



Introduction and Background

The ***Vancouver Valuation Summit*** was a seminal event. A first-of-its-kind opportunity to bring together leading thinkers and practitioners concerned about Valuation and Sustainability.

The Summit explicitly recognized that economic and environmental issues are inextricably linked. International, national and regional enterprises and institutions are increasingly incorporating sustainability into operations.

The ***Vancouver Valuation Summit*** broke new ground in a number of key areas including:

1. Highlighting the importance of sustainability to economic prosperity and social cohesion,
2. Describing the nature of linkages between Valuation and sustainability,
3. Profiling how sustainability factors can add value to property,
4. Emphasizing the importance of the rigor of Valuation and the professional capacity of valuers, and
5. Identifying opportunities for Valuation and sustainability practitioners to work together to advance understanding and knowledge.

In addition, the Summit broadened the global network of valuers and Valuation organizations with an interest in examining how sustainability factors can strengthen Valuation processes and outcomes.

Led by Premier Gordon Campbell of British Columbia, a major outcome of the Summit was the signing of the Vancouver Valuation Accord (VVA). The Accord represents a formal expression and commitment by signatories to advance understanding, knowledge, educational capacity and practices about Valuation and sustainability.

The Accord has established a partnership foundation on which the Valuation and sustainability communities can develop a Work Plan for the future.

To this end, a Special Forum for valuation organizations/experts and sustainability thinkers was convened immediately after the Summit to identify the challenges and opportunities inherent in acting on the VVA, and building on the momentum achieved through the Summit.

The Forum was an essential element of the VVS process, and was presented on behalf of all sponsors and supporters by the Globe Foundation of Canada, and facilitated by Christopher Henderson of The Delphi Group.

The VVS Forum Design and Approach

Invited participants to the VVS Forum included: representatives of major valuation organizations, expert valuers and leading sustainability practitioners. A list of attendees is found as Attachment 'A'. Thus, this Forum Summary reflects the input of all participants who represented the views of a variety of sectors and nationalities.

The Forum convened on the basis of the following ***Common Points of Understanding*** among participants:

1. The mechanisms and precepts of Valuation are critical to business transactions, worldwide,
2. Valuers and appraisers are required to provide independent professional rigor to the process of valuation,
3. Valuation professionals are governed by standards, practices, expectations and statutes that vary by location,
4. The study of integrating sustainability factors into valuation and appraisal is 'breaking new ground', and
5. There is a lot that is to be learned by many valuers about sustainability.

Forum participants were asked to come to the table bringing: an open mind; their expertise and experiences; and reflect on the following ***Critical Valuation and Sustainability Questions:***

- ❖ Which sustainability factors merit priority consideration in Valuation?
- ❖ Are there Valuation standards and practices that include elements of sustainability, or areas where sustainability appears to have a demonstrable impact on Valuation processes and/or outcomes?
- ❖ Which business sectors would potentially benefit the most from including sustainability factors in Valuation and appraisal?
- ❖ Which risks can sustainability practices, approaches & technologies reduce, and thus positively impact business and asset performance?
- ❖ How might Valuation professions consider sustainability in their educational and developmental efforts?
- ❖ How can the sustainability sector gain a more thorough understanding about Valuation?
- ❖ How can businesses and governments derive greater benefit from a stronger relationship between sustainability and Valuation?
- ❖ How can sustainability and Valuation professionals most effectively collaborate?
- ❖ What options and opportunities offer the most potential to effect the Vancouver Valuation Accord?

Framing the Issues of Valuation and Sustainability

Professor Sarah Sayce set the stage for discussion on the Accord and go-forward Work Plan. Her comprehensive presentation which was prepared in collaboration with Chris Corps of Asset Strategics is found as Attachment 'B' and describes:

1. Global efforts to examine Valuation and sustainability,
2. Research work post-secondary institutions have initiated on Valuation and sustainability and preliminary findings,
3. The inclusion of sustainability issues in Valuation educational programming, and
4. A summary of challenges and opportunities ahead.

Professor's Sayce's presentation provided Forum participants with an excellent overview of educational and research initiatives on the subjects of Valuation and sustainability.

Valuation and Sustainability: Major Needs Identified by Practitioners

Forum participants were asked, in plenary and small group discussions, to identify the major needs of Valuers, the Valuation community, and sustainability proponents relative to the challenge of integrating sustainability factors into Valuation processes.

In doing so, the following ***Fundamental Principle*** was highlighted through discussion:

Valuation is an essential element of business. Efforts to evolve the practice of Valuation: need to be economically grounded; should be responsive to market dynamics and environmental/ecological forces; and, should reflect the requirements of clients of Valuation services. This is, in essence, a dynamic process reflecting key societal trends, such as the broad-based movement towards a more economically and environmentally sustainable world. Thus the consideration of how sustainability factors shape and influence Valuation processes and decisions demonstrates both the rigor and evolutionary nature of Valuation and appraisal, and the key role played by Valuation organizations in their interaction with sustainability communities and other stakeholders.

This ***Fundamental Principle*** is respectful of the role of Valuers in the marketplace, and also highlights the potential additional benefits Valuation might be able to offer in the area of sustainability.

The ***Major Needs*** identified by Forum participants, included the following key points.

