RICS PROFESSIONAL STANDARD

ESG and sustainability in commercial valuation

Global

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RICS®

ESG and sustainability in commercial property valuation

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This document applies globally. If any of the requirements contained in this document conflict with national legal requirements in the country or region in which the regulated member is operating, those national legal requirements take precedence and must be applied.

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RICS standards framework

RICS' standards setting is governed and overseen by the Standards and Regulation Board (SRB). The SRB's aims are to operate in the public interest, and to develop the technical and ethical competence of the profession and its ability to deliver ethical practice to high standards globally.

The RICS Rules of Conduct set high-level professional requirements for the global chartered surveying profession. These are supported by more detailed standards and guidance relating to professional conduct and technical competency.

The SRB focuses on the conduct and competence of RICS members, to set standards that are proportionate, in the public interest and based on risk. Its approach is to foster a supportive atmosphere that encourages a strong, diverse, inclusive, effective and sustainable surveying profession.

As well as developing its own standards, RICS works collaboratively with other bodies at a national and international level to develop documents to aid professional practice, such as cross-sector codes, guidance and standards. The application of these collaborative documents by RICS members will be defined either within the document itself or in associated RICS-published documents.

Document definitions

Document type	Definition
RICS professional standards	RICS professional standards set mandatory requirements that govern the manner in which RICS members and regulated firms conduct their profession or business in order to protect clients and other stakeholders. They use the word 'must' to indicate a requirement. Non-compliance with a requirement constitutes a breach of the standard.
RICS practice guidance	RICS practice guidance provides information to support the practice, knowledge and performance of RICS members and regulated firms. It supports consistency or improvements in professional practice. It uses the word 'should' to describe expected practice. It is recognised that there may be acceptable alternatives to expected practice that achieve the same or a better outcome.

An RICS document may include both mandatory requirements and expected practice, which will be differentiated by the use of the words 'must' and 'should' as defined above.

RICS will take into account relevant professional standards and may take into account relevant practice guidance documents when deciding whether an RICS member or regulated firm acted appropriately and with reasonable competence, including in regulatory or disciplinary proceedings. It is also likely that during any legal proceedings a judge, adjudicator or equivalent will take RICS professional standards and practice guidance into account.

Glossary

This professional standard is built around two main definitions: ESG and sustainability. It also references climate, physical and transition risks. However, the use and application of all these terms are not universal, and valuers need to reflect the jurisdiction they are subject to and act in accordance with PS 1 section 4 of RICS Valuation – Global Standards (Red Book Global Standards), 'Compliance with jurisdictional or other valuation standards'.

There are different political, legal, regulatory and financial frameworks globally that use a variety of terminology – and in some cases specifically avoid other terms.

Term	Definition
Commercial property	Non-domestic real estate that fulfils an operational or occupational purpose for institutions or businesses, and is commonly sold or let in the market.
Climate risk	Potential for impact from climate factors and climate change. This is an aspect of ESG that is particularly prominent in the valuation of commercial property, and to the whole of this standard. Global targets such as the 2016 Paris Agreement have been set for the limitation of climate change, which are measured against and reported on through various international standards.
Environmental, social and governance (ESG)	'The criteria that together establish the framework for assessing the impact of the sustainability, ethical practices, financial performance and operations of a company, asset or liability. ESG comprises three pillars – environmental, social and governance – each of which may impact performance, the wider markets and society'. (IVS glossary) This definition highlights that although ESG can refer to companies and investors, ESG-related factors are also used to describe the characteristics and, where relevant, operation of individual and groups of assets. It is used throughout these standards in this context. Also see *Sustainability*. Both terms are used in conjunction throughout this standard; however, ESG is the assessment tool and framework, whereas sustainability is the goal and/or outcome.

Term	Definition
Physical risks	Potential for impact from factors such as flooding, heat, wildfires and severe storms. These can in some cases result in immediate impacts following specific events, or may be the long-term events affecting a location over time.
Strategic sustainability/ESG advice	Professional advice provided by an RICS member to an external intended user (client) that relates to the financial and/or other implications of sustainability and/or ESG factors, but does not constitute a valuation.
Sustainability	'Carrying out activities without depleting resources or having harmful impacts. It includes matters such as (but not restricted to) environment and climate change, health and wellbeing, and personal and collective responsibility that can or do impact valuation. Also see *Environmental, social and governance (ESG)*. Both terms are used in conjunction throughout [Red Book Global Standards and this standard]; however, ESG is the assessment tool and framework, whereas sustainability is the goal and/or outcome.' (Red Book Global Standards – Glossary)
Transitional risks	Potential for impact from moving towards a lower carbon economy and/or climate change targets. These often involve considerations around resilience, mitigation and adaptation (measures to ensure future use) that would be in the minds of market participants and/or other relevant stakeholders.

1 Introduction

1.1 Purpose

The purpose of this document is to provide professional standards and best practice guidance for the application of Red Book Global Standards, International Valuation Standards (IVS) and other relevant RICS standards in the context of sustainability, ESG and climate risk relating to commercial property valuation advice.

1.2 Scope and application

This standard is relevant to all RICS members and firms performing valuations of commercial property globally. Requirements reflect the asset/liability being valued, purpose of valuation and terms of engagement.

This standard requires reasonable and proportionate application. Providers and users of valuation services range in size and nature, and the valuations undertaken may reflect varying levels of valuation risk, market development, and asset complexity and value. This standard is limited to matters that are significant to valuation. **Its scope does not extend to general ESG/sustainability risk analysis.**

The first four sections of this professional standard refer to principles and guidance that apply globally. Section 5 includes additional guidance for the UK, the EU and Australia. They include details of regulations, professional standards and guidance that only apply to the specific jurisdiction to which the heading refers, and apply in tandem with the global standards referenced elsewhere in this standard.

This professional standard is principally intended for valuing commercial property. Other sectors such as rural, residential, operational public sector property and infrastructure are not explicitly covered, although some principles may still apply. For the valuation of assets that are a mix of commercial property and other types, valuers will need to use suitable professional judgement about the application of this standard, applying it to at least the commercial property elements.

This standard does not cover development valuation in detail, for which RICS produces separate content, such as the Valuation of development property professional standard.

1.3 Red Book Global Standards

Red Book Global Standards sets out the valuation process required of members and regulated firms, and is the overarching standard for all RICS members and regulated firms providing valuation advice.

PS 2 states that 'all members practising as valuers must have the appropriate experience, skill and judgement for the task in question'. This includes with regard to significant ESG factors in commercial property valuation.

Of further relevance to understanding the implications of ESG and sustainability for commercial property valuation are the mandatory ESG requirements for terms of engagement (VPS 1), inspection and investigation (VPS 4) and reporting and documentation (VPS 6) included in Red Book Global Standards.

