RICS Consultation Draft

proposed changes to Global Red Book for 2025

VPGA 8 – Valuation of real property interests

A new section 3 has been introduced for *Sustainability and environmental, social and governance matters*. Some of this is existing text currently in paragraph 2.6 with some minor alterations. The most notable of these is the deletion of two references to the usefulness of the RICS Property Observation Checklist annexed to the Environmental Risk and global real estate guidance note.

> Our Comment:
> Since the existing paragraph 2.6 has many subsections and runs to 2½ pages it makes sense to create a separate section for these issues in the VPGA. The environmental observation checklists have been part of the RICS guidance on the need for valuers to be aware of environmental risks and to keep a record of any observed during inspections since at least 2010. We are therefore puzzled why the refences to them are being removed. We are aware that many firms use these or an equivalent and, more recently, apps used during inspections provide an equivalent facility.

New material on environmental, social and governance has been introduced. The first is a new subsection 3.4 - *Transition and stranding risk.* It starts by talking about the Paris Treaty on climate change before moving on to say market stakeholders are increasingly asking for the risk of transitioning an asset to comply with statutory climate control targets to be modelled explicitly. It then says valuers have a role to play in the process, but then cautions that they must not do this if they lack the competence or experience.

Stranding risk is explained as the writing down of values without intervention to support decarbonisation but advises that valuers should only get involved if they have the requisite specialist knowledge.

It concludes by suggesting that transition risks can be “considered through the appropriate use of special assumptions”

> Our Comment:
> We consider that this proposed new subsection serves little purpose. All RICS members, let alone valuers should be aware of the legislation and regulation flowing from the Paris UN Treaty in the jurisdictions in which they operate and the extent to which that impacts the services they provide. The paragraphs advising valuers not to get involved if they do not have the necessary skills or knowledge apply to any valuation and are covered by the Rules of Conduct and specifically in relation to valuation in PS1.
>
> The suggestion that transition risks can be dealt with using a special assumption that an asset fully complies with regulatory requirements related to energy efficiency is correct but is applicable not just to real property. It would carry more impact if an appropriate example were included in the list of example special assumptions at VPS 2 paragraph 10.4. We have already proposed such an example in the list of special assumptions in VPGA2.

The next new subsection,3.5, is *Social and Governance considerations.* This contains five new paragraphs summarised as:

1. Environmental factors are the most visible and measurable of the ESG factors that affect the value of real property.
2. IVS104 contains examples of Social and Governance factors but since the IVS include valuing businesses these may not be relevant to real property.
3. VPS4 refers to some non-environmental factors that may be capable of influencing the value of real property, including location, mobility and connectivity.
4. RICS members and firms work with a mandatory governance framework and RICS standards support better governance.
5. RICS aligns and sits within a global framework of standards that support better governance

Our Comment:
All of these observations may be true, but they have very little relevance to either this VPGA or the wider purpose of the RICS Valuation Standards. Dealing with each paragraph in turn:

1. This point is clear from the examples of ESG factors which impact on property given elsewhere in this VPGA, in the Red Book and in standalone Guidance Notes.
2. Agreed. If they have little relevance, then no reference is required in this VPGA. The Red Book also applies to valuing businesses, but we note that VPGA 3 *Businesses and business interests* simply has a cross reference to IVS 104 and no equivalent to this proposed subsection.
3. Ditto above
4. The governance requirements for RICS members and firms are an entirely separate issue from guidance on matters that an RICS member needs to consider when valuing real property. PS1 refers to the fact that firms and members have to abide by the relevant Rules of Conduct, and this is a fundamental rule that applies across all sections of the Red Book and all asset types. This VPGA should contain only advice on matters that a valuer may need to consider when valuing real estate which are not specifically covered in the mandatory PSs and VPSs.
5. Ditto 4

In conclusion this proposed subsection has no relevance to the content of this VPGA and should not be included.

Section 3.6, *Sustainability and ESG – assessing the implications for value*, carries forward some content from the current VPGA with some minor word changes. The main change is the inclusion of the following paragraphs:

3.6.4 The following factors may be of relevance in inspection and investigation and valuation reporting and documentation in relation to real property interests and should be considered where relevant. This list is not intended to be exhaustive and may differ depending on the jurisdiction or market in question.

- *Details of regulatory or legally imposed energy rating schemes and related proposed and/or required improvements.*
- *Energy consumption.*

- *Type(s) of energy used (for example electricity, oil, natural gas).*
- *Details of any onsite energy generation (including renewable energy).*
- *Quantity and specification of renewable energy systems (e.g. solar panels, heat pumps, biomass, wind turbines).*
- *Labels and certificates (for example BREEAM, LEED, WELL).*
- *Greenhouse gas emissions.*
- *Emissions pathway analysis (for example, in Europe, CRREM pathway analysis).*
- *Physical climate risk factors (such as flood, heat, drought, sea level).*
- *Location characteristics (connectivity and infrastructure).*
- *Mobility (for example number of electric vehicle charging points, bicycle parking spaces for residents/occupiers).*
- *Building access for people with disabilities and associated requirements.*
- *Leases and other contracts with specific sustainability/ESG provisions.*
- *Materials used in construction and/or renovation.*

3.6.5 Attention should also be given to IVS 104 ESG data and inputs appendix that refers to additional factors (including social and governance considerations). ESG and sustainability inspection and investigation may require the additional expertise of specialists.

Our Comment:
These are useful additions. 3.6.5 reinforces our view that the proposed subsection 3.5 should not be retained in the finalised standards.

VPGA 9 - Identification of portfolios, collections, lots and groups of properties

Apart from adding "lots" to the title and the addition of the new paragraph below, the changes are limited to updating cross references and deleting "market" before value wherever this appears.

The new paragraph is:

3.11 Where a portfolio premium or discount is applied, valuers should expressly state the primary reason(s) for the difference and provide rationale for such adjustments.

Our Comment:
The presentation of this VPGA in the current Red Book is poor and there is no proposal in the draft to correct this. The problem starts with the title which is already wordier than is ideal and adding "lots" makes it worse. The VPGA does not deal with "identification" of such assets but additional matters that need to be considered by the valuer and some additional reporting requirements. Other problems include:

- The heading of section 2 is "*Examples where specific clarification of the lotting and groups assumption needs to be made.*" A list of different ways in which separate property interests may be grouped follows, but nowhere is the "lotting and groups assumption" explained.
- Likewise, the heading of Section 3 refers to identifying lots within the portfolio but why there are, or can be, distinct lots within a portfolio is not explained,

The points of substance in this VPGA are generally sound. These include:

- the need to agree whether a portfolio is to be valued as individual property, as a whole or in specific lots,
- the need for the report to include warnings on possible flooding of the market if all properties marketed at same time,
- whether a premium exists if the portfolio is sold as a whole,
- requests to value on an assumption that lots properties in an artificial manner should be declined.

However, the order and presentation needs looking at so that these can be clearly understood by a reader.