- ❖ *Tracking of Trends:* On-going tracking of specific Valuation and sustainability activities and practices on a global basis
- ❖ *Asset Worth Versus Value:* Study and examination regarding how sustainability factors add worth to an asset, in addition to value, in the eyes of owners, investors, users or potential buyers. This might involve the consideration of a wider market for Valuation, incorporating property, but potentially also beyond property
- ❖ *Market Evidence:* Information and evidence regarding how sustainable buildings design and operation impacts on Valuation, particularly performance data
- ❖ *Valuation Practices:* Review of Valuation practices and norms to be more sensitive to sustainability factors which have been proven to impact on value
- ❖ *Asset Classification Systems:* Development and improvement of asset classification systems
- ❖ *Benchmarks:* Establishment of benchmarks for Valuation and sustainability
- ❖ *Legal Issues:* Legal frameworks and a testing of value systems
- ❖ *Educational Capacity:* An enhanced educational capacity for Valuers in the area of sustainability including the development of Tool Kits and other resources.
- ❖ *Recognition of the Value of Sustainability:* Study into how Valuation might evolve to identify potential incentives or rewards for sustainability factors
- ❖ *Stakeholder Perspectives:* Ensuring that Valuation processes give consideration to the views and needs of stakeholders who might not be a part of the business transactions but who are impacted by it in the course of seeking to advance sustainability
- ❖ *Policy Interaction:* Establishment of dialogues with governments, business and sustainability organizations

Issues of Convergence: Key Areas for Collaborative Opportunity

The Forum explicitly recognized that there was a variance of views among participants and their organizations regarding how to move forward on the issues of Valuation and sustainability. There was also a high degree of convergence (or agreement) amongst participants regarding the following **Key Areas for Collaborative Opportunity** on Valuation and sustainability.

In setting out **Key Areas for Collaborative Opportunity**, Forum participants emphasized that there was no pre-determined or desired outcome. Rather that this is a business and environment change process which needs to be informed and shaped by markets, the needs of clients and users of Valuation services, societal trends, public policy and ecological realities.

However, participants also highlighted the need for urgency to move forward because of the potential scale and impact of environment and sustainability challenges world-wide. This is not to suggest undue haste, but a 'Call to Action'.

- ❖ *Organizational Collaboration:* Cooperation between disciplines, Valuation organizations, educational institutions, sustainability experts.
- ❖ *The Application of Sustainability Factors in Valuation:* What sustainability actions make the most difference under various market conditions on value: this study might include analyzing markets in various parts of the world.
- ❖ *'Value from Valuation':* A Holistic and collaborative approach such that the Valuation and sustainability efforts represent a "sum is greater than the parts" thinking.
- ❖ *Economic and Market Evidence:* Macroeconomic studies that demonstrate where sustainability has had impact on asset and property value.
- ❖ *Professional Enhancement:* Enhancing the value of valuers as a profession in terms of sustainability. This is to ensure that the valuer profession is not simply a price driven profession but one that adds additional value beyond what accountants or other competitor disciplines might be able to offer.
- ❖ *Academic/Educational Capacity Development:* Profiling academic work that is required in this area
- ❖ *Professional Training and Development:* Training and the qualifications of valuers in their work relative to major sustainability issues and factors

The Proposed Go-Forward Work Plan

In seeking to develop a ***Go-Forward Work Plan for Valuation and Sustainability***, Forum participants emphasized the importance of:

1. Valuation organizations working together transparently, and interacting with other disciplines and bodies,
2. Acting with some urgency given the pressing nature of environmental and ecological pressures on societies and economies around the world,
3. The need for a planned and rigorous change process,
4. Flexibility in terms of how Valuation professionals take forward sustainability principles within their own organizations,
5. An appreciation for the benefit of developing a 'brand' for valuers and appraisers in the domain in Valuation and sustainability that is market-oriented, and

6. Basing changes to Valuation practices on fact-based evidence.

In essence, Forum participants highlighted the need for a managed change process that had professional, sustainability, and market dimensions. It was felt that this would most effectively define the establishment of a Valuation and sustainability ‘brand’ over time.

A graphic presentation of the **Go-Forward Work Plan** is presented on the next page. The Scope of the **Go-Forward Work Plan** is defined in the following manner.