Extensive guidance related to each of the three pillars of ESG in real property valuations is also included in VPGA 8, which is highly relevant but is not repeated here. Examples of individual ESG factors referenced in Red Book Global Standards VPGA 8 paragraph 3.7.4 are developed in Appendix A.

1.4 International Valuation Standards (IVS)

Red Book Global Standards fully incorporates IVS, including ESG scope of work and reporting requirements that parallel those included in section 1.3.

IVS 104 also has an appendix on data and inputs that refers to three core principles reflected throughout this standard:

> 'The impact of **significant ESG factors** should be considered in determining the value of an … asset … ESG factors and the ESG regulatory environment should be considered in valuations to the extent that they are **measurable** and would be considered **reasonable** by the valuer applying professional judgement.'

'Significant' is a defined term in IVS:

> 'Any aspect of a valuation which, in the professional judgement of the valuer, greatly impacts the resultant value'.

1.5 Valuation significance compared to ESG risk analysis

ESG risk analysis is about the consideration and management of risks and opportunities that might affect occupational and investment decisions over the long term. Sustainability implies actions that seek to protect value into the future. This is in contrast to valuation on a basis such as market value, which reflects value at a particular date, based on observable market data, and does not reflect a future date other than in exceptional cases.

This contrast of future risk versus present value can create a tension in expectations, as investors' activities that are designed to promote value resilience have not yet had observable effects on, for example, how assets trade. There are many ESG risks that may not yet have resulted in any **significant** and **measurable** impairment on an investment that might **reasonably** be reflected by the valuer in terms of the valuation date, and therefore the valuer would not accommodate an explicit change. This could be because:

- They are an implicit factor, such as sustainability features that are associated with a high-quality asset and cannot be meaningfully recognised separately.
- They are a consideration for investors or occupiers, but other factors outweigh and obscure their effect on market value.
- They are sustainability activities that have intangible benefits or are important for the operation of the asset, but do not necessarily affect considerations that support market value.
- They are a known future risk that has not yet materialised and provided a basis for adjusting the valuation.
- The factor is expected by the market, and it is the absence of this feature that is affecting decisions.

To determine which attributes of an investment are **significant**, the valuer can assemble a market commentary of sustainability/ESG factors in order to:

- demonstrate they are conscious of these factors and
- provide commentary on their place in the market or relationship with market evidence.

Recommendations on how these considerations may be developed can also be found in section 4.1.

1.6 Effective date

This standard is effective from 30 April 2026.

2 Valuation bases and types of professional advice

This professional standard covers commercial property valuation for a range of different purposes (e.g. financial reporting, secured lending) and bases (e.g. market value, investment value/worth).

For a valuation to be in accordance with Red Book Global Standards, it needs to include a basis of value (see section 2.1). Other forms of professional advice that may be provided alongside or instead of valuation are referred to in sections 2.2 and 2.3.

Strategic sustainability/ESG advice **is not automatically provided as part of a valuation and is typically an additional service**, which the valuer may not have the relevant skills and experience to provide, given it may involve specialist expertise around cost advice, ESG risk assessment, etc.

2.1 Basis of value

Valuations are commonly undertaken on a **market value** basis, defined in IVS 102: Basis of Value: Appendix A10 as:

> 'The estimated amount for which an asset and/or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.'

This is important to understand in the context of ESG and sustainability, as what is being analysed is the exchange amount between a willing buyer and willing seller – but not a particular buyer or seller.

IVS 102 A10.02 makes clear that 'the present owner is included among those who constitute "the market"', but it does not mean that their particular ESG and sustainability strategies are considered. ESG and sustainability matters that are not a factor in market considerations would be out of scope. Most valuations of commercial property undertaken on the basis of market value should also include direct evidence from the market, which may come from a range of sources, such as (but not limited to) evidence of transactions, rents and other income.

Owners and occupiers may also have their own ESG performance and/or sustainability requirements specific to them, and may also therefore instruct valuations on the basis of investment value/worth, defined in IVS 102: Basis of Value: Appendix A40 as 'the value of an asset to a particular owner or prospective owner for individual investment or operational objectives'.

Red Book Global Standards requires a valuation to include the purpose and basis in the terms of engagement (VPS 1 paragraph 3.2 (f) and (g)), and reflect it in reporting and documentation (VPS 6 paragraph 2.2 (c) and (e)).

2.2 Agency and brokerage

Pricing exercises and some agency/brokerage advice do not necessarily constitute a valuation. Where this relates to property management and agency, RICS has separate global standards: Property agency and management principles.

2.3 Strategic sustainability/ESG advice – additional services

Strategic sustainability/ESG advice is provided by a range of stakeholders, including employees of asset managers, owners and occupiers, as well as consultants and professional advisors. Where strategic sustainability/ESG advice is provided by RICS members, it has to be in accordance with the Rules of Conduct, Conflicts of interest and all other relevant RICS professional standards.

Strategic sustainability/ESG advice is considered in this professional standard as it can in some cases be provided as **an additional service** to a valuation, under separate terms of engagement, by ESG and sustainability experts from or on behalf of the same firm. In all cases, the terms of engagement **must** set out the scope of the work to be undertaken and any relevant limitations; for valuations, this includes the minimum terms of engagement contained in Red Book Global Standards VPS 1.

The Red Book Global Standards glossary defines valuation as 'an opinion of the value of an asset or liability on a stated basis, at a specified date', further commenting that 'if supplied in written form, all valuation advice given by members is subject to at least some of the requirements of Red Book Global Standards – there are no exemptions' (PS 1 paragraph 1.1).

To avoid any confusion between strategic advice and valuation, and to mitigate associated potential liabilities, strategic sustainability/ESG advice provided by RICS members and regulated firms should not use the term 'valuation', similar terms such as 'value' or any terms that could be confused with a basis of value (see section 2.1). The term 'valuation date' or similar should also not be used. Advice may instead use terms such as 'price', 'cost' and 'assessment' as appropriate, or otherwise refer to financial figures without reference to 'valuation' or 'value'.

Strategic sustainability/ESG advice is not typically used as the main basis for secured lending, investment finance, financial reporting, in support of a sale or for other matters where a valuation would typically be more appropriate.

Even when it is clear that a valuation is not being provided, RICS members and regulated firms providing strategic sustainability/ESG advice should be vigilant around clearly limiting liability, particularly where there is any forecasting or predictive element in their advice (such as in a transition risk assessment).

Strategic sustainability/ESG advice is typically undertaken through separate instructions to a valuation; however, where this is not possible due to, for example, a master service agreement, it should be clearly delineated from valuation advice in reporting, with separate/ additional terms of engagement as appropriate.

