
- Transparent communication of (intangible) benefits and productivity gains

**Effect**
- “Limit of Focus”

**Tenant - tangible**
- Occupational Costs (rent & operative expenses)
- Other Lease Terms

**Problem**
- Does it pay off? and in more detail

**Solution**
- Financial figures e.g.: NOI, ROI, Yield GDV, MLV etc.

**Effect**
- “Limit of Practise, Evidence and Methods”

Does “Green” pay off?
Various rating tools worldwide, lack of comparability across schemes, lack of assessment ability within rating systems to analyse ALL the building stock.

Knowledge of rating tools and application

Don’t “make” the market, just reflect it!

The market is not “always X %” – there are no general rules!

Remember that it is a difference to raise the value of Properties instead of cutting down on values for Non-Greens! Follow the market!

Find comparables!
Action and the Way Forward....Jones Lang LaSalle

1. Professional education to assist appraisers to fully understand the potential impact.

2. In each (full) valuation report the green value contribution of the property should be discussed in a specific section of the report.

3. Compile a data base of transactional information regarding, rents, sales prices, ratings and operating expenses

4. The support of more research work to isolate the value drivers of green features further.
Conclusions and Recommendations

1. Appraisers should share their experiences regarding sustainability in a transparent way. Especially comparable data should be collected and shared.

2. Appraisers need more impartial evidence of how green features contribute to the overall value.

3. Green labels and sustainability rating systems must more clearly address the language of the appraisal community to be understood and transferred into monetary measures.

4. Valuations standards need to address the new topic of sustainable issues directly and help appraisers to process the information gathered correctly.
Thank You!! Any Questions??

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