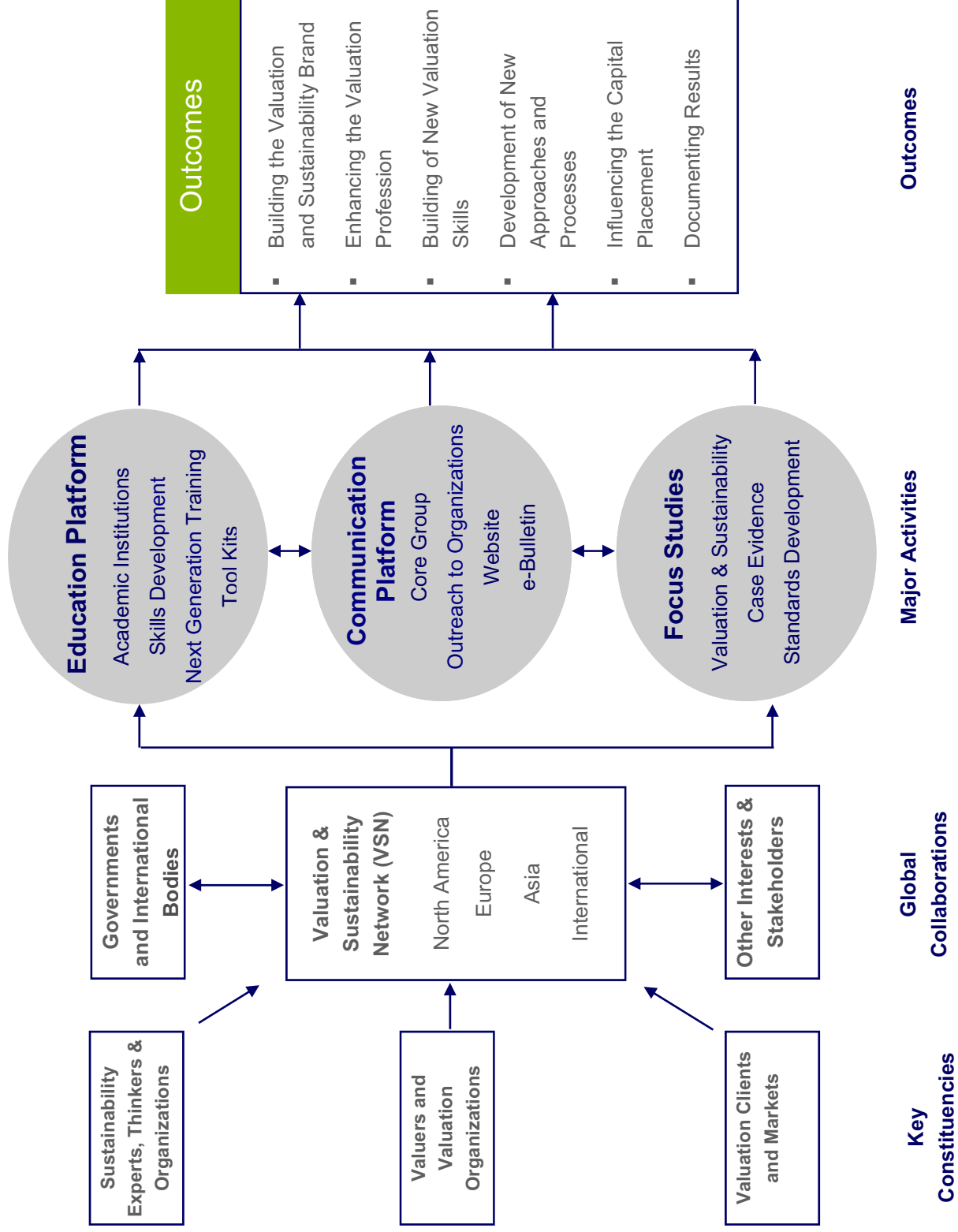
- A. **Key Constituencies:** Recognition and inclusion of key ‘constituencies’ at the intersection of Valuation and sustainability, including: sustainability experts, thinkers and organizations; valuers and Valuation organizations; and Valuation clients and markets.
- B. **Global Collaboration:** Establishment of a **Valuation and Sustainability Network (VSN)** consisting of the three main constituencies with outreach to: other interests (e.g. social responsible investing, clean tech and corporate social responsibility) and disciplines; and governments and international bodies. This was described as “an outward facing circle” through which professional groups connect with each other as a part of the circle and within the circle have an openness to share thinking and new ideas. The open aspect of the circle is to the market place and to other disciplines and stakeholders, including sustainability experts. Critically, the VSN would be globally-focused, emphasizing developments in North America and Europe, but also reaches out to Asia and other regions.
- C. **Major Activities:** Three major areas of activity with related elements as described below.

Education Platform: There is a clear recognition that education is the foundation on which change will occur. This identifies the need for addressing skill shortages and new Human Resources talent, and a collaborative approach to integrating sustainability in Valuation practices. This would involve leadership of academic institutions and professional bodies to: building skills and capacity of today’s valuers; establishing the next generation of Valuation expertise; and, developing educational Tool Kits.

Communications Platform: The importance of communications was stressed by all Forum participants, and a communications platform might include: a Core Group to steer the change management process; outreach to Valuation and other organizations; a Valuation and sustainability website; and some manner of regular (e.g. quarterly) e-Bulletin on Valuation and sustainability.

Focus Studies: To provide rigor, participants noted that the change process would benefit from focus studies that build the case evidence for new practices and Valuation standards development.

**Go-Forward Valuation and Sustainability Work Plan:
A Market-Oriented, Ecologically-Sensitive, Client-Focused Change Management Framework**



D. *Outcomes*: A focus on Outcomes, specifically the ones noted below:

1. Building of a Valuation and sustainability 'brand' over time,
2. Enhancing the role of the Valuation professional regarding sustainability issues,
3. Building new valuation skills,
4. Development of new approaches and processes,
5. Influencing the placement of capital,
6. Documenting of results of the integration of sustainability and Valuation, and
7. Influencing public policy.

As a final task, the VVS Forum briefly considered a timeline for acting on the Go-Forward Work Plan. Specific dates and actions were not specifically proposed. However, utilizing the Work Plan a number of points of a timeline nature are proposed:

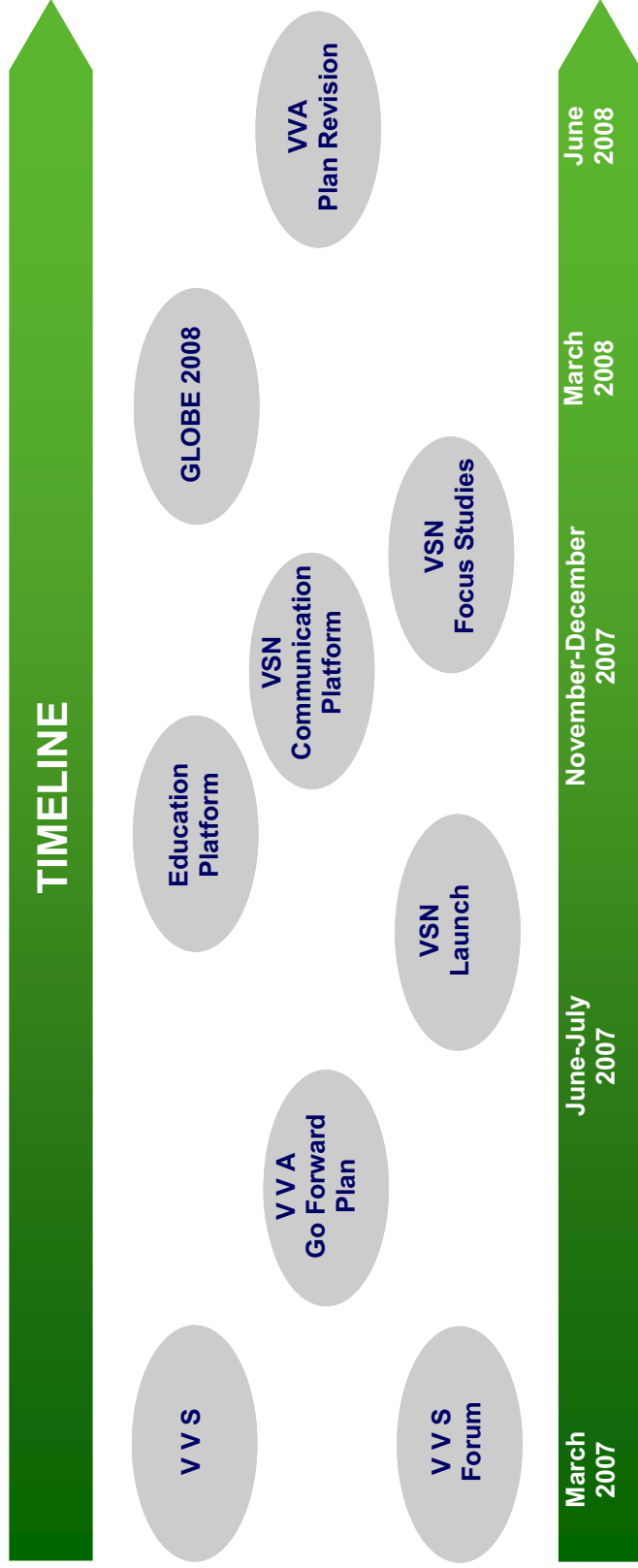
1. April 2007: External communication of the Go-Forward Work Plan
2. June-July 2007: Launch of the VSN
3. July-Nov: Establishment of the Education and Communications Platforms, and selection of Focus Studies
4. Nov-Dec 2007: Update report to VSN on education, communications and Focus Studies progress
5. March 2008: VSN gathering before the GLOBE 2008 Conference and Exposition in Vancouver
6. June-July 2008: Revision to the Go-Forward Work Plan

The timeline is presented graphically on the next page.

Summary

The VVS and the Forum have set into motion a global effort, led by Valuation organizations, sustainability experts, international bodies, and leading governments. This effort represents a sound basis for making changes to the practice of Valuation, and the critically important role of the profession of valuers and appraisers, worldwide.

Go-Forward Path to the Global Valuation Sustainability Network (GVSN)





Attachment 'A'

List of Forum Participants

1. Jim Amarin
2. Louis Armstrong
3. Cori Barraclough
4. Raul Bracamontes
5. Matt Bruck
6. Theddi Wright Chappell
7. Peter Clark
8. Chris Corps
9. Barton DeLacy
10. Rob Fitzgerald
11. Sean Gilbert
12. Keith Goodwin
13. David Greenwood
14. Chris Grzesik
15. Christopher Henderson
16. Graham Hill
17. Shaaban Hoza
18. Paul LaBranche
19. Debra Larusson
20. Patrick Lucey
21. George Maurice
22. Paul McNamara
23. Ian Meredith
24. Andre Morin
25. Philip Parnell
26. Marie Savage
27. Sarah Sayce
28. Clemencia Parra de Villamizar
29. John Wiebe
30. Steve Williams



VANCOUVER
VALUATION
ACCORD

Attachment 'B'

Presentation of Prof. Sarah Sayce

*Prepared by Prof. Sarah Sayce and
Chris Corps*

Attached as a Powerpoint presentation:

**The New Sustainability Agenda:
Connecting with Valuation & Framing the Issues**

**Sarah Sayce,
Head, School of Surveying
Chair, C-SCAIFE
Kingston University
& Chris Corp
Asset Strategics Ltd**

The New Sustainability Agenda: connecting with valuation: framing the issues

Value and Sustainability Conference

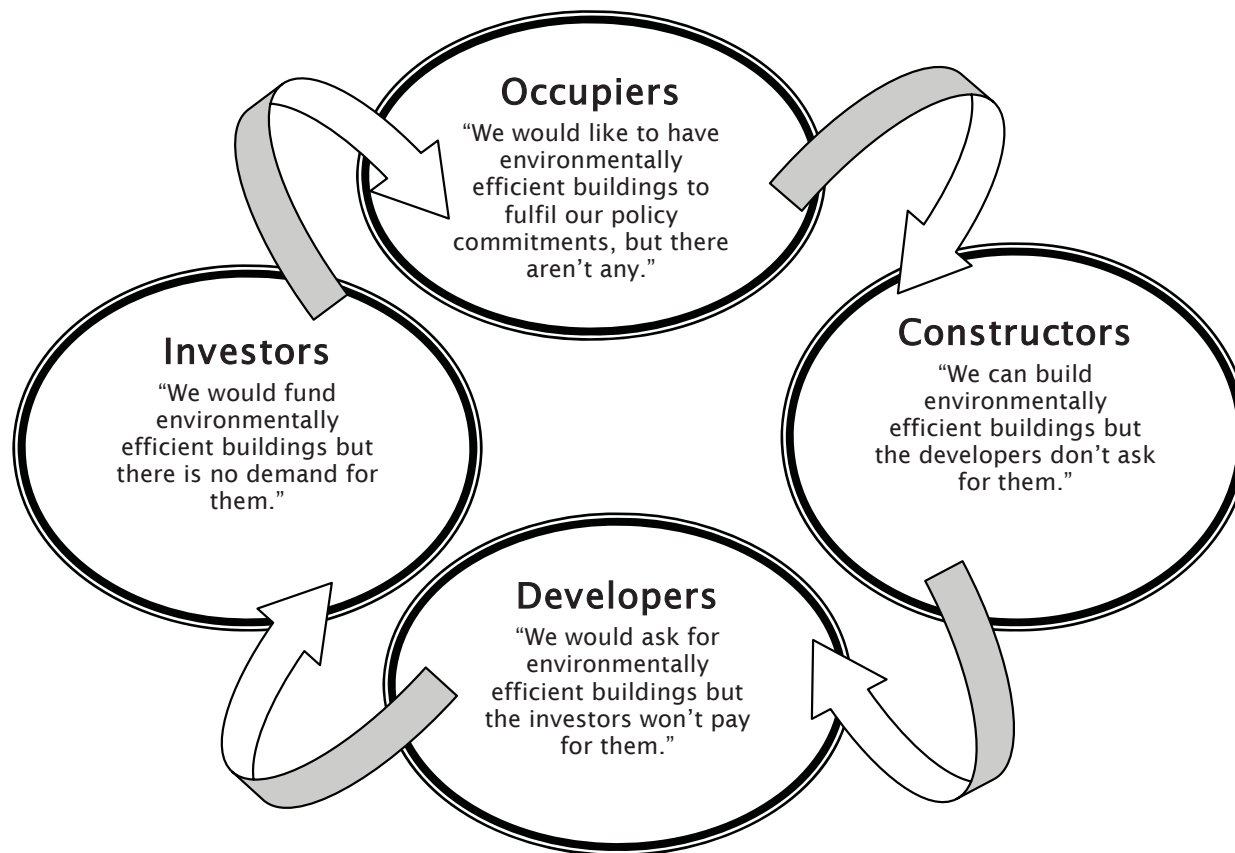
Vancouver
March 2007

Sarah Sayce,
Head, School of Surveying
Chair, C-SCAIPE
Kingston University
& Chris Corp
Asset Strategics Ltd

Kingston University London



UK 2000: the Circle of Blame and no business case – just rising awareness



Sir Martin Laing's Sustainable Construction Task Group

Kingston University London



The Rise of the Sustainability Agenda

- General Market Drivers

- CSR
- Legislation & policy
- Fear of legislation
- Social concerns
- Risk
- Property market dynamics ?

The Agenda affects the client base – the impact on property is indirect as well as direct...

What do we mean by 'sustainable property'?

- Assessing social, environmental and economic performance – the “triple bottom line”
- Not just ‘green buildings’ – but sustainable ones
- Work for occupiers and owners
- Not just new build
- The existing stock – the 98/2 conundrum – more of an issue for the ‘old world’



Criteria for Evaluating Sustainable Property: The SPAP Project

- Energy & carbon efficiency
- Accessibility
- Adaptability
- Climate control
- Waste and Water
- Pollutants
- Occupier
- Contextual Fit

Performance under all these heads – and others - will drive future value performance: but are they factored into MV?

Connecting Sustainability Criteria with Value

- Sustainability will impact throughout the building life cycle and there exists ability to intervene through:
 - Property procurement and selection policies
 - Active management
 - Evaluating potential impact on value leading to
 - Market transformation