3 Costs (capital and operational expenditure)

One of the ways that significant ESG factors (including climate risk and transition risk factors) are considered in commercial property valuation is through the assessment of current and proposed/expected capital and operational costs.

Assessment of costs and operational expenditure are skills that require significant experience and competence.

- Valuers do not typically provide cost advice or comment on whether clients should rely on advice from others . If they do so, they **must** have the relevant qualifications, competence and experience specifically for the provision of cost advice.
- The valuer and/or their firm may be able to provide or comment on suitable and reasonable assumptions and special assumptions reflecting cost and/or operational expenditure advice through internal expertise at their firm, or through working with the client to instruct additional expertise. This **must** be agreed with the client in the terms of engagement (in accordance with the principles and requirements in Red Book Global Standards VPS 1, including paragraph 3.2 (k)). PS 2 paragraph 1.5 of Red Book Global Standards also requires the application of professional scepticism to information and data where they are to be relied on as evidence.
- One of the key reasons assumptions and special assumptions about proposed/expected ESG-related costs are an important factor in some commercial property valuations is potential financial exposure to transitional climate-related risks regarding the asset, which may have time-limited regulatory and legal requirements. Lenders, investors and other valuation users are also often interested in a valuation that reflects the market and regulatory drivers for current and pending costs, and in some cases the ability to fully utilise the property. Valuers need to consider and apply the principles referred to in Red Book Global Standards VPS 6 paragraph 2.2 (h): 'The client may expect the valuer to express an opinion, and in turn the valuer may wish to express an opinion, on legal issues that affect the valuation. In these circumstances the valuer must make clear in the report any information that must be verified by the client's or other interested parties' legal advisers before the valuation can be relied on or published'. Jurisdictional requirements are covered in section 5.
- Capital and operational expenditure are features of commercial property valuation, irrespective of ESG and sustainability considerations. It can be challenging (and in some cases impossible) to separate ESG- and sustainability-specific cost considerations from others. Valuers should use terms of engagement and reporting to set out where a specific (as opposed to holistic) approach has been undertaken, and document the resultant limitations.

Valuers will typically only be able to make assumptions, special assumptions and adjustments that consider and reflect the implications of costs to a valuation:

- where relevant cost estimates have been prepared by a suitably qualified construction cost professional, such as a quantity surveyor
- where the cost expert and any other relevant advisor such as a building surveyor confirms the cost estimates are relevant to the valuation circumstances and valuation basis (for example if it is market value, do they reflect market considerations, rather than the aims of the individual client?) and
- where the cost expert and any other relevant advisor confirm the cost estimates are of suitable scope (for example, if the costs reflect a modern air conditioning system, confirming it is possible to install such a system).

In addition, any reliance on the build cost information supplied to valuers **must** be stated in the valuation report and appropriate limitations **must** also be reported. In doing so, the valuer should consider and apply the principles set out in Red Book Global Standards VPS 6 paragraph 2.2 (h) and (p).

In the absence of any build cost information provided by a cost professional, the valuer may, in limited circumstances, make suitable valuation assumptions, special assumptions and adjustments referencing sources such as, but not limited to:

- published cost information
- index-based cost information
- cost information from relevant and contemporary research, and
- technology solutions that provide cost information.

The limited circumstances are as follows:

- where the valuer is suitably qualified, competent and experienced for the valuation circumstances and considerations being made
- where such an approach is reasonable and proportionate (for example, the relative value is low and the property is relatively generic)
- where there is an established, reliable and available body of evidence relating to cost information and assumptions (such as available office refurbishment data in some active and liquid markets) and
- where the use of such information accords with the valuation terms of engagement, the valuation circumstances and any agreed special assumptions (which Red Book Global Standards requires to be reasonable).

If specialist build cost advice is subsequently obtained, valuers may be instructed to review their valuation.

Cost assumptions primarily derived by the valuer from published/index/research information and technology solutions can be assumed to be less reliable and accurate than advice from

an appropriately qualified and competent expert, and the valuation report must state this. Reliance that can be placed on the valuation in these circumstances can therefore be subject to limitations, which **must** be explicitly referenced in the valuation report.

The use of cost information from published/index/research information and technology solutions may be more suited for strategic advice than valuation (see section 2.3) and should be applied proportionately, with due care, in accordance with all relevant professional standards and always with appropriate limitations.

4 Common considerations

This section refers to globally common sustainability and ESG valuation considerations that have the potential to be applicable in every market, regardless of the maturity of their approach to sustainability. Section 5 includes more specific guidance on jurisdictions with developed regulations, which augment the approach contained in this section.

4.1 Assessing significant ESG factors and sustainability themes

The significant ESG factors that may affect commercial property value are topics that influence how investors, owners, occupiers and other commercial property market participants make financial decisions. They are often linked to regulations, but may be related to voluntary commitments if there is a saturation of these commitments within a market. Asset types may have different significant factors within the relevant market.

To assess significant factors, consider:

- what regulations (if any) may influence transactions
- what current trends relevant to ESG and sustainability may affect what owners and occupiers are seeking, and might be willing to pay more for in the local market – for example, green certifications that may have a local prevalence
- any voluntary commitments or common concerns for investors that may affect how they invest, not only in the buying and selling of commercial property, but also in business plans and capital expenditure investment in the assets being held
- what specific KPIs and measures in Appendix A, and/or local equivalents, might be relevant to local market conditions and affect the valuation.

Valuers need to consider significant ESG factors in accordance with the relevant sections of Red Book Global Standards, which for commercial property valuation will include, but may not be limited to:

- appropriate capture in the terms of engagement, as required in VPS 1 paragraph 3.2 (a) – this may be at a high level
- consideration and recording in inspections and other investigations, with reference to the principles in VPS 4 and guidance in VPGA 8 sections 1 and 3
- analysing market comparables, and other relevant and available data, with reference to VPS 4 and RICS' Comparable evidence in real estate valuation professional standard, and
- summarising in valuation reporting (including the rationale for any adjustments), in accordance with the principles set out in VPS 6 paragraph 2.2 (q).

4.2 Approaches, methods and models

ESG may be reflected in commercial property valuations in different ways depending on the approach(es), method(s) and model(s) used. Whichever method or model is used, sustainability and ESG should be considered and reflected to the extent that they are significant to value.

For example, a comparable transaction method using the market approach may analyse the impact of ESG by comparing the characteristics of comparables to the subject, with explicit or implicit allowances for costs, risks and benefits as necessary.

A residual method (mainly used in development and refurbishment) and discounted cash flows (DCFs) tend to be more explicit on inputs, although the comparable transaction method may also be explicit on inputs, where available.

