DECODING ESG for Valuation

Requirement of latest standards : ESG consideration is an additional perception, which to be considered by the valuers.

But,

Do not sweat the small stuff. It is

not the valuer's role to invent ESG factors… IVS

This is a discussion on different standard and an endeavour to decode ESG

What is then valuers' role?

valuers have to do a number of professional and social responsibilities, act in the public interest, take responsibility for their actions being adhere to the Code of Conduct to adhere to.

'While valuers should reflect markets, not lead them, they should be aware of sustainability features and the implications these could have on property values in the short, medium and longer term.'- **RICS**

Valuers should have a working knowledge on sustainability and ESG which has impact value. There may be circumstances where valuers lack the competency of doing valuation, those may be lack of knowledge and skills for a particular valuation, as for example to compute the environment risk. In such case a specialist can help to check the cost on environmental risk assessment.

For ESG factors, a valuer, if does not possess special knowledge on ESG can appoint ESG specialist for the same.

Potential or actual constraints on the enjoyment and use of property caused by sustainability and environmental factors may result from natural causes (such as flooding, severe storms and wildfires), from non-natural causes (such as contamination) or sometimes from a combination of the two (such as subsidence resulting from the historic extraction of minerals). There may also be sustainability and environmental factors beyond the directly physical, such as carbon emissions sulphur dioxide etc. But, one has to keep in mind that Environment factor is the one of the pillars of ESG factor where all the pillars are equally important.

Despite the considerable diversity of circumstances, the key question is always the extent to which the factors identified affect value. Particular care should be taken when assessing or commenting on ESG factors, as valuers may not have the specialist knowledge and experience required Natural environmental constraints

Some property will be affected by environmental factors that are an inherent feature either of the property itself or of the surrounding area, and which have an impact on the value of the property interest. Examples include ground instability issues such as swelling and shrinking clay, subsidence resulting from historic or current mineral extraction, etc

Stranding and Transition risk

Stranding risk refers to an analysis that highlights the point at which an asset becomes obsolete without intervention to support decarbonisation. Understanding this allows a suitable decarbonisation pathway to be chosen, and market participants are often interested in the short-, medium- and longer-term impacts of this on value.

Transition risk can also be considered through the appropriate use of special assumptions. For example, it may be appropriate to consider the real asset both in its actual state and with a special assumption assuming full compliance with regulatory requirements that is transition to the full compliant with the regulatory requirement.

Circularity

Circularity is a process that considers the potential for recovery, reuse and recycling of items following circular economy principles. A circular economy is one that is restorative and regenerative by design, and that aims to keep products, components and materials at their highest utility and value at all time. Circularity in the context of valuation can (where relevant, appropriate and part of the terms of engagement) include the consideration of the residual value of a building's component materials and products by (and/or with the support of) a specialist or specialists of the required level of experience and competence.

Social and governance considerations

The environmental aspect of ESG is generally the factor most explicitly considered in the valuation of real property interests as it is often the most visible, measurable and transparent in terms of physical and market impact. Environmental regulation also tends to be the most development in terms of the ESG factors.

Environmental

A Details of regulatory or legally imposed energy rating schemes and related proposed and/or required improvements, including income and capital costs relevant to enhancement.

B Energy consumption (with reference to heating, cooling and lighting). This may include energy use intensity measures benchmarked against the relevant real estate sector/class.

C Type(s) of energy used (for example electricity, oil, natural gas).

D Details of any onsite energy generation (including renewable energy).

E Quantity and specification of renewable energy systems (e.g. solar panels, heat pumps, biomass, wind turbines).

F Labels and certificates (for example **BREEAM** (Building Research Establishment Environmental Assessment Method), **LEED** (Leadership in Energy and Environmental Design is a green building certification program used worldwide., Global Real Estate Sustainability Benchmark (GRESB).

G Greenhouse gas emissions.

H Emissions pathway analysis (for example, in Europe, CRREM pathway analysis).

I Physical climate risk factors (such as flood, heat, drought, sea level).

J Water usage (for example, is the property adapted to reduce water consumption? Potential measures include whether there is a water management system in place and the levels of water consumption).

K Biodiversity (relevant data may include, for example, the share of non-vegetated surface area compared to total surface area, activities negatively affecting biodiversity-sensitive areas, use of pesticides, the existence of a biodiversity action plan and the approximate area of planting or any roof coverings).

L Materials used in construction and/or renovation.

Social

M Location characteristics (connectivity and infrastructure).

N Mobility (for example, number of electric vehicle charging points, bicycle parking spaces for residents/occupiers).

O Building access for people with disabilities and associated requirements.

P Indoor air quality (relevant measures include the ventilation rate, details of filtration, CO2 level and temperature).

Q Community impact (for example zoning and occupier mix, provision of recreational space, green space and community facilities, interactivity with local businesses, light, air or noise pollution, traffic congestion, etc.). Note, these are community impacts on the value of the real property interest being valued, not general value to the community.

R Adaptability (the ease with which the building is adaptable for different needs).

Governance

S Safety (whether the property meets safety regulations and market expectations of safety).

T Risks around ownership, occupation and the source of any relevant transaction funds in relation to criminal activity, including but not limited to money laundering, terrorist finance, modern slavery, and breach of national and international sanctions.

U The impact of ownership and/or occupation where there is a negative public and/or market perception of their ESG credentials and application.

V Diversity, equity and inclusion (DEI) (for example, does the design of the building encourage inclusive use, e.g. for neurodivergent individuals, different generations, etc.).

W Consideration of leases and other relevant contracts with specific sustainability/ESG provisions.

X Planning (zoning), registration, licensing, heritage and related legal matters.

ESG and sustainability inspection and investigation may require the additional expertise of specialists.

