

25 November 2021

About INREV: the voice of the European non-listed real estate investment industry

INREV is the European Association for Investors in Non-Listed Real Estate Vehicles. We provide guidance, research and information related to the development and harmonisation of professional standards, reporting guidelines and corporate governance within the non-listed property funds industry across Europe.

INREV currently has more than 450 members. Our member base includes institutional investors from around the globe including pension funds, insurance companies and sovereign wealth funds, as well as investment banks, fund managers, fund of funds managers and advisors representing all facets of investing into non-listed real estate vehicles in the UK and the rest of Europe. Our fund manager members manage more than 500 non-listed real estate investment funds, as well as joint ventures, club deals and separate accounts for institutional investors.

Introduction

INREV welcomes the **RICS Draft Guidance Note: Sustainability and ESG in commercial property valuation and strategic advice, 3rd edition** and would like to offer the following comments in response to the questions raised below.

1

Is the document clear and easy to understand?
You must provide an answer to this question.

Somewhat

If no, how could it be made clearer?

The guidance note is a helpful first step towards a better understanding of the impact of sustainability on asset valuation. However, some sections are not entirely clear - see below answers. Also, the document is exclusively composed of narratives. Consider adding graphical representations, tables and/or bullet points to increase clarity and make it easier to read.

2

Do you think there is any content missing from this guidance note?

Yes

You must provide an answer to this question.

If so, what?

1. Given the recent wave of new and expected regulations (SFDR, EU Taxonomy, UK FCA initiatives as well as the COP 26 outcomes) it is likely that valuers will be required to increase focus to climate risks. This should be appropriately reflected and considered in the RICS guidance. For example, the importance of disclosing climate risk KPIs as part of asset valuation during acquisition phase or for regular asset level reporting as well as explaining how climate risk is reflected in the methodological approaches for asset valuation.
2. The guidance note seems to be focused more on the US and the UK. We suggest to also consider the EU continental approaches, ratings and benchmarks.
3. In the guidance note, it could be helpful to comment on potential influence of the SFDR Article 8 or 9 rating of the investor on the property valuation.
4. Regarding environmental risks to assets, the flooding aspect seems to be disproportionately high. We suggest the checklist balance different risks and clarify their respective weighting.
5. Regarding net zero carbon strategies, it would be helpful if the guidance note could also address the carbon offsetting perspective and implications on valuation costs.
6. Regarding definitions, we suggest the guidance note include definitions on sustainability-related terms, such as climate risk, physical risks, transitional risks, net zero carbon building, etc. INREV developed together with ANREV and NCREIF PREA a Global Definition Database (GDD) for the non-listed real estate industry that includes multiple sustainability-related terms. More details about the INREV GDD can be found: <https://www.inrev.org/definitions/>

3

Are there any points that should be expanded on?

You must provide an answer to this question.

Yes

If so, what?

1. The guidance note could consider and provide more details on the quantitative valuation process.
2. References to the SFDR would be helpful to include in the guidance note. For example, referencing the “inefficient real estate assets” formula provided in the draft RTS under SFDR (published in February 2021). It's likely that market participants expect their valuers to either provide these calculations and/ or provide 3rd party assurance for them.
3. In Appendix A, we suggest referencing the Carbon Risk Real Estate Monitor (CRREM) decarbonisation pathways and risk assessment tool to develop technical screening criteria for the real estate industry. (CRREM: EU funded research and innovation programme for real estate industry - <https://www.crrem.eu/>)

4

Is ESG and sustainability a key priority for you/your firm/organisation?
You must provide an answer to this question.

Yes

5

To what extent do you see/reflect ESG and sustainability in current valuation reporting?

Given the wave of new and upcoming sustainability regulations and with more data as well as evidence on valuation impact becoming available, our members see the impact of ESG criteria on valuation and its reporting as a highly important topic.

With the integrated reporting process, the TCFD and the regulatory obligation linked to CSRD and SFDR will accelerate the need to combine ESG and financial valuation.

6

Are there any references to literature, research, other standards or insight that should be included in this guidance that currently aren't?

Yes

If yes, what would you like to see included?

The guidance note could consider references to the following resources:

1. Fact sheets regarding "green-premiums" for energy efficiency

<https://ec.europa.eu/research/participants/documents/downloadPublic?documentIds=080166e5aba7ec2c&appId=PPGMS>

2. SFDR:

<https://www.inrev.org/library/sustainable-finance-disclosure-regulation-sfdr-briefing>

3. INREV:

<https://www.inrev.org/guidelines/module/sustainability#inrev-guidelines>

7

Does the guidance suitably relate to other standards and regulation in your jurisdiction (for example lending and accountancy regulations)?

You must provide an answer to this question.

Somewhat

8

Do you have any further comments?

1. The timing of implementation of 31 December 2022 seems to be very generous. The guidance note could consider further aligning the timing of implementation with the SFDR regulations.
2. The guidance note could address the following ESG aspects that valuers should be taking into account in their valuation reports and calculations, specifically:
 - a. A separate line for ESG capex vs “normal” Capex
 - b. Explanation of the effect of the asset ESG “quality”/rating vs the prime yield
 - c. ESG rating per asset