Various factors will determine the valuer's choice of valuation approaches, methods and models, and ESG considerations may be part of this selection process. Consideration of ESG factors may also support the use of multiple methods/models as a cross-check and/or to look at a particular scenario or aspect of the valuation.

The valuation approach selected can substantially alter the way ESG factors and sustainability themes are considered. Depending on the valuation circumstances, the valuer may use implicit valuation methods where impacts are reflected in, for example, the choice of yield, and explicit methods, for example where sustainability may be a factor in growth, discounting and the consideration and timing of income and costs.

4.3 Specification

The specification of a commercial property (including, for example, heating, cooling and ventilation systems) can be a significant factor in its value. Specification will vary greatly across the various types of commercial property, but there are items of specification that can directly relate to ESG factors and therefore impact on value. Often aspects of building specification that affect sustainability considerations have a relationship with regulations, green certifications or even a more general sense of quality.

Valuers are not typically building surveyors, nor are they providing a building survey as part of the valuation service. Therefore, consideration of specification should be viewed with appropriate limitations. Subject to these limitations, relevant specification details that support or detract from the ESG performance of a commercial property should form part of the inspection, investigation and data gathering process where they are likely to significantly impact value.

Some items of specifications may not form part of the property being valued, and will often require consideration of the interface with tenants and other occupants.

4.4 Comparable evidence

The RICS professional standard Comparable evidence in real estate valuation provides first principles and relevant best practice guidance around the use of comparables, which is not repeated here.

IVS 103 paragraph A10.08 states that 'the valuer should analyse and make adjustments for any significant differences between the comparable transactions and the subject asset', including 'differences in ESG considerations'.

Valuers should have a reasonable and proportionate awareness of ESG-relevant information and significant topics in respect of comparable properties, including in appropriate cases:

- meaningful and up-to-date ESG/sustainability certifications and ratings attached to comparable properties
- confirmation of the extent to which current and pending regulatory requirements have been met in comparable properties
- an idea of operational and ESG-relevant refurbishment/retrofit cost planning
- relevant ESG/sustainability KPI data as it relates to comparables (see Appendix A for more information and examples) and
- any other relevant and significant ESG/sustainability-related data as it relates to comparables.

There may be exceptions, but generally the comparable evidence that should be considered is evidence that:

- is publicly available (such as in marketing material, particulars, transaction details or public land/lease registers)
- does not require specialist interpretation
- can be reasonably expected to support valuation analysis within a given market, and
- is capable of at least some level of assurance and/or verification, although there may be circumstances in which this is not possible, where the valuer should appropriately set out limitations and assumptions.

Where comparable evidence relates to transactions, a fuller understanding of how ESG was considered as part of the transaction should be sought, as is reasonable and appropriate.

In addition to the above considerations and analysis, a valuer will need to consider the overall weight applied to a comparable, also looking at relevant factors beyond ESG and sustainability (location, specification, etc.).

4.5 Physical risks

Where value at the valuation date may be significantly impacted by physical risks, this can be recorded and reported.

Where a specialist report (such as a flood risk report) that can be relied on is not available from the client, a valuer should still undertake appropriate investigations. This might include, for example, consulting government websites and recording available details on physical risks.

Using these sources and other relevant and available information agreed as part of the terms of engagement, the valuer may comment on the following (this list is not exhaustive), where relevant and significant to the valuation:

- known physical risk in the area at the valuation date, to include (as appropriate and accessible) river, coastal, surface and storm drainage, drought and heat factors that could impact the property
- any information provided indicating that the property has been previously damaged or impacted by physical risks in a time period relevant to the valuation date
- defence measures against physical risks in the area that could mitigate risk, and/or resilience measures that have been undertaken at the property
- current or future physical risks that have been identified by any environmental or other relevant audit made available to the valuer, and
- an appropriate consideration of the impact, if any, physical risks may have on the marketability and value of the property.

Valuers should also refer to the inspection guidance in Red Book Global Standards VPGA 8 section 1.

4.6 Potential income, letting and efficiencies

Although the following section is principally about income and efficiencies, it should be noted that such opportunities usually come with an element of required investment and risk. Income and efficiency should be considered in this context.

Sustainable commercial properties with relatively high ESG performance can provide operational and other income opportunities, which will vary based on factors such as the asset class and its location.

Where there is particular demand in a market for ESG performance, it may be possible to command higher rents; however, for assets that do not meet the required standard, there is increased stranding and obsolescence risk, and a potential reduction in utility, which may result in a loss of income. In such cases, and subject to the terms of engagement, the valuer may also need to look at alternative uses and redevelopment.

There may also be other income-generating opportunities, such as power generation from sustainable sources (see section 4.7).

In addition to direct ESG consideration in the estimated rent, the valuer should also consider ESG impacts that surround the letting of a property, such as the following.

Letting factor	ESG context
Void periods	For example, should an additional void period be expected because the asset (in its current state) does not meet the market's expectation of relevant ESG factors?
Rent-free periods	Can all or part of the rent-free period be attributed to ESG factors, such as to allow retrofitting in order to meet energy efficiency requirements?
Expected rental growth	Are there any implications for expected rental growth relevant to ESG factors?
Lease (or other agreement) length and terms	Have the length or any of the terms been adjusted specifically to consider ESG factors, such as an additional length of lease subject to ESG performance criteria or the ability to break a lease if ESG performance is not met?
Capital incentives	Is any capital incentive directly linked to ESG performance or requirements?
Insurance costs	Have insurance costs significantly risen or fallen due to ESG considerations, such as an increase in premiums due to a recent flood event, or a decrease because of flood mitigation works in the locality?

Table 1: ESG impacts on lettings

4.6.1 Green leases

A green lease can be specifically developed and branded as such, or it may just be a standard lease that includes specific ESG/sustainability clauses, such as service charge clauses.

Green leases can be simple or complex. Some require specific performance standards from both parties, which can have a significant impact.

Where relevant and significant, commentary should be included in valuation reporting on whether sustainability and ESG factors are directly referred to in the leases associated with the commercial property being valued and/or its comparables.

A green lease may also give specific instructions around the sharing of relevant operational/occupational ESG data, such as energy usage.

4.7 Energy income and efficiencies – renewable, green and collective

Some renewable energy sources attached to commercial property assets can provide an operational and supplementary energy supply. This may also be a requirement for green building certifications. Examples include, but are not limited to:

- roof- or ground-mounted solar photovoltaics (PV)
- wind power
- water power
- geothermal power
- biomass and
- green hydrogen.