The range of sustainability issues and concerns includes, but is not limited to, key physical risks, such as flooding, heat, wildfires and severe storms; and transitional risks such as energy efficiency, carbon emissions and climate impact. There are also relevant social and governance risks highlighted in 3.6 above. The impact of all these ESG risks can be influenced by current and historic land use, as well as matters of design, configuration, accessibility, legislation, management and fiscal considerations. Sustainability matters can impact occupier preferences and purchaser behaviour, and may also be a consideration for investors, secured lenders, insurers and public bodies.

Now, to comply with reporting requirement of the standard

valuers should, where appropriate:

a. **provide a description of the sustainability and ESG-related property characteristics and attributes that have been collected.**

b. **assess the extent to which the subject property currently meets the sustainability and ESG criteria typically expected within the context of its market standing (there may be no expectation).**

c. **provide an opinion of the relationship between sustainability/ESG factors and valuation within the subject market (if any), including a comment on the current benefits/risks that are associated with these characteristics, or the lack of benefits/risks.**

d. **arrive at an informed view on the likelihood of these impacting on value (if at all), e.g. how a well-informed purchaser would take account of them in making a decision as to offer price.**

e. **provide an opinion on the potential impact of identified sustainability/ESG benefits and/or risks (if any) to relative property values over time.**

ISSB and IFRS

Challenges in ESG Integration

Range of frameworks, guidelines, variant methods or reporting standards are being used. Practically, there was no dominant ESG framework used for the valuation of Corporates, the IFRS Foundation's International Sustainability
Standards Board (ISSB) appear to be gaining some traction (17%).

IFRS SUSTAINABILITY DISCLOSURE STANDARD S2 CLIMATE-RELATED DISCLOSURES

IFRS S2 says on "Climate-related Disclosures"

The objective

The objective of IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general purpose financial reports in making decisions relating to providing resources to the entity

This Standard applies to:

(a) climate-related risks to which the entity is exposed, which are:

(i) climate-related physical risks; and

(ii) climate-related transition risks; and

(b) climate-related opportunities available to the entity.

Governance

The objective of climate-related financial disclosures on governance is to enable users of general purpose financial reports to understand the

governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities.

Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:

1) Whether the role is being practised by a particular management team or a particular level and how the exercise is being oversighted.
2) How the management uses control and procedure to oversee the exercise.

Strategy

The strategy of entity on climate-related financial disclosures should be such that it should enable users of general-purpose financial reports to understand an entity's strategy for managing climate-related risks and opportunities.

1. the climate-related risks and opportunities including the current and anticipated effects of those climate-related risks and opportunities.
2. the effects of those climate-related risks and opportunities on the entity's strategy and decision-making
3. the effects of those climate-related risks and opportunities. Any climate related transition plan. That also includes the impact on entity's finance position.
4. Resilience on the strategy and model for climate related changes.

Climate related risk and opportunity

The entity discloses the information to enable users of general-purpose financial reports to understand the climate-related risks and opportunities of the entity.

The entity should

1. describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects.

2. explain, for each climate-related risk the entity has identified, a) climate-related physical risk or b) climate-related transition risk.
3. how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making.
4. declare, the time horizons—short, medium or long term, the effects of each climate-related risk and opportunity could reasonably be expected to occur by the entity.

Business model and value chain

An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate related risks and opportunities on the entity's business model and value chain.

a) A description is required for the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain.
b) A disclosure of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).

Strategy and decision-making

An entity shall disclose information that enables users of general purpose financial reports to understand the effects of climate-related risks and opportunities on its strategy and decision-making. Specifically, the entity shall disclose:

current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations, resource allocations. From business development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments)

Information about how the entity is resourcing, and plans to resource, the activities disclosed.

Quantitative and qualitative information disclosure about the progress of plans.

Financial position, financial performance and cash flows

An entity shall disclose information that enables users of general purpose financial reports to understand:

(a) the effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows for the reporting period i.e. current financial effects and

(b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term i.e. anticipated financial effects.

Climate resilience

An entity shall disclose information about the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities.

the entity may disclose a single amount or a range. Specifically, the entity shall disclose:

(a) the entity's assessment of its climate resilience as at the reporting date, which shall enable users of general purpose financial reports to understand:

(i) the implications, if any, of the entity's assessment for its strategy and business model, including how the entity would need to respond to the effects identified in the climate-related scenario analysis.

(ii) the significant areas of uncertainty considered in the entity's assessment of its climate resilience.

(iii) the entity's capacity to adjust or adapt its strategy and business model to climate change over the short, medium and long term. This may include entity's financial flexibility to respond to the climate-related scenario analysis and redeploy/ upgrade the existing assets

(b) How and when the climate-related scenario analysis was carried out, *the key assumptions the entity made in the analysis,*

(c) The reporting period in which the climate-related scenario analysis was carried out

(d) The key assumptions the entity made in the analysis

Risk management

The climate-related financial disclosures on risk management is to enable users of general-purpose financial reports to understand, to identify, assess, prioritise and monitor climate-related risks and opportunities in an entity's processes, including whether and how those processes are integrated into and inform the entity's overall risk management process.

Metrics and Targets

Climate related Metrics

Climate-related metrics are key to understanding and managing how climate risks and opportunities affect an organisation. These include measures like greenhouse gas emissions (Scope 1, 2, and 3), carbon footprint, energy usage, water consumption, and waste management.

Climate-related targets

(a) the metric used to set the target.
(b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives)
(c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);
(d) the period over which the target applies
(e) the base period from which progress is measured;
(f) any milestones and interim targets;
(g) if the target is quantitative, whether it is an absolute target or an intensity target; and
(h)how the latest international agreement on climate change, including jurisdictional commitment *that arises from that agreement.*

NOW

ESG

How should valuers think about applying E, S and G in valuation context?

IVS says

Identify the significant ESG factors that impact the asset in positive or negative way, that means, these factors may have a positive or negative impact on value.

These factors, may have effects on current valuation or in future, and be measurable.

Valuers to interpret the market and consider ESG parameters that are important to market participants.

