

Value shift

How ESG is reshaping investment underwriting

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Investment risks

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested. Property and land can be difficult to sell, so investors may not be able to sell such investments when they want to. The value of property is generally a matter of an independent valuer's opinion and may not be realised.

“Top quartile financial performance is correlated with ESG performance”

How many people here agree with this statement?

But what does it really mean???

Are we going to see better rent, better yield if we invest in our environmental performance?

Will my building really be stranded if we don't reach net zero?

Does every building need to meet net zero?

How much CAPEX do I need to spend ? What it means if I don't spend ? Am I going to see it directly in my value impact ?

Is there any difference between sectors and locations in addressing ESG risks and opportunities?

Should I stop buying assets in locations exposed to coal intense grid or high physical risks?

Is there true market evidence that ESG matters? What about valuation?

Is there still a green premium ?

How does future-proof portfolio look?

ESG factors in valuation

Update to IVS and RICS Red Book in 2025

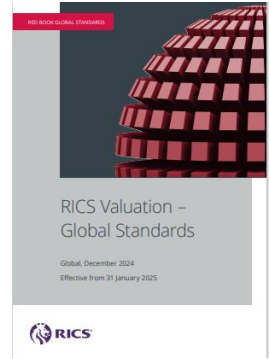
Applies to all geographies

Mandate identification, reporting and documenting significant ESG factors in valuation consultation

Investment manager impact:

New requirements on data and information

Impact on direct value still not visible



ESG in valuation

Considers ESG as part of the overall risk profile, indirectly reflected in cap rate and rental assumptions