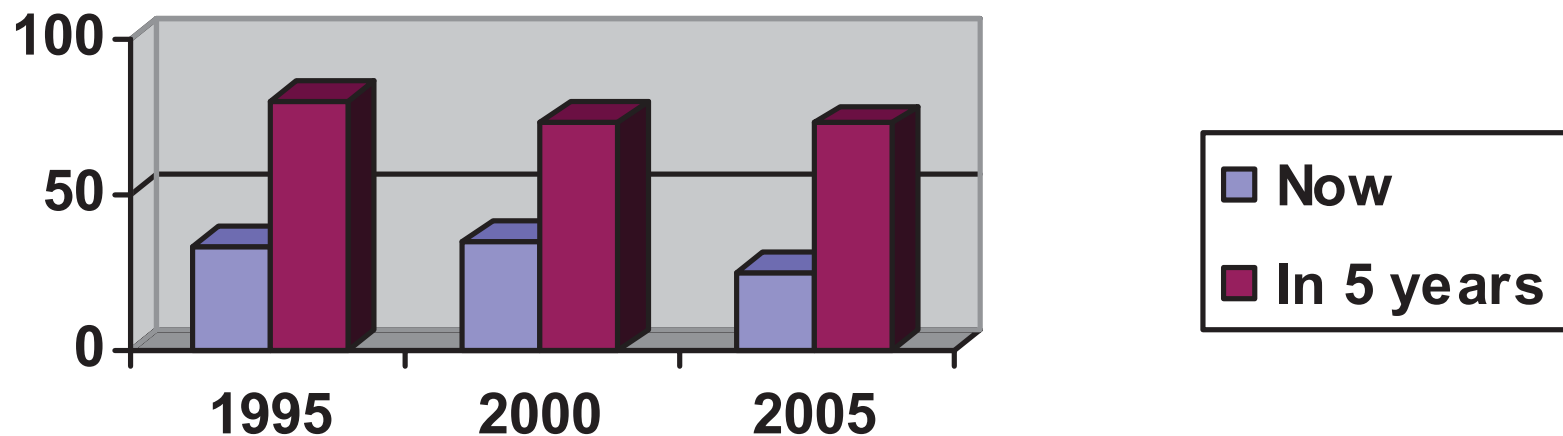


Connecting Sustainability Criteria with Value

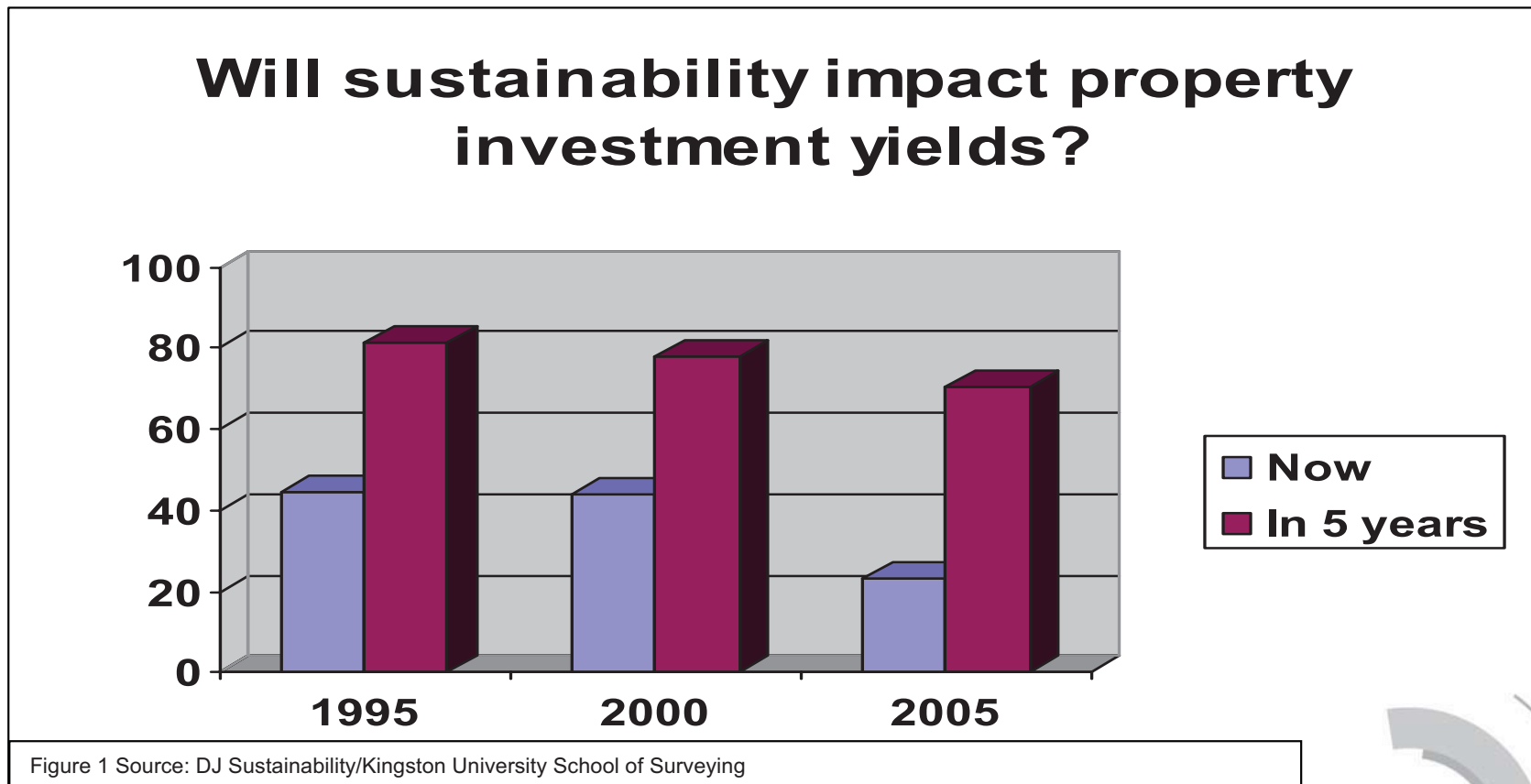
- There is little evidence in the UK that these factors are driving values – even though valuers may be aware of them...

Not yet an issue on rental values

Will sustainability issues impact rental values?



Nor yet investment yields...



But for Property Occupiers it is increasingly a reality...

- Occupiers are influenced by social, environmental and economic pressures
- They need buildings that operate effectively: adaptability and accessibility matter..
- Buildings that are compliant with legislation – now and in future
- Energy, waste and water, pollution are quantifiable cost and risk considerations
- CR polices are drivers - the case of M&S



For Property Investors...