The valuer needs to consider truly relevant and comparable information to value the asset in question. For input in the model of valuation, the data collection and passing through the relevant parameters is very important for ESG consideration.

Influence in value for real asset perspective (as per IVSC perspective paper on ESG & Real Estate valuation)

Environmental

• How does the asset contribute to pollution (air, water, land or otherwise)?

• Will the asset be subject to climate change risks or natural disasters?

• How do the characteristics of the asset deal with resource scarcity, consumption or efficiency (e.g. energy, water, raw materials)?

• Is the asset constructed from recyclable materials?

• Does the asset have appropriate waste management protocols in place to promote circularity through recycling or repurposing?

• Does the asset need upfront capital expenditure or recurring maintenance outlays to meet compliance demands?

• Will government policies impact the assets useful life?

• Does the asset have an extended useful life relative to its peers?

Social

• Is the asset located near adequate public services and social amenities?

• Does the asset have access to a deep pool of employee talent?

• Is the asset located in proximity to sufficient product demand?

• Is the asset well regarded by the community in the area in which it operates?

• Does the asset adequately safeguard data protection and privacy?
• Does the asset manufacturer provide adequate training and education?
• What reputation does the asset have with operators, authorities and counterparties?
• Does the asset have an adequate health and safety record?

Governance
• How do market participants and/or lessees regard the asset?
• What are financing prospects of the asset?
• Are purchasers/lessees willing to pay a premium (or require a discount) to buy/lease the asset?
• Does the asset have a history of appropriate operation and maintenance?
• Does the asset meet or exceed the required operating and safety standards?
• Are there regulatory restrictions regarding the asset's utilisation?
• Is the asset subject to certain taxation considerations?
• Will technological advancement impact on the future of the asset?
• Does the asset meet relevant regulatory reporting requirements?
• Are there legal considerations that will impact the asset?
• Is there a higher and better use for the asset?
• How is the asset positioned for sustainable long-term demand?

What is truly relevant and comparable information?
Land or gross building floor area,
• Building installed mechanical and electrical services,
• Manufacturer and model, Current location and most favourable market,
• Income generating capacity,
• Occupancy rates or utilisation,
What is occupancy rate?
Occupancy Rate = (Number of Occupied Units of Space / Total Number of Units or Space) x 100
Imagine a hotel with 200 rooms. If 150 of these rooms are occupied on a given night, the occupancy rate can be calculated as follows:
Occupancy Rate = (150 / 200) x 100
Occupancy Rate = 75%
Another example could be an office building with 50 available office spaces. If 40 of these spaces are leased out, the occupancy rate would be as follows:

Occupancy Rate = (40 / 50) x 100

Occupancy Rate = 80%

Machines

• Year of manufacture or condition,

• Operating capacity,

• Overhaul and maintenance status.

The evaluation of ESG features of an asset is simply an extension of this benchmarking exercise. It might encompass the following metrics or characteristics, for example:

• Fuel type and efficiency,

• Revenue generation capability or utilisation,

• Current or future capital expenditure requirements,

• Remaining useful life considerations,

• Distance from public or social amenities,

• Asset maintenance and overhaul regime,

• Technological status or advancement relative to peers,

• Favourable or unfavourable financing prospects,

• Compliance with regulations,

• Positive or negative taxation considerations.

Many valuation professionals may consider Current location and most favourable market,

• Income generating capacity,

• Occupancy rates or utilisation,

• Year of manufacture or condition,

• Operating capacity,

• Overhaul and maintenance status.

The evaluation of ESG features of an asset is simply an extension of this benchmarking exercise. It might encompass the following metrics or characteristics, for example:

• Fuel type and efficiency,

• Revenue generation capability or utilisation,

• Current or future capital expenditure requirements,

• Remaining useful life considerations,

• Distance from public or social amenities,

• Asset maintenance and overhaul regime,

• Technological status or advancement relative to peers,

• Favourable or unfavourable financing

prospects,

• Compliance with regulations,

• Positive or negative taxation considerations.

Does ESG apply to all valuation approaches under IVS?

Market approach

When applying the market approach, IVS 103 Valuation Approaches states the following:

20.01 The market approach provides an indication of value by comparing the asset and/or liability with identical or comparable (that is similar) asset and/ or liability for which price information is available.

…

20.05 When comparable market information does not relate to the exact or substantially the same asset, the valuer must perform a comparative analysis of qualitative and quantitative similarities and differences between comparable assets and the subject asset. It will often be necessary to make adjustments based on this comparative.

Income approach

Where the valuer employs the income approach to value a real asset, there may be several areas where the valuer could incorporate ESG factors into a valuation based on the application of the discounted cash flow (DCF) method. For example.

• Revenue: Will any ESG factors impact the revenue generating capacity of the subject asset, favourably or negatively? Such items might include incremental utilisation and revenue generation, and enhanced growth potential, resulting from ESG characteristics relative to its peers in the market.

• Explicit forecast period: Will ESG factors curtail or extend the forecast cash flow period of the subject asset? This might include a reduced explicit forecast period due to the phasing out of the asset, in compliance with government regulations.

• Operating costs: Will ESG factors increase or reduce operating costs of the subject asset? Assets displaying enhanced energy storage and/or efficiency relative to their peers could incur lower recurring power consumption costs.

• Maintenance costs: Are there ESG factors that increase maintenance costs associated with the subject asset? Older assets displaying less favourable ESG characteristics may be prone to higher ongoing maintenance costs relative to their peers.

• Capital expenditure: Does the DCF incorporate relevant and timely capex associated with the subject asset? Enhanced future revenue generation might require corresponding future capex, which might in turn extend the asset's useful life. Importantly, future capex may be net present value positive or negative, depending upon its nature.

• Taxation: Do applicable taxation provisions stimulate (or disincentivise) investment in the subject asset? If so, the timely incorporation these tax benefits (or disincentives) into a DCF could be relevant.

