

Methodology

GREENING THE PROPERTY VALUATION

Immovalue, a European project co-ordinated by KPMG, proposes a new approach to integrate buildings energy performance indicators and life-cycle costing into property appraisal.

Marc Auxenfans (texte), Julien Becker (photo)

Has sustainability lately become just fashion or has it gained momentum within the real estate industry? Until recently the green approach in property valuation was not an issue for investors. "A few months ago sustainability was still a topic of awareness among the real estate investors," Frauke Oddone, Director at KPMG Luxembourg explains. On one side, fund managers' investment strategy and decisions did not completely take all social, economic and environmental consequences into account. And most of the negative aspects of building construction were mainly externalised. But on the other side, investors failed to measure the exact cost of energy of buildings, and how this affected their business, as there were no appropriate methodologies for it.

As a consequence, all the life-cycle aspects of a real estate project (i.e. the construction, maintenance and demolition costs a building generates) were totally excluded from property valuation schemes. According to Oddone, real estate fund investors seem now ready to integrate new environmental approaches and appraisal methodologies in their investment strategies.

The political pressure from Brussels on energy efficiency might be the main reason that influenced this new shift. On 17 November 2009 the European Parliament approved the Energy Performance of Building Directive (EPBD), which stipulates that all buildings set up after 31 December 2020 must have high energy-saving standards and be powered to a large extent by renewable energy. The legislative act also provides the development by the European Commission of a comparative methodology framework, which takes into account the life-cycle costing in the global real estate property appraisal. This method shall be implemented at the latest 30 June 2011. In 2008, the European Commission launched the Immovalue project

(see opposite), a European undertaking co-ordinated by KPMG Financial Advisory Services, Austria. Its main objective is to propose guidelines for revised standards of property valuation, which integrate energy efficiency and life-cycle cost aspects into property valuation standards. These may serve as a basis for further work in the relevant standardisation and training organisations for property valuation. A second objective is also to introduce more transparency in property valuation practices on energy efficiency as well as on the way the sustainability of rents and the expected operating expenses will be reported. The project to end by April 2010 (with

a possible extension until July 2010) comprises three phases, which include the development of methodological solutions, which will be then tested in pilot projects and submitted to a comprehensive reviewing of expert. The results will finally be dispatched to the target groups (real estate and property valuation experts) on national and international levels.

NEW VALUATION PRACTICES

According to Frauke Oddone, the immoalue project will bring major changes for the fund investment industry, on life-cycle costing, on property valuation as well as on funds net asset



"The key point of the study is that we can now integrate the sustainability factor into these three real estate appraisal approaches"

Frauke Oddone (KPMG)