Renewable energy sources may enhance amenity for the property, or can provide an income, which may be considered separately in a valuation where appropriate, evidenced and verified as forming part of the asset to be valued. While there are opportunities for additional income streams, the cost of adaptation, installation, operation and lifespan of the technologies/income streams may also need to be considered. In some circumstances, there may also be specific costs, such as significant costs to be charged for feeding electricity back into the grid. Income assumptions should appropriately consider the relevant costs and risks of achieving that income.

There are different ways for large-scale on-site renewable energy to generate income for asset owners, which include but are not limited to the following (note terminology may vary depending on the market):

- **Asset enhancement** where the on-site renewable energy has no distinct mechanism for recognising income. This could be for a number of reasons, such as, but not limited to:
  - the installation is too small for the income to be significant
  - it was added to increase the attractiveness of the asset to tenants
  - it was added to meet green certification requirements, or
  - it was added for regulatory and/or tax purposes.
- A **renewable energy rental premium** where the landlord and tenant have agreed a defined rental uplift based on the renewable energy installation, usually linked to anticipated reductions in operating costs.
- **Sales agreements** such as, but not limited to, direct energy sales to tenants. In some jurisdictions, these are referred to as power purchase agreements (PPAs), where the landlord contracts a corporate PPA with the tenant. This creates an operational cashflow based on the electricity consumed from the installation. This can include selling energy back to regional/national energy operators. The structure and terms of the agreement can

be important, for example how it reflects tariffs charged by the network operator (such as the relevant municipality), the tariff being charged to the third party purchaser by the asset owner (the generator) and the duration of the agreement. These agreements can be complex, and the terms should be understood where being considered in valuation. Note where markets are in transition, any changes in the regulations governing these agreements could impact their ability to generate an income over time.

- **Subletting space**, where the landlord receives additional rental income by letting space to a third party, who installs and maintains the renewable energy installation and then contracts with the tenant, for example.

Some examples, such as on-site generation, provide energy resilience and/or mitigation against exposure to current and future carbon costs. This may have a greater impact on asset value than revenue from selling energy.

Energy generation may need to consider equipment such as battery storage technology, as well as whether the batteries discharge at certain times of the day. Higher tariff rates may apply during peak usage hours; therefore, some asset owners discharge their batteries during those hours to reduce their exposure to higher tariffs.

Where there are batteries on-site, the impact on insurance premiums due to the fire-related risk may also need to be considered.

Any consideration of renewable energy **must** reflect the asset being valued and/or any benefit or liability to it (reflecting the principles and requirements set out in Red Book Global Standards VPS 1 paragraph 3.2 (d) and VPS 6 paragraph 2.2 (d)). In addition to income considerations, renewable energy may also involve capital costs, maintenance and other contractual matters that may be relevant to the valuation.

Some commercial property at the site or district level may be a part of a collective/district energy and/or heating system. This can provide benefits through cheaper supply of energy and reduced waste. The contractual/scheme terms of this sort of energy/heat supply should be understood, as it can be a factor in valuation.

5 Jurisdiction-specific sustainability factors

Sections 1–4 cover a global baseline for ESG and sustainability considerations in commercial property valuation. This section covers jurisdiction-specific considerations for the EU, UK and Australia, where there are substantial and established regulatory ESG/sustainability frameworks on which RICS members and stakeholders have provided feedback for the development of this professional standard.

Some of the legislation and regulatory matters referred to here target companies, investors or investment products rather than individual property assets or portfolios. The valuer will make appropriate judgments around the relevance and impact of the regulations on commercial property valuation.

5.1 Sustainable finance regulations (EU)

EU sustainable finance regulations and wider EU ESG regulations are under review and in transition at the time of publication. Please refer to the latest and most relevant regulations.

Sustainable finance regulations seek to provide greater clarity to the investment market over what is considered green, sustainable or aligned with ESG requirements. These definitions are typically organisationally higher than the individual asset being valued, but their definitions may dictate investment strategy. As these regulations are pervasive across Europe, they may indirectly result in an effect on value by concentrating investment capital away from commercial property that is not aligned with government policy.

5.1.1 EU taxonomy for sustainable activities

The EU taxonomy for sustainable activities establishes a framework to facilitate sustainable investment in the EU by setting up a classification system that determines what economic activities are deemed environmentally sustainable. The EU taxonomy also serves as a legal basis for labels (EU Ecolabel), standards (EU green bonds) and links to the Corporate Sustainability Reporting Directive (CSRD).

The Complementary Climate Delegated Act to the Taxonomy Regulation – which sets out the technical screening criteria for economic activities to contribute to climate change mitigation and adaptation, and wider environmental and sustainability objectives – has specific requirements for property. These include, for example, 'climate contribution criteria' around construction, renovation, acquisition and ownership of buildings.

The process for assessing alignment with the EU taxonomy includes measuring whether a business activity makes a substantial contribution to the taxonomy's objectives, such as

climate change mitigation. The substantial contribution criteria for climate change mitigation in the valuation of buildings indicates that buildings should have an EPC class of at least A when built before 2021 (or the building is in the top 15% of the national or regional building stock, expressed as operational primary energy demand (PED), and demonstrated by adequate evidence or alternative criteria, depending on the jurisdiction). Non-residential buildings (commercial properties) need to comply with efficient operation of heating and cooling systems through energy performance monitoring. Physical climate risks and vulnerability assessment need to be part of the purchasing and ownership process for property. This includes screening for climate-related hazards such as heat stress, extreme weather, soil erosion and heavy precipitation.

5.1.2 EU Sustainable Finance Disclosure Regulation (SFDR)

The SFDR mandates that financial market participants with over 500 employees have to disclose the ESG performance of the companies/assets underlying their investments.

The ESG performance of investments is determined on the basis of:

- principal adverse impact (PAI) indicators on ESG factors and
- pre-contractual disclosures, website disclosures and periodic reports for SFDR Articles 8 and 9.

In addition, taxonomy-related product disclosures outline how products contribute to the EU taxonomy's objectives.

The purpose of the SFDR is to allow investors to make better-informed decisions, avoid greenwashing and harmonise disclosure requirements across the EU.

A distinctive part of the SFDR concerns the 'classification requirement of financial products'. A financial product should be classified as:

- a financial product without a sustainability ambition (Article 6)
- a financial product that promotes environmental or social characteristics ('light green products'; Article 8) or
- a financial product that has sustainability and/or social investment as its objective ('dark green products'; Article 9).

The more ambitious the product, the stricter the disclosure requirements.

Property or infrastructure assets will be assessed on the extent to which they comply with mandatory adverse sustainability indicators, mainly related to:

1 climate and

2 social and governance factors.