• Government intervention: Will government intervention lead to levies on the asset in the foreseeable future? Such levies would likely have a negative impact on the value of the subject asset and will need to be incorporated into future cash flows.

Discount rate: To round out the effects enumerated above, the determination of a relevant discount rate will be critical. A discount rate observed for a coal-fired power station transaction will not be appropriate to value a wind farm, despite both assets being within the power generation sector. Almost every step of a DCF valuation might require specific adjustment to ensure that the facts and circumstances associated with the subject asset's ESG characteristics are considered in an appropriate manner.

Cost approach

Similarly, to the income approach, various adjustments might be required when utilising the cost approach to incorporate ESG factors in a real asset valuation.

These might include:

• Replacement cost: Does the replacement cost consider a lowest-cost, modern equivalent asset, without incorporating betterment? In industries subject to significant technological change, distinguishing between these features will be important.

• Functional obsolescence: Are the excess operating costs associated with the subject asset relative to its peers being incorporated? An asset that incurs a levy due to its excessive water consumption should not be considered the same as those that do not.

• Useful life: Whilst the asset may be physically capable of operating for an extended period, societal expectations and/or government intervention may result in an assets life being

curtailed. Differential remaining useful life assumptions can result in significant variations in valuations.

• Economic or external obsolescence: Does the valuation incorporate any economic obsolescence relating to the external factors associated with the asset? This is particularly important for any real asset subject to negative ESG influences. In some cases, the portable nature of an asset takes it to

alternative markets where it exhibits a higher and better use.

Regardless of the approach employed to perform a real asset valuation, ESG factors should be incorporated in the valuation in different forms. Whilst each of these forms may be subtly different, each can be performed utilising existing valuation approaches and methods under IVS.

Rapid development of technology

Renewable electricity has been a game changer for power generation. Renewable energy accounted for 30.3% of global electricity generation in 2023, up from under 20% in 2010.

IVS is saying about the professional judgement, data and input. This creates an important need for valuation professionals to have a deep understanding of their asset class and the markets within which they operate.

By using existing valuation approaches, bringing truly comparable data to analyse relative to the subject asset, and deploying existing valuation methods and techniques, the incorporation of ESG considerations into real asset valuations appears very manageable within the framework of the existing IVS.

Environment

air and water pollution	
Biodiversity	
climate change (current and future risks)	
clean water and sanitation	
carbon and other gas emissions	
Deforestation	
natural disaster	

resource scarcity or efficiency (eg, energy, water and raw materials	
waste management	

Social

Community relation in the neighbourhood	
Any conflict	
Customer's view on satisfaction	
How the org protects data and privacy	
Development human resource	
Engagement of employee highlight the benefits they are getting	
Gender and racial equality	
How the company is looking after the health and well-being of the employees	
Use of under aged labour	
How the company protects the human rights	
How the company is keeping the working conditions and environment	
Shareholders view on satisfaction	
Views of Independent Directors', if any	
Donations	

Governance and strategy

Governance and strategy of the Company which is crucial, It's about the sustainability and decarbonization strategy in management level.	

Policy and Implementation of sustainable solution to manage climate change related issues.	
Decarbonizing the supply chain is crucial as global report says that value chain emissions are 11.4 times greater than a company's direct carbon footprint.	
Audit committee structure	
Board diversity and structure	
Bribery and corruption	
Corporate Governance in all aspects	
Transparency in website	
ESG reporting standard	
Remuneration	
Strength of Institution	
Management succession plan	
Partnership (external agency?)	
Rule of the law (the principle under which all persons entities are accountable)	
Transparency	
Scope of RTI	
Is the Company has any Whistle blower Scheme?	
Security system (physical and virtual)	

GRESB *However, when incorporating ESG/Sustainability factors in the valuation of investments and portfolios, GRESB (formerly known as Global Real Estate Sustainability Benchmark) is being used by 29% of respondents.*

GRESB is a Netherlands-based company that operates an annual sustainability assessment for standing real estate investments, real estate projects in development, infrastructure funds, and infrastructure assets.

They have their questionnaires / parameters like

Entity Characteristics

EC1 Reporting entity

EC2 Nature of ownership

EC3 Entity commencement date

EC4 Reporting year

Reporting Characteristics

RC1 Reporting currency

RC2 Economic size

What was the gross asset value (GAV) of the portfolio at the end of the reporting year?

RC3 Floor area metrics

Metrics are reported in: m2. Or sq. ft.

RC4 Property type and Geography

Portfolio predominant location : Location

Portfolio predominant property type : Property type

RC5 Nature of entity's business

- Management of standing investments only (continue with Management and Performance Components)
- Management of standing investments and development of new construction and major renovation projects (continue with Management, Performance, and Development Components)
- Development of new construction and major renovation projects (continue with Management and Development Components)

Management leadership

LE1 ESG Commitments and Objectives

ESG leadership commitments

Has the entity made a public commitment to ESG leadership standards and/or principles?

LE2 ESG objectives

Does the entity have ESG objectives?

LE3 ESG Decision Making

Individual responsible for ESG, climate-related, and/or human capital objectives. Does the entity have one or more persons responsible for implementing ESG, climate-related, and/or human capital objectives?

LE4 ESG taskforce/committee

Does the entity have an ESG taskforce or committee?

LE5 ESG, climate-related and/or human capital senior decision maker

Does the entity have a senior decision-maker accountable for ESG, climate-related, and/or human capital issues?

LE6 Personnel ESG performance targets

Does the entity include ESG factors in the annual performance targets of personnel?

Management Policy

ESG Policies

PO1 Policy on environmental issues

Does the entity have a policy/policies on environmental issues?

Biodiversity and habitat

Climate/climate change adaptation

Energy consumption

Greenhouse gas emissions

Indoor environmental quality

Material sourcing

Pollution prevention

Renewable energy

Resilience to catastrophe/disaster

Sustainable procurement

Waste management

Water consumption

Other: _____

Provide applicable evidence

UPLOAD or URL_____

PO2 Policy on social issues

Does the entity have a policy/policies on social issues?