- The case for investing in sustainable stock must make economic sense
- The Responsible Investor Case and the Universal Investor are gaining recognition
- Sustainable property will better meet their overall policies
- So appraisals should recognise this agenda – and values will follow



The Sustainable Property Appraisal Project

Sustainability Criteria met

Sustainable Property Appraisal Tool identifies investment worth as higher than market value

Sustainability aware investor exploits mis-pricing to purchase or retain asset

As sustainability bites, asset performs better than market norm

Market identifies mis-pricing and adjusts

Sustainability Criteria not met

Sustainable Property Appraisal Tool identifies investment worth as lower than market value

Sustainability aware investor exploits mis-pricing to sell asset

As sustainability bites, asset performs worse than market norm

Market identifies mis-pricing and adjusts



The Sustainable Property Appraisal Project

**Property Rating
(Future Proofing Property
Questionnaire)**

**Translating Sustainability
Rating through to Worth
Variables**

**Production of Sustainable
Property Appraisal alongside
conventional appraisal**

The Sustainable Property Appraisal Project

- Requires capability to:
 - Assess for sustainability
 - Reflect sustainability in appraisals
 - Monitor investment performance against sustainability performance
 - Working towards a Sustainable Property Investment Index



Sustainable Property Appraisal Results

Pilot Property	Future-Proofing Property Rating	Standard NPV	Sustainability explicit NPV	% change
Retail 1	Poor	£81,941,626	£78,044,073	-4.99
Retail 2	Typical	£84,904,908	£81,377,074	-4.34
Retail 3	Typical	£6,578,254	£6,316,856	-4.14
Retail 4	Typical	£114,198,367	£110,767,540	-3.10
Retail 5	Typical	£2,072,871	£2,041,604	-1.53
Offices 1	Typical	£73,768,044	£71,852,635	-2.67
Offices 2	Good	£196,869,962	£197,727,958	0.43
Offices 3	Good	£11,372,296	£11,509,583	1.19
Offices 4	Good	£18,528,247	£18,876,900	1.85



Connecting to Value...

- Sustainability concerns will work through into the value that occupiers will place on property – non-sustainability responsive property will be worth less to them
- It will change their estates strategy and buying/ leasing preferences
- Valuers need to respond by recognising these issues in their appraisals..



The Role of the Valuer

- Valuers interpret markets
- They analyse and interpret *evidence*
- For them to build sustainability principles into their valuations will require observational evidence –
- This is backed up by Market Value definitions in International Valuation Standards, USPAP and RICS Red Book



Market Value (IVS)

The price most likely to be concluded by buyers and sellers of a good or service that is available for purchase. Value establishes the **hypothetical or notional price** that buyers and sellers are **most likely** to conclude for the good or service. Thus, **value is not a fact, but an estimate** of the likely price to be paid for a good or service available for purchase at a given time.”

Only if the parties recognise sustainability – or their advisors do - will it feed into valuations

The Current Role of the Valuer

- The role of the valuer has been dominated by commercial market activity
- Our current methods concentrate on price prediction based on the views and values of the 'internal stakeholder' only
- The requirement for single bottom line returns measured in terms of IRR and NPV will not go away – but they will not be enough in themselves
- The interest rate environment tends to drive decision horizons at all stages of the life cycle – and forces a focus on the 'here and now'

The Current Role of the Valuer

- Valuers methodology currently ignore externalities – and the impact of the property on 3rd parties – that has not been regarded as their business
- Even for ‘non-market’ properties the methodology adopted is taken from a narrow ‘cost as surrogate for value’ approach – if they have been valued at all
- Our role has not been extended generally beyond pricing from the one party standpoint **but**



The Role of the Valuer

- **But**
- If sustainability really matters to our clients the market *should* – in theory – respond and so will valuers
- In time this may lead to market transformation – where an inclusive TBL approach will be adopted
- A challenge – or an opportunity?



Change on the way in practice..

A discernible shift..

Lack of professional interest



Awareness Raising (client and valuer)



Imparting and sharing Knowledge (the Accord)



Valuing the incomparable

- The sustainability agenda draws attention to:
 - Tomorrow
 - Others without economic interests
- Valuers have concentrated on commercial and residential markets – but what of:
 - The growing power of the ‘external stakeholder’
 - The need for intra-generational equity?
 - The need to value e.g. Heritage assets?



Valuing the incomparable

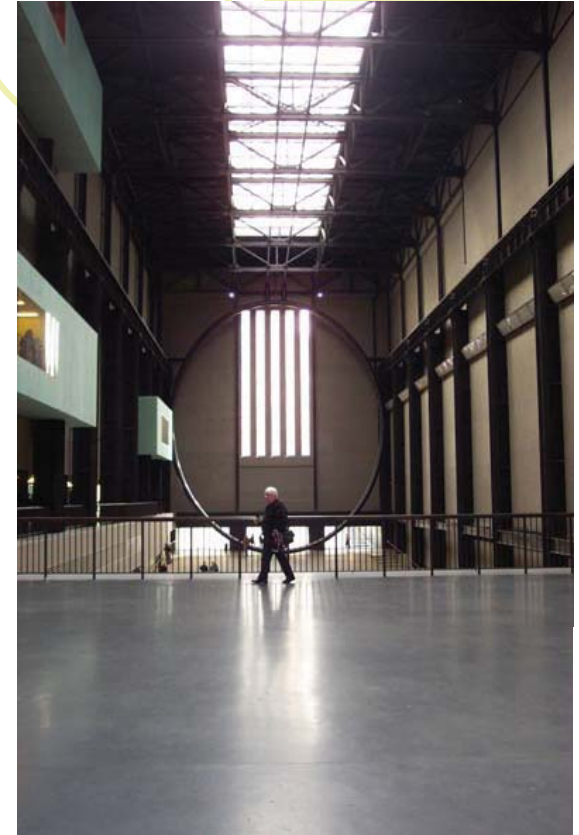
- Valuing Heritage is now upon (some of) us – for accounting
- This provides a catalyst to review our methods



Is there a need to value for other purposes and with other viewpoints and is this the valuer's role?

Valuing the incomparable

- Value to one person may give lead to quantifiable dis-benefits to others (.e.g. pollution; health risk)
- Society may recognise 'value' which is non-tradable
- But do (or will) clients?
- Will public and private sectors require different methodologies?



Do we need to consider other methods?



Educating the Valuer

- Other methodologies for assessing value are established through environmental economics
 - Contingent valuation
 - Hedonic pricing
 - CBA
- Real Estate Valuers have normally worked only within one economic paradigm
- This has been reinforced in Professional Standards



The Accounting Interface

- The development of valuation standards is linked to accounting standards
- The role of the chartered accountant is now seen to relate to sustainability – at organisational and asset level
- The valuation profession needs to dialogue and up-skill to maintain relevance

The Accounting Interface

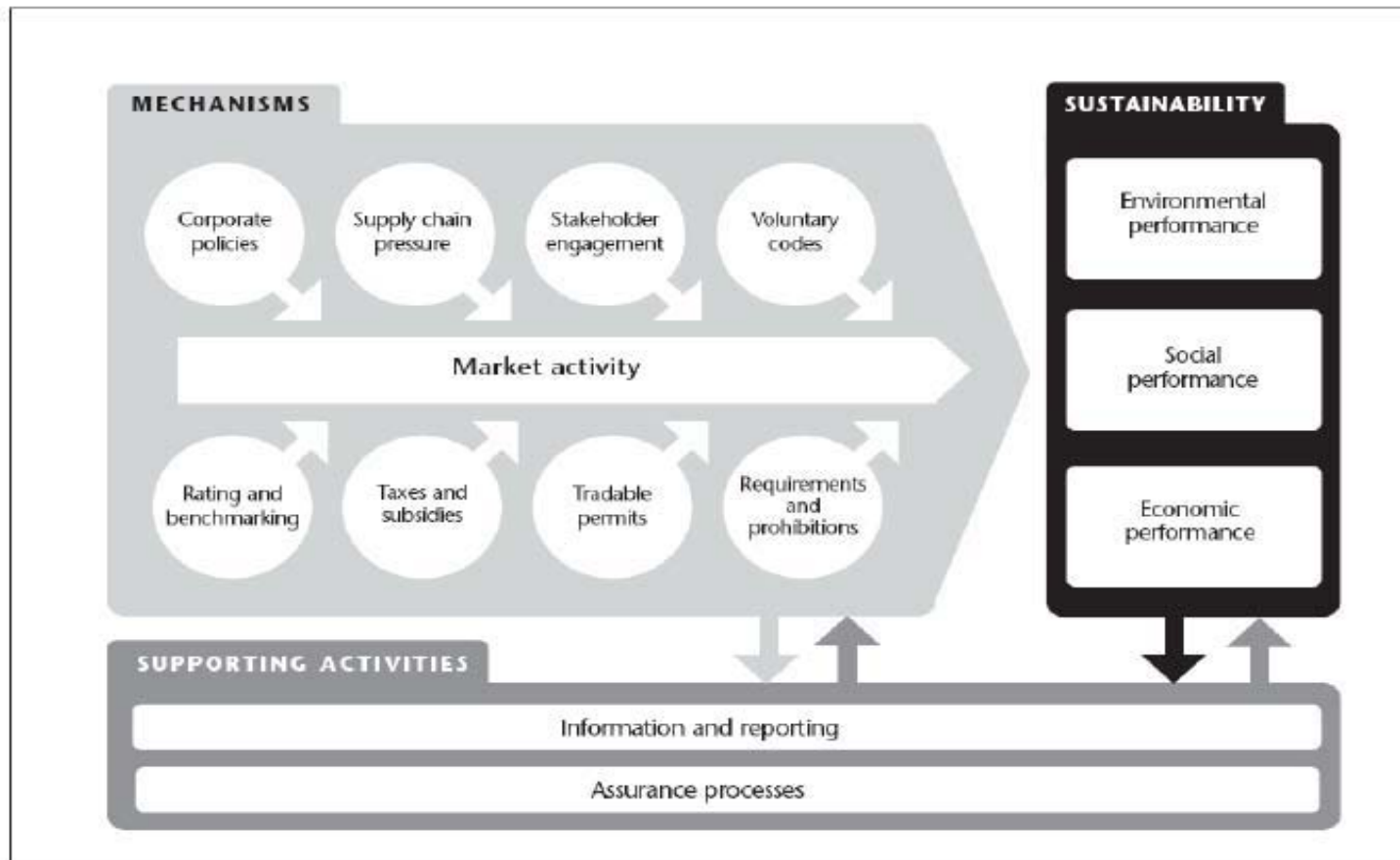


Figure 3 Diagram of eight market-based mechanisms that could be adopted to achieve development closer to sustainability. Taken from ICAEW (2004)



Conclusions (1)

- Still uncertainly about what sustainability is in relation to real estate – at building and settlement level
- Depreciation and obsolescence present real risks to the building owner – growth in knowledge and changing legislation are key
- Energy and carbon are the most obvious risks at the moment
- Other sustainability issues will move up the agenda: water may be the new energy



Conclusions (2)

- A better understanding of sustainability will lead to a more explicit relationship with market value
- To date market transformation has been slow – so first mover advantage is still available – clients need advice on ‘future-proofing’
- But it is not all about single bottom line...

Conclusions (3)

- Shifts in corporate accounting have long had a relationship with valuation methods
- Accountants are advocating a TBL approach
- Valuations will need to address non-economic matters of value – externalities will require quantification and inclusion
- The methods of environmental economics require refinement and adaptation for the valuer's use



Conclusions (4)

- The development of 'sustainable value' methodologies will take time and commitment and
- Will reveal a skills gap that will require address
- But on the positive side it presents opportunities for those ready to rise to the challenge

We must learn to measure that which we should value instead of only valuing that which we can measure

