
Guest editorial: From implicit to explicit: IVS 2025s sustainability/ESG mandate

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As we go to print, the International Valuation Standards (IVS) 2025 will come into effect as of the 31st of January 2025. Why is this notable? This is the first time the IVS has explicitly directed valuers to consider sustainability/ESG in valuation. Whilst in some sectors sustainability may already be having some effect on value drivers, often sustainability is being implicitly considered, and often when comparables are being chosen, many of the characteristics of the comparable assets will often have similar sustainability characteristics (not always, but in certain markets). The IVS changes clearly direct valuers towards being more explicit, not just about sustainability or ESG in general commentary, but explicitly unpacking the different elements. This is going to be a substantial shift to valuers' practice, from data collection and inputs to clearly needing to consider, as part of the comparison approach, the material differences in ESG – sustainability attributes between the subject and the comparables. In this issue, we see sustainability scoring considerations and how this may be used in a valuation context to the profiling of the IVS ESG factors against existing sustainability rating tools in the market. However, the latter has challenges, as many of the sustainability rating tools are often not transparent in how properties have achieved their ratings, making it difficult for valuers to then compare their subject to comparable properties beyond just the certification badge awarded.

The evolving nature of sustainability/ESG considerations presents challenges for valuers in terms of understanding the extent and knowledge required to assess various ESG aspects and their potential effects on property and market value assessments. The IVS has provided a detailed list of different ESG attributes; however, it is the responsibility of the valuer to understand the most significant drivers in their local markets and report on these. Whilst information pertaining to some of the criteria may be available, the lack of transparent data around ESG/sustainability attributes will likely be challenging for valuers initially to identify, decipher and then compare in the valuation process. The IVS, in providing the list, is not expecting every aspect to be covered; given that the IVS covers a broad range of assets, liabilities and company valuations – not just real estate – there will be nuances across markets and sectors around what should be considered as *significant*. The IVS does acknowledge that these factors may be qualitative and/or quantitative and that the ESG factors may present a risk or opportunity. Highlighting that the “green premium” commonly referred to over the past few decades is not necessarily an always positive perspective. This is explored in this issue through the examination of the relationship between ESG factors and financial performance and the emerging importance of the “S” dimension and how this may also be linked to financial performance. Considering the downside risk of ESG factors may shine a spotlight on climate-related risks in particular, which present obvious and sometimes unsurmountable quantum of risk and could lead to downside value erosion. However, if the market is not reflecting this risk in their pricing, then the valuer is required to reflect that market sentiment at that point in time. However, a prudent valuer should highlight the risk exists, even if there may not be demonstrable market evidence to demonstrate any value implication at the time.

There is a confluence of drivers in the market, which do vary by location and sector but comprise increasing regulatory and legislative drivers, shifting investor preferences and due diligence behaviour, changing occupier demands and the varying approaches to finance. The latter has shifted from initially offering discounts and incentives for “green” assets to the emergence of avoidance of lending to “dirty” or “brown” assets or increasing penalties and higher rates. A paper in this issue explores what is happening in commercial real estate lending and whether there are “green discounts” emerging across the sector.



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There are increasing legislative requirements flowing through from various levels of government, from country or region level down to state and city/local governments. Some of these will have market effects on increasing transparency, like the climate-related disclosures that are being rolled out across various countries, usually with a local interpretation of the directions in S1 and S2 from the International Sustainability Standards Board. Highlighting the emissions profile and exposure to climate-related risk will likely shine a spotlight on these key areas and will likely see these reporting frameworks influence investor and occupier behaviour in the years to come, whilst other evolving regulatory regimes are driving penalty-based schemes, which will likely impact property cashflows. Whether it is like Local Law 97 in New York, where building owners are fined for emissions above a certain benchmark, or the Minimum Energy Efficiency Standards (MEES) in the UK, which prevent the leasing of assets that don't meet a particular energy performance level, both will have implications for property cashflows whether in outgoings or requirements for additional CAPEX. Furthermore, the dynamic legislative and regulatory environment will continue to have substantial implications for valuations and the manner in which various ESG factors may influence value. Valuers need to be aware of the regulatory regime in which they practice and the implications various legislation and policy may have on the market and asset being valued.

The past few years have seen both occupiers and major investors (particularly European-based funds) becoming more strategic in their decisions, particularly in regard to emissions (many with near-term net-zero carbon targets or reduction targets) and climate-related risks. Investors are incorporating ESG into the due diligence programs, with a strong focus on emissions (CRREM stranding being a key consideration for European investors) and climate-related risks. However, the latter is seeing particular investor groups removing themselves as a potential bidder when key climate-related risks are identified in the DD process, often leading to reduced bidder pools and, in some cases, lower pricing. Whilst occupiers are starting to demand break rights if assets are not going to meet their requirements by a particular date, several leases in Australia have been identified to have these break rights if the asset is not electrified by a particular date. Valuers need to be aware of how their markets and the stakeholders are responding and prioritising sustainability and ESG and how this may impact decision-making, agreements and pricing.

The various industry bodies that adopt the IVS, like the Australian Property Institute, Property Institute of New Zealand and Singapore Institute of Surveyors and Valuers, are providing various suggestions, direction and education for their valuer members. The Royal Institution of Chartered Surveyors (RICS) has also released an updated version of the Red Book, aligning with the IVS sustainability and ESG requirements and with new guidance on explicitly reflecting sustainability and ESG factors in valuations. Many of the researchers (myself included) who have followed the role of sustainability and the valuation profession over the years will be especially interested in seeing how valuers respond to the new challenges to knowledge, processes and judgements. The practice insight in this issue provides the first glimpse at valuers exploring the challenges ahead and highlights key issues for consideration, which may be beneficial for valuers, clients, financiers and industry bodies to be aware of and take steps in driving a consistent approach to valuation practice, albeit a difficult task as markets are nuanced depending on location and sector.

The IVS recognises the rising importance of sustainability and ESG across the markets and its role in decision-making by the various stakeholders and how this may be influencing values. However, valuers need to be cognisant that they need to be reflecting the market, not making it, and they will need to be explicit in their justification of how sustainability/ESG factors may affect the asset's market value. A disclaimer claiming ESG is implicitly considered is no longer enough, and the explicit unpacking of sustainability/ESG factors will assist in developing knowledge and awareness across the profession and market and highlight and reflect where value implications may exist with explicit sustainability/ESG factors.

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