Child labour

Community development

Customer satisfaction

Employee engagement

Employee health & well-being

Employee remuneration

Forced or compulsory labor

Freedom of association

Health and safety: community

Health and safety: contractors

Health and safety: employees

Health and safety: tenants/customers

Human rights

Human capital

Labour standards and working conditions

Social enterprise partnering

Stakeholder relations

Other: _____

Provide applicable evidence

UPLOAD or URL_____

PO3 Policy on governance issues

Does the entity have a policy/policies on governance issues?

Select all governance issues included (multiple answers possible)

Bribery and corruption

Cybersecurity

Data protection and privacy

Executive compensation

Fiduciary duty / legal responsibility

Fraud

Political contributions

Shareholder rights

Other: _____

Provide applicable evidence

UPLOAD or URL_____

What is ESG? ENVIRONMENT SOCIAL AND GOVERNANCE together establish a framework.

These are the three pillars, together establish a framework for assessing the impact of the sustainability, ethical practices and operations altogether performances of a Company. This considerations of ESG concept in performance of a company pushes the boundary and look for wider market and society.

Why check ESG? Why important for valuers?

1. Most importantly, ESG improves the valuation of the business.
2. Implementation of ESG has the advantages and have good effect in the valuation.
3. There are number of evidences where recognising and utilising ESG issues can over time, have significant role in the business running thus, it has a huge role in the valuation.

How to check ESG

Basically, checking carbon foot print to the transparency how are ESG risks are managed.

ESG standards are set to judge a company's impact on the environment, its social role, and how it is governed. They help ESG investors and others how a company handles probable risks and chances.

Confusion in the reports produced by corporates

1. corporate research sometimes fail to distinguish between Corporate Social Responsibility (CSR) and ESG. CSR efforts are philanthropic while ESG practice or efforts are more or

less business strategy. Recent research has demonstrated that the stock market out performance depends on the company's strategy which is focussing on the ESG. **A Valuer has to understand the difference between CSR and ESG.**

2. One of the major problems as many companies integrate ESG information with their financial information. That may create confusion and also **greenwash.** Greenwashing is a deceptive marketing strategy by which the companies provides a misleading information. very few companies are making their ESG data traceable from financial statement. Thus the return from ESG investment cannot be computed in general.
3. **ESG ratings** are now one of the main keys in setting the value of commercial assets/real estate. Where the institutional investors are involved. Valuers can gain many benefits by using ESG principles in valuation. In fact, there is no full disclosure on how the ratings are computed. It is unfortunate that rating agencies determine ESG ratings (as a function of the E, S and G scores) through proprietary models, on which public knowledge is limited. Rating agencies are fully dependent on what the data provider chooses to disclose, that, in many cases and the rating is restricted only to the main ideas and essential principles of the procedure.

Global investors recognise **SASB Standards** as essential requirements for companies seeking to make consistent and comparable sustainability disclosures

The SASB Standards play an important role in the first two IFRS Sustainability Disclosure Standards **IFRS S1 and IFRS S2**.

Difference between ISSB and SASB

While ISSB standards provide the overarching principles and requirements for sustainability reporting, SASB frameworks offer detailed, industry-specific metrics and guidance for reporting on material sustainability topics.

Is SASB the same as ISSB?

Yes. The ISSB has committed to building on the industry-based SASB Standards and embedding SASB's industry-based approach to standards development. [1] The ISSB encourages companies and investors to continue to support and use the SASB Standards until they are replaced by IFRS Sustainability Disclosure Standards

How to do?

Identify, describe and assess the relevant characteristics of properties. Interpret and judge assessments of them.

Consider whether they are already taken in to account so far as they are relevant to value.

Select the appropriate way to take any remaining points in to account without double counting.

Checklist (as per European Valuation Standard)

- Construction materials
- Any contamination of properties
- Risks of natural disasters such as flooding, earthquakes, or avalanches;
- Compliance with relevant building standards;
- Insulation and related points and quality in terms of durability and building standards;
- Nature and complexity of building services;
- Age and quality (efficiency) of the equipment in the building for heating, cooling and other purposes and so the feasibility of maintaining or replacing specific building components if any (such as an oil-fired heating system compared with an alternative system that may reduce overall operating costs);
- Energy efficiency, EPC ratings and recommended measures for improving the property, energy sources (renewable?) and net energy demand
- Water efficiency, especially in locations with scarce water supplies, using grey water, recycling of water, rainwater harvesting, etc.;
- Operating expenses;
- Floor area in terms of usability, adaptability and cost effectiveness;
- Impact on users' productivity and well-being;
- Likely timing and cost of refurbishment;
- Market attitudes towards sustainability and willingness to pay for green features;
- Requirements of legislation;
- Possible financial support;
- Relevant certifications or ratings;
- Terms of leases (*"green leases"*).

Standards or ESG , notable framework and initiative

CDP is a global non-profit that coordinates environmental impact disclosures for both companies and cities. Respondents complete a questionnaire and receive a score to benchmark ESG performance, with high performers recognized on the annual "A List." CDP's questionnaires are aligned with the TCFD recommendations and are available in the areas of Climate Change, Water Security, and Forests.

Why these questionnaires are important for a valuer

To

- Quantifying future costs and other liabilities.
- Establishing the suitability of the property for its intended use or users
- Try to provide a good foundation for price negotiations and
- Try to provide a level of protection for institutional investors. As, it is seen that the majority of large property owners are institutional investors who manage a portfolio of property assets on behalf of their beneficial owners.
- It is therefore critical. Both valuers and their clients have to understand the issues, which may be considered in such reports and client/ intended users should have confidence in the due diligence process adopted by a Valuer.