SFDR was not designed as a 'label', but real estate funds can demonstrate compliance with Articles 8 or 9. There is a challenge with real estate in transition (refurbishment or planned

refurbishment): at the time of purchase or investment, the assets may not explicitly meet the required criteria, but there is an objective for the criteria to be reached. The European Commission (EC) is understood to be considering their position on transitioning assets under SFDR at the time of publication.

5.2 Building ratings and certifications (EU and UK)

5.2.1 EU Energy Performance of Buildings Directive (EPBD)

The EPBD aims to tackle the energy inefficiency of the EU's building stock by introducing energy efficiency requirements for refurbishments and new buildings, as well as making energy efficiency visible through Energy Performance Certificates (EPCs).

The current proposed revision of the Directive's core measure is the introduction of minimum energy performance standards (MEPS). Other measures in this revision include:

- the transformation of long-term renovation strategies into more enforceable national building renovation plans
- the definition of zero-emission building
- a review of the methodology for energy performance calculations, or an obligation for new buildings to be zero-emission buildings by 2030
- improving information on whole life cycle emissions in new construction, and
- establishing a legal basis for national bans of boilers based on fossil fuels and improving provisions on EPCs.

Valuation may be directly impacted due to the costs of fulfilling the environmental requirements and/or the impact on operational expenditure. Other elements, such as comfort, safety and building maintenance, may also influence the value of a commercial property. Energy performance is becoming an increasingly important factor in valuation, so the approach the EU and member states take in assessing this performance may impact valuation.

5.2.2 EU Energy Efficiency Directive (EED)

Together with the EPBD, the EED is designed to improve the energy performance of buildings in the EU. The EED will impose the minimum requirements necessary to achieve the EU's overarching energy efficiency targets. The EED will also support and provide overarching principles for more detailed EU legislative initiatives set out in a variety of other implementing legislation, such as the EPBD for the building sector. The EED and the targets in the final text will determine the approach different member states will take to improving energy efficiency.

5.2.3 England and Wales: MEES and EPCs

EPCs in England and Wales are currently under review at the time of publication; see Reforms to the Energy Performance of Buildings regime for further details.

The UK government introduced regulations under the Energy Act 2011 to impose a requirement for minimum energy efficiency standards (MEES) on investment buildings in England and Wales. These requirements apply to all let non-domestic properties, with certain exemptions. The UK government is currently in the process of reviewing the definitions and status of EPCs, and has a longer-term aspiration to also review MEES legislation. MEES were phased in, starting from 1 April 2018 for all new lettings of non-domestic buildings, and applying in full to all non-domestic buildings from 1 April 2023.

The minimum standard required under current regulations is an EPC grade of E; buildings that have an EPC of F and G are in breach of the regulations if let, sold, lease(s) renewed or material alteration undertaken until certified to at least an E – subject to some conditions, exemptions and relief.

The regulations apply to private sector lettings, sales, lease renewals or material alterations undertaken, with limited exceptions, but including properties owned by the public sector and let out. The regulations do not apply to properties that are held by registered housing providers or by the public sector and let out as affordable housing.

It is possible that some properties can be brought up to the minimum standard quickly and at a reasonable cost. Where they cannot, there may be a temporary exemption from the regulations.

There are several other exemptions, some of which are temporary, including where a tenant or superior landlord refuses consent. Other properties fall outside the scope of MEES/EPC regulations, including where upgrade works would be incompatible with the preservation of the historic listed features of a building.

It is critically important that valuers understand the likely impact of the regulations and the implications for their clients. Valuers should be aware that energy efficiency increasingly affects the behaviour of some market participants, and should therefore reflect where this is the case. The introduction of MEES regulations presents cases where a value implication is most likely. Even if there is no clear evidence of market value change, suitable commentary on valuation risk (subject to the purpose and basis of valuation) may be appropriate.

When valuing properties, valuers should assess the level of risk posed by MEES and consider the extent to which, for example, the market rent, yield/discount rate and possible rental growth will be affected.

They should be aware that properties of poor specification and low energy efficiency, even if currently compliant, may reduce in value over a time horizon that would be in the minds of purchasers/investors at the valuation date. In some cases, valuers may need to, in the terms of engagement with the client, consider the potential need to work with energy experts, building surveyors and cost consultants to assess the works likely to be required and the

costs of upgrade, in order to reflect the impact of current and pending MEES requirements accurately in their valuations.

5.2.4 EPCs in Scotland

EPCs in Scotland are currently under review at the time of publication; see Energy Performance Certificate reform consultation: response for the Scottish government's response to the 2023 EPC consultation.

For properties in Scotland, the EPC rating can be stated, and confirmation can be provided by the client as to whether any necessary action plan is in place. The main improvements outlined in the action plan can be set out in the valuation report and appropriately considered. Exceptions include smaller buildings below 1,000m^2.

5.2.5 EPCs in Northern Ireland

The UK government expects the EPC review referred to in relation to England and Wales to also impact Northern Ireland.

Northern Ireland does not currently have MEES for commercial property. EPC requirements are set out in The Energy Performance of Buildings (Certificates and Inspections) Regulations (Northern Ireland) 2008.

5.2.6 Other UK territories and Crown Dependencies

The Channel Islands and Isle of Man do not have equivalent EPC and/or MEES regulations.

5.2.7 Assessing and reporting on EPCs and related risks

EPCs may be obtained via government open-source data included in the relevant EPC registers. Table 2 is an example of how the valuer's EPC findings can be presented in the report.

Property address, unit, floor	
Postcode	
Property type	
EPC rating	
EPC numerical score	
EPC expiry date	
Estimated building emissions rate and primary energy use numbers (where available)	

Floor area (m^2)	
Material risks identified in the EPC recommendations report, and actions taken by the owner/occupier/other relevant party to address them	
If exempt, please state reason and confirm the exemption is registered; also state if out of scope of MEES	

Table 2: Presenting EPC findings in a report

The following red/amber/green rating basis can be used to highlight valuation risk in respect of EPCs.

Green

- A or B rating
- no EPC required due to the property being outside the scope of MEES, or
- no EPC required due to the property being exemption registered on the national PRS Exemptions Register, where no material expenditure will be required on expiry of the exemption.

Registered exemptions only last for 5 years, and any necessary works may need to be undertaken on expiry of the exemption. Otherwise, another exemption would need to be secured – a current exemption is not risk-free.

Amber

- C, D or E ratings
- no EPC currently required as no trigger event has occurred, but any future EPC expected to be at an A or B rating, or
- a registered exemption where only modest and viable expenditure is estimated on expiry of the exemption (or a new/continued exemption will need to be secured).