ADVISORY GUIDELINES

Questionnaires sample

Environment (made by RVOESMA)

Head	Commentary	Total Marks	
SBTi	Any Standard Science Based Target Initiative taken by the entity. Any Climate related targets.	5	
Energy Consumption	Do they have dtails of regulatory or legally imposed energy rating schemes. Any required improvement?	Y/N	
Energy Consumption	Type of energy used (for example electricity, oil, natural gas, coal). And percentage on total energy consumption (-)	-5	
	Details of energy generation on site if any .	Y/N	
Use of Renewable Energy (RE)	Any use of renewable energy Quantity and specification of renewable energy systems (e.g. solar panels, heat pumps, biomass, wind turbines).	10	
Certificates on energy	Any certificates (for example BREEAM (Building Research Establishment Environmental Assessment Method), LEED (Leadership in Energy and Environmental Design is a green building certification program used worldwide., Global Real Estate Sustainability Benchmark (GRESB) or any other	10	
Greenhouse gas emission	Emissions pathway analysis (for example, in Europe, CRREM pathway analysis). Reflecting Paris agreement. CRREM publicly released decarbonization pathways	5	
Pollution	How does the asset contribute to pollution (air, water, soil, noise or otherwise)?	-5	
Climate risk (physical)	Will the asset be subject to climate change risks or natural disasters? (-)	-5	
Climate risk (physical) and opportunities	Risk including Flood, heat, drought, sea level. Investigation flooding, mining history etc.	-5	
Depleting source of material	How do the characteristics of the asset deal with resource scarcity, consumption or efficiency (e.g. energy, water, raw materials)?	5	

Biodiversity	Relevant data may include, for example, the share of vegetated surface area compared to total surface area, activities negatively affecting biodiversity-sensitive areas, use of pesticides, the existence of a biodiversity action plan and the approximate area of planting or any roof coverings).	5	
Use of water / water discharge of water in a FY	Water usage (for example, is the property adapted to reduce water consumption? Potential measures include whether there is a water management system in place and the levels of water consumption).	5	
Use of eco-friendly material	Materials used in construction and/or renovation.	5	
Zoning:	Investigation about the planning of local Government / Statutory Authority whether the property falls under their purview.	5	
Risks of contamination or hazardous substances	How the Company assess the risks of contamination or hazardous substances and remedy	5	
Waste management.	how the waste is disposed. Does the asset possess proper waste management protocol ?	5	
Materials used in construction and/or renovation.	Health Hazard out of any material used like asbestos, particular painting etc. Is the asset constructed from recyclable materials?	10	
Recyclable material used	Is the asset constructed from recyclable materials?	10	
Deforestation	Any kind of cutting tree and its compensation	5	
Entity identifying the climate risk. Climate related target	(a) the metric used to set the target. (b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives) (c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region); (d) the period over which the target applies (e) the base period from which progress is measured; (f) any milestones and interim targets; (g) if the target is quantitative, whether it is an absolute target or an intensity target; and (h)how the latest international agreement on climate change, including jurisdictional commitment that arises from that agreement.	5	

Entity, identifying the climate risk	Climate-related transition risks; and opportunity for the entity. The plan of the entity to cover the transitional risk like short term, medium term and long term.	5	
Entity, identifying the climate risk	Business model and value chain An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate related risks and opportunities on the entity's business model and value chain.	5	
Entity, identifying the climate risk. Its strategy and decision making	The entity shall disclose: current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations, resource allocations.	5	
Entity, identifying the climate risk. Climate resilience	An entity shall disclose information about the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties.	5	

SOCIAL

Head	Commentary	Total Marks	
Location	Location characteristics (connectivity and infrastructure). Adequate public service and social amenities	5	
Employees' efficiency	Skilled or unskilled	5	
Mobility	for example, number of electric vehicle charging points, bicycle parking spaces for residents/occupiers.	5	
Accessibility	Building access for people with disabilities and associated requirements.	5	
Social status of the asset	Is the asset well regarded by the community in the area in which it operates? for example zoning and occupier mix, provision of recreational space, green space and community facilities, interactivity with local businesses, light, air or noise pollution, traffic congestion, etc.	5	
Air quality	Indoor air quality (relevant measures include the ventilation rate, details of filtration, CO2 level and temperature).	5	
Health	Does the asset have an adequate health and safety record?	5	
Data	Data protection and privacy	5	
Gender	gender equality and racial equality	5	
Human rights	How the company protects the human rights	5	
Stake holders	Stakeholders satisfaction is one of the vital factors	5	

View of Independent Directors	The role to act like guide, mentor. Also improving corporate credibility and governance standards, role as whistle blower.	5	
Labour	Use of under aged labour	5	
Adaptability	the ease with which the building is adaptable for different needs	5	

GOVERNANCE

Head	Commentary	Total Marks	
Governance and strategy	Governance and strategy of the Company which is crucial, It's about the sustainability and decarbonization strategy in management level	5	
Policy	Policy and Implementation of sustainable solution to manage climate change related issues.	5	
Decarbonization	Decarbonizing the supply chain is crucial as global report says that value chain emissions are 11.4 times greater than a company's direct carbon footprint. Full life cycle of product.	5	
Audit committee	Audit committee structure	5	
Board	Board diversity and structure	5	
Corporate	Corporate Governance in all aspects	5	
Website	Transparency in website	5	
Security	Security audit of website	Y/N	
Reporting	ESG reporting standard	5	
Remuneration	Details about the remunerations paid (example low, high, facility, timing)	5	
Strength	Strength of Institution	5	
Plan	Management succession plan	5	
Rule of the law	The principle under which all persons entities are accountable	5	
Scope of RTI	RTI and transparency of information	Y/N	
Whistle blower	Has the Company any Whistle blower Scheme?	5	
Security	Security system (physical and virtual)	5	

These above tables are purely made by RVO ESMA Foundation, these are a form of Advisory guidelines. Questionnaires are made to illustrate the applicability of standards (or what is rational) in specific situations. The hypothetical numbers are given in an idea help a valuer to quantify the ESG. The endeavour is for simplifying ESG gradation to put in addition to the valuation. It is made to offer advice to overcome the problems.

Disclaimers

- These guidelines are also not at all mandatory.
- The total of number 5 can be easily changed as per requirement of the valuer.
- Advisory Guidelines do not establish new standards or interpret existing standards.
- Advisory Guidelines are not part of any standard.
- These are not establishing any basis or methodology or approach.
- Advisory Guidelines are based on hypothetical conditions without investigation or verification of actual circumstances.
- These Advisory Guidelines cannot give assurance that only this opinion represents the only possible solution to the problem or to the issues discussed. And the advice provided may not be applied equally to all the similar situations.
- These guide lines prepared by RVO ESMA FOUNDATION in endeavored to extend helping hands to practicing valuers.
- These may not help a valuer to arrive a desired result.

COMPARISON TABLE

SL NO	IVSC	RICS	IFRS S2 says on "Climate-related Disclosures"	GRESB (formerly known as Global Real Estate Sustainability Benchmark) is being used by 29% of respondents
	ENVIRONMENT	**ENVIRONMENT**	**ENVIRONMENT**	They have their questionnaires / parameters like
1	How does the asset contribute to pollution (air, water, land or otherwise)?	**A.** Details of regulatory or legally imposed energy rating schemes and related proposed and/or required improvements, including income and capital costs relevant to enhancement.	(a) climate-related risks to which the entity is exposed, which are: (i) climate-related physical risks; and (ii) climate-related transition risks; and	Entity Characteristics
2	Will the asset be subject to climate change risks or natural disasters?	**B.** Energy consumption (with reference to heating, cooling and lighting). This may include energy use intensity measures benchmarked against the relevant real estate sector/class.	(b) climate-related opportunities available to the entity.	Reporting Characteristics
3	How do the characteristics of the asset deal with resource scarcity, consumption or efficiency (e.g. energy, water, raw materials)?	**C.** Type(s) of energy used (for example electricity, oil, natural gas).	Governance : Management's role in the governance processes, controls and procedures used to monitor, manage and oversee climate-related risks and opportunities, including information about:	Management leadership

4	Is the asset constructed from recyclable materials?	**D.** Details of any onsite energy generation (including renewable energy).	Whether the role is being practised by a particular management team or a particular level and how the exercise is being oversighted.	Management Policy
5	Does the asset have appropriate waste management protocols in place to promote	**E.** Quantity and specification of renewable energy systems (e.g. solar panels, heat pumps, biomass, wind turbines).	How the management uses control and procedure to oversee the exercise.	PO1 Policy on environmental issues
6	Will government policies impact the assets useful life?	**F.** Labels and certificates (for example BREEAM (Building Research Establishment Environmental Assessment Method), LEED (Leadership in Energy and Environmental Design is a green building certification program used worldwide., Global Real Estate Sustainability Benchmark (GRESB).	Strategy : 1. the climate-related risks and opportunities including the current and anticipated effects of those climate-related risks and opportunities. 2.the effects of those climate-related risks and opportunities on the 3. the effects of those climate-related risks and opportunities. Any climate related transition plan. That also includes the impact on entity's finance position. entity's strategy and decision-making. 4. Resilience on the strategy and model for climate related changes.	

7	Does the asset have an extended useful life relative to its peers?	**G.** Greenhouse gas emissions.	Climate related risk and opportunity: The entity should describe climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects. explain, for each climate-related risk the entity has identified, a) climate-related physical risk or b) climate-related transition risk. how the entity defines 'short term', 'medium term' and 'long term' and how these definitions are linked to the planning horizons used by the entity for strategic decision-making. declare, the time horizons—short, medium or long term, the effects of each climate-related risk and opportunity could reasonably be expected to occur by the entity.	
8		**H.** Emissions pathway analysis (for example, in Europe, CRREM pathway analysis).		
9		**I.** Physical climate risk factors (such as flood, heat, drought, sea level).		

10		**J.** Water usage (for example, is the property adapted to reduce water consumption? Potential measures include whether there is a water management system in place and the levels of water consumption).		
11		**K.** Biodiversity (relevant data may include, for example, the share of non-vegetated surface area compared to total surface area, activities negatively affecting biodiversity-sensitive areas, use of pesticides, the existence of a biodiversity action plan and the approximate area of planting or any roof coverings).		
12		**L.** Materials used in construction and/or renovation.	Business model and value chain An entity shall disclose information that enables users of general purpose financial reports to understand the current and anticipated effects of climate related risks and opportunities on the entity's business model and value chain.	

			a) A description is required for the current and anticipated effects of climate-related risks and opportunities on the entity's business model and value chain. b) A disclosure of where in the entity's business model and value chain climate-related risks and opportunities are concentrated (for example, geographical areas, facilities and types of assets).	
	SOCIAL	**SOCIAL**		
13	Is the asset located near adequate public services and social amenities?	M. Location characteristics (connectivity and infrastructure).	Strategy and decision-making : the entity shall disclose: current and anticipated changes to the entity's business model, including its resource allocation, to address climate-related risks and opportunities (for example, these changes could include plans to manage or decommission carbon-, energy- or water-intensive operations, resource	

			allocations. From business development through capital expenditure or additional expenditure on research and development; and acquisitions or divestments) Information about how the entity is resourcing, and plans to resource, the activities disclosed. Quantitative and qualitative information disclosure about the progress of plans.	
14	Does the asset have access to a deep pool of employee talent?	**N.** Mobility (for example, number of electric vehicle charging points, bicycle parking spaces for residents/occupiers).		
15	Is the asset located in proximity to sufficient product demand?	**O.** Building access for people with disabilities and associated requirements.		
16	Is the asset well regarded by the community in the area in which it operates?	**P.** Indoor air quality (relevant measures include the ventilation rate, details of filtration, CO2 level and temperature).		