Red

- F or G rating
- registered exemption where material expenditure will be required on expiry of the exemption, or a new/continued exemption will need to be secured
- no EPC currently required as no trigger event has occurred, but any future EPC expected to be at a C–G rating
- the likely rating is unknown, or
- a trigger event has occurred, but no EPC has been commissioned/an EPC has not been registered.

In some circumstances, it may be sufficient for the valuer, instead of completing all or part of Table 1, to summarise the relevant details and only comment on those that have particular valuation risk in a separate section. Where appropriate, valuers may also aggregate common findings.

The nature and source(s) of information upon which the valuer will rely has to form part of the terms of engagement (see Red Book Global Standards VPS 1, section 3.1 (j)). The valuer is typically reliant on the client supplying them with any proposed follow-on EPC actions for the asset(s) being valued (or facilitating their supply), which may be based on the EPC recommendations or a fuller assessment. Any reliance on this data should be stated in the valuation report.

Subject to the valuation purpose and basis, and based upon the nature and sources of information agreed as part of the terms of engagement, the valuer should consider the latest energy performance profile of the property and risks related to the EPC that impact value.

Where the terms of engagement agree to the use of cost information (see section 3) reflecting, for example, improvements required to meet EPC regulations, the valuer should consider the impact on value appropriate for the purpose and basis of valuation, as well as reflecting any special assumptions (such as a special assumption that the property meets a certain EPC requirement).

5.2.8 Renewable energy (EU)

The Renewable Energy Directive establishes a common framework for the recognition, production and promotion of energy from renewable sources in the EU. See also coverage of renewable energy income and efficiencies in section 4.7.

5.3 ESG/sustainability factors in Australia

Valuers of commercial properties in Australia should be cognisant of several sustainability and climate-related disclosure requirements that may impact property valuations and transactions.

Failure by commercial properties to meet legislative requirements could have a significant impact on their value, and should be considered when conducting a valuation. Similarly, large Australian entities that are subject to climate-related financial disclosures may have a greater appetite for some properties over others now that they are subject to climate-related financial disclosures.

Key considerations include:

- mandatory climate-related financial disclosures
- the Commercial Building Disclosure (CBD) program
- National Australian Built Environment Rating System (NABERS) ratings
- NABERS Embodied Carbon rating tool

- New South Wales (NSW) State Environmental Planning Policy (Sustainable Buildings) 2022 (SEPP)

5.3.1 Australian mandatory climate-related financial disclosures

Large Australian entities are required to include climate-related financial disclosures in their annual reports, consistent with the Australian Sustainability Reporting Standards (ASRS), specifically AASB S2 – Climate-related Disclosures.

5.3.2 Commercial Building Disclosure (CBD) program (Australia)

The CBD program mandates that owners and lessors of commercial office spaces of over 1000m^2 have to disclose energy efficiency information when selling, leasing or subleasing. This is facilitated through a Building Energy Efficiency Certificate (BEEC), which includes:

- NABERS energy star ratings and
- a Tenancy Lighting Assessment.

5.3.3 NABERS ratings

NABERS provides performance-based ratings for buildings in areas such as energy, water, indoor environment quality and waste.

5.3.4 NABERS Embodied Carbon rating tool

This tool enables eligible new buildings and partial rebuilds to measure and verify their upfront embodied carbon emissions, and compare them with similar structures. The rating provides a certified measure of carbon intensity, incorporating material, transport and construction emissions. Buildings can obtain a NABERS Embodied Carbon certificate upon practical completion up to two years post-completion.

5.3.5 New South Wales (NSW) State Environmental Planning Policies (SEPP)

The NSW government requires reporting of embodied emissions for all new residential and non-residential developments under the SEPP. Applicants are required to disclose quantities of key materials and associated embodied emissions at various stages of development.

Appendix A: Globally recognised KPIs

This appendix is an overview of globally-relevant ESG and sustainability factors only. It builds on the items listed in Red Book Global Standards VPGA 8, section 3.7.4, and also reflects a more extensive list of common factors that may be considered in specific markets like the EU, referencing elements of the RICS EU ESG data list for real estate valuations thought leadership project, as well as insight from RICS members and stakeholders globally.

- The following factors may be of relevance in inspection and investigation, and valuation reporting and documentation, in relation to commercial property interests, and should be considered **where relevant and appropriate for the individual valuation instruction**.
- This list is not intended to be exhaustive and may differ depending on the jurisdiction and/or market in question. Some items may be relevant to, for example, property that is open to the public and property that is private.
- Valuers should not request, collect and keep data that isn't relevant and significant to the valuation being undertaken (for instance through standard templates).
- **The following should not be read as a checklist**, as the relevance of each item is subject to the valuation being undertaken.

Consideration of the following factors is reliant on information that can be gathered from the client, public sources and other sources available to the valuer. Technical information mentioned here will likely be used only where there is data to benchmark against or to compare an asset with comparables. Information used needs to be appropriately considered in the terms of engagement (see Red Book Global Standards VPS 1, paragraph 3.2).

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Energy rating	• Government/regulator energy rating system reference, e.g. rating of building issued in accordance with Directive 2010/31/EU – Energy Performance Certificate (EPC). • Other relevant energy ratings in the market. • Any improvements to the building made since energy ratings were calculated.	• Energy label rating, expiry date. Usage measure (where appropriate) such as kWh/m^2. • Rating and summary of details. • Yes/no; if yes, summary of details.	• Regulatory exposure/risk. • Asset quality and market perception. • Required capital expenditure (capex) for upgrades/retrofit. • Tenant attraction and utility cost pass-through.
Energy consumption	• Primary and final energy consumption. • Energy intensity.	• kWh/m^2/year and kWh/m^2. • Comparison with other relevant commercial property and benchmarks.	• Operational costs for owner and occupier(s). • Indicator of building efficiency and performance, potentially impacting (for example) market perception.
Renewable energy production (onsite)	• Method of energy generation. • System summary. • Renewable energy usage and supply.	• State method, e.g. solar panels, heat pumps. • Quantity and specification. • kWh/m^2/year, % of energy demand met, % supplied to grid.	• Potential for reduced operational costs and potential income generation. • Improved energy security and resilience. • Enhanced asset attractiveness and 'green' credentials.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Labels and certificates	• Certificates and labels containing ESG components (not exhaustive, and relevance is subject to whether the certification is used in specific jurisdictions): • BREEAM (Building Research Establishment Environmental Assessment Method) is a third-party certification system for assessing an asset's environmental, social and economic sustainability performance using a set of standards developed by the Building Research Establishment (BRE). • LEED (Leadership in Energy and Environmental Design) certification is a widely used rating system administered by the US Green Building Council. • DGNB (Deutsche Gesellschaft für Nachhaltiges Bauen) is the German Sustainability Building Council certification system, described as a planning and optimisation tool for assessing sustainable buildings.	• Summary of certification type, level (e.g., 'Excellent', 'Platinum'), and date. Comment on market perception.	• Market differentiation and brand value. • Tenant attraction and improved marketability. • Third-party verification of sustainability claims. • Evidence of asset quality and future-proofing.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Labels and certificates (continued)	• EDGE is a green building certification system focused on making buildings more resource-efficient, administered by Green Business Certification Inc. (GBCI). • Green Star is a rating system developed and administered by the Green Building Council of Australia (GBCA), focused on Australia. • HQE (Haute Qualité Environnementale) is a multi-theme sustainability building certificate focused on France. • NABERS (National Australian Built Environment Rating System) is a simplified rating system covering energy, water, waste and the indoor environment. • WELL Building Standard focuses on health and well-being.		