17	Does the asset adequately safeguard data protection and privacy?	**Q.** Community impact (for example zoning and occupier mix, provision of recreational space, green space and community facilities, interactivity with local businesses, light, air or noise pollution, traffic congestion, etc.). Note, these are community impacts on the value of the real property interest being valued, not general value to the community.		
18	Does the asset manufacturer provide adequate training and education?	**R.** Adaptability (the ease with which the building is adaptable for different needs).		
19	What reputation does the asset have with operators, authorities and counterparties?			
20	Does the asset have an adequate health and safety record?			
	GOVERNANCE	**GOVERNANCE**		
21	How do market participants and/or lessees regard the asset?	**S.** Safety (whether the property meets safety regulations and market expectations of safety).	Financial position, financial performance and cash flows An entity shall disclose information that enables users of general purpose financial reports to understand: (a) the effects of climate-related risks and opportunities on the entity's	

			financial position, financial performance and cash flows for the reporting period i.e. current financial effects and (b) the anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term i.e. anticipated financial effects.	
22	What are financing prospects of the asset?	**T.** Risks around ownership, occupation and the source of any relevant transaction funds in relation to criminal activity, including but not limited to money laundering, terrorist finance, modern slavery, and breach of national and international sanctions.		
23	Are purchasers/lessees willing to pay a premium (or require a discount) to buy/lease the asset?	**U.** The impact of ownership and/or occupation where there is a negative public and/or market perception of their ESG credentials and application.		

24	Does the asset have a history of appropriate operation and maintenance?	**V.** Diversity, equity and inclusion (DEI) (for example, does the design of the building encourage inclusive use, e.g. for neurodivergent individuals, different generations, etc.).	Climate resilience An entity shall disclose information about the resilience of the entity's strategy and business model to climate-related changes, developments and uncertainties, taking into consideration the entity's identified climate-related risks and opportunities.	
25	Does the asset meet or exceed the required operating and safety standards?	**W.** Consideration of leases and other relevant contracts with specific sustainability/ESG provisions.	Risk management The climate-related financial disclosures on risk management is to enable users of general-purpose financial reports to understand to identify, assess, prioritise and monitor climate-related risks and opportunities in an entity's processes, including whether and how those processes are integrated into and inform the entity's overall risk management process.	

26	Are there regulatory restrictions regarding the asset's utilisation?	**X.** Planning (zoning), registration, licensing, heritage and related legal matters.	Climate related Metrics Climate-related metrics are key to understanding and managing how climate risks and opportunities affect an organisation. These include measures like greenhouse gas emissions (Scope 1, 2, and 3), carbon footprint, energy usage, water consumption, and waste management.	
27	Is the asset subject to certain taxation considerations?		Climate-related targets (a) the metric used to set the target. (b) the objective of the target (for example, mitigation, adaptation or conformance with science-based initiatives) (c) the part of the entity to which the target applies (for example, whether the target applies to the entity in its entirety or only a part of the entity, such as a specific business unit or specific geographical region);	

			(d) the period over which the target applies (e) the base period from which progress is measured; (f) any milestones and interim targets; (g) if the target is quantitative, whether it is an absolute target or an intensity target; and (h)how the latest international agreement on climate change, including jurisdictional commitment that arises from that agreement.	
28	Will technological advancement impact on the future of the asset?			
29	Does the asset meet relevant regulatory reporting requirements?	**OTHER RELEVANCE**		
30	Are there legal considerations that will impact the asset?	Now, to comply with reporting requirement of the standard		
31	Is there a higher and better use for the asset?	valuers should, where appropriate:		
32	How is the asset positioned for sustainable long-term demand?	a. provide a description of the sustainability and ESG-related property characteristics and attributes that have been collected.		

33	**OTHER RELEVANCE**	b. assess the extent to which the subject property currently meets the sustainability and		
34	What is truly relevant and comparable information?	ESG criteria typically expected within the context of its market standing (there may be no expectation).		
35	Land or gross building floor area,	c. provide an opinion of the relationship between sustainability/ESG factors and valuation within the subject market (if any), including a comment on the current benefits/risks that are associated with these characteristics, or the lack of benefits/risks.		
36	Building installed mechanical and electrical services,	d. arrive at an informed view on the likelihood of these impacting on value (if at all), e.g.		
37	Manufacturer and model, Current location and most favourable market,	how a well-informed purchaser would take account of them in making a decision as to offer price.		
38	Income generating capacity,	e. provide an opinion on the potential impact of identified sustainability/ESG benefits and/or risks (if any) to relative property values over time.		
39	Occupancy rates or utilisation,			
	Machines			

40	Year of manufacture or condition,			
41	Operating capacity,			
42	Overhaul and maintenance status			
43	The evaluation of ESG features of an asset is simply an extension of this benchmarking exercise. It might encompass the following			
44	metrics or characteristics, for example:			
45	Fuel type and efficiency,			
46	Revenue generation capability or utilisation,			
47	Current or future capital expenditure requirements,			
48	Remaining useful life considerations,			
49	Distance from public or social amenities,			
50	Asset maintenance and overhaul regime,			
51	Technological status or advancement relative to peers,			
52	Favourable or unfavourable financing prospects,			
53	Compliance with regulations,			
54	Positive or negative taxation considerations.			
55	Many valuation professionals may consider Current			

	location and most favourable market,			
56	Income generating capacity,			
57	Occupancy rates or utilisation,			
58	Year of manufacture or condition,			
59	Operating capacity,			
60	Overhaul and maintenance status.			
61	The evaluation of ESG features of an asset is simply an extension of this benchmarking exercise. It might encompass the following			
62	metrics or characteristics, for example:			
63	Fuel type and efficiency,			
64	Revenue generation capability or utilisation,			
65	Current or future capital expenditure			
66	requirements,			
67	Remaining useful life considerations,			
68	Distance from public or social amenities,			
69	Asset maintenance and overhaul regime,			
70	Technological status or advancement relative to peers,			
71	Favourable or unfavourable financing			

72	prospects,			
73	Compliance with regulations,			
74	Positive or negative taxation considerations.			