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Greenhouse gas emissions	• CO_2e emissions from asset operations.	• $kgCO_2e/m^2$/year (excluding and including refrigerant gases; based on real energy consumption).	• Exposure to current or future costs such as carbon taxes. • Corporate reporting requirement for owners and occupiers, therefore potentially impacting market perception. • Reputational risk associated with high emissions potentially reducing market demand for asset.
Emissions pathway analysis	• Established pathway analysis relevant to the region, such as CRREM pathway analysis in Europe. • Other pathway analyses (such as ParisProof, DGNB 'Climate Positive', UK Net Zero Carbon Buildings Standard).	• Confirmation of whether property performance is on a net-zero pathway. • Consideration of required decarbonisation capex and resulting 'stranding date'.	• Assessment of transition risk and potential for obsolescence ('stranding risk') of interest to market. • Alignment with investor and lender requirements, improves potential demand.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Physical climate risk	• Climate risk analysis from a recognised source (e.g. flood, heat, drought, sea level rise). • Mitigation measures already in place.	• Has a study been conducted indicating risk by 2050 (yes/ no)? • Summary of mitigation measures and planned capex.	• Direct physical risk to the asset's integrity and usability. • Impact on insurance costs and availability. • Potential for business interruption for occupiers. • Long-term viability and location desirability.
Water usage	• Is the property adapted to reduce water consumption? • Existence of a water management system.	• Levels of water consumption. • Details of water-saving measures in place.	• Operational cost savings. • Resilience in areas of water stress. • Regulatory risk related to water use.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Biodiversity	• Percentage of non-vegetated surface area. • Activities affecting biodiversity-sensitive areas. • Existence of a biodiversity action plan, area of planting or green roof coverings.	• Percentage of total surface area that is non-vegetated. • Summary of plans and features.	• Compliance with planning regulations (such as biodiversity net gain). • Enhanced amenity value for occupiers. • Corporate image and contribution to local environment.
Material use	• Materials used for construction or renovation. • Reuse of old materials.	• Summary of materials used (sustainability, transition, adaptation). • Percentage of reused/ certified material by total weight/volume/value.	• Potential impact on market demand from (for example): – Embodied carbon footprint of the asset. – Resilience and durability of the building fabric. – Alignment/misalignment with circular economy principles.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Location characteristics	• Local infrastructure and amenities. • Connectivity (public transport, highways, walkability).	• Record of amenities and proximity. • Public transport proximity and frequency; walkability score.	• Fundamental driver of tenant demand and rental value. • Resilience to transport-related disruption. • Attractiveness to a diverse workforce.
Mobility	• Number of EV charging points. • Bicycle parking spaces.	• Charging points per employee/total parking spaces. • Number of bicycle spaces per employee.	• Meeting modern occupier demands and corporate transport policies. • Future-proofing the asset against transition to electric vehicles. • Attracting employees who favour active travel.
Building access	• Access for people with disabilities.	• Confirmation of compliance with regulations and summary of key details.	• Legal and regulatory compliance. • Broadening the potential tenant pool. • Reputational risk and social responsibility.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Indoor air quality	• Ventilation rate. • CO_2 levels and temperature monitoring. • Details of filtration.	• Summary of systems and performance data.	• Supports the attraction of the asset in market terms through improved occupier health, well-being and productivity, e.g. potential to reduce absenteeism for occupiers.
Community impact	• Zoning and occupier mix. • Provision of recreational/green space. • Impact on local businesses, pollution, or congestion. • Placemaking initiatives.	• Qualitative assessment of the property's interaction with its local community (note: focused on impact on property value).	• Influence on planning, development and licensing approvals. • Reputational impact within the local area (impacting market demand). • Potential to enhance footfall and local desirability.
Adaptability	• The ease with which the building can be adapted for different needs or uses.	• Qualitative assessment of structural and service flexibility.	• Reduces risk of functional obsolescence. • Broadens the range of potential future tenants.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Owner and occupier relationship	• Occupier activity and covenant strength. • Rental contract types, including any ESG-specific items. • Green leases in place.	• Description of tenants. • Summary of rental contract clauses. • Confirmation and summary of green lease clauses.	• Stability and security of income stream. • Collaboration on ESG improvements and data sharing. • Reduced risk of rental voids. • Assists in complying with regulatory requirements.
Safety	• Whether the property meets safety regulations (e.g. fire, structural).	• Confirmation of compliance with all relevant safety regulations.	• Fundamental requirement for legal operation and occupancy. • Impact on insurance costs and insurability. • Reputational risk in case of incidents.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Ownership and transaction risks	• Risks around ownership, occupation, and source of funds in relation to criminal activity.	• Summary of due diligence checks and findings.	• Legal and financial risk to ownership. • Impact on the ability to transact or finance the asset. • Severe reputational damage by association.
Owner/ occupier perception	• Negative public and/or market perception of the owner or occupier's ESG credentials.	• Qualitative assessment based on market knowledge and public information.	• Can negatively impact tenant demand and marketability. • May affect relationships with lenders and investors. • Potential for 'brown discount' on value.

ESG factor	Example data/reference	Example unit of measurement/ indicative performance measure	Examples of expected relevance
Diversity, equity and inclusion (DEI)	• Does the design of the building encourage inclusive use (e.g. for neurodivergent individuals, different generations)? • Do the tenants have DEI policies?	• Summary of inclusive design features (e.g. quiet rooms, accessible facilities, prayer rooms). • Summary of tenant characteristics and covenant.	• Attracting corporate tenants with strong DEI policies. • Broadening the appeal of the space to a wider workforce. • Future-proofing against evolving social expectations.
Planning and legal	• Planning (zoning), registration, licensing, heritage and related legal matters.	• Summary of the property's legal and planning status.	• Defines the fundamental use and development potential of the asset. • Direct and material impact on market value. • Risk of legal challenges or changes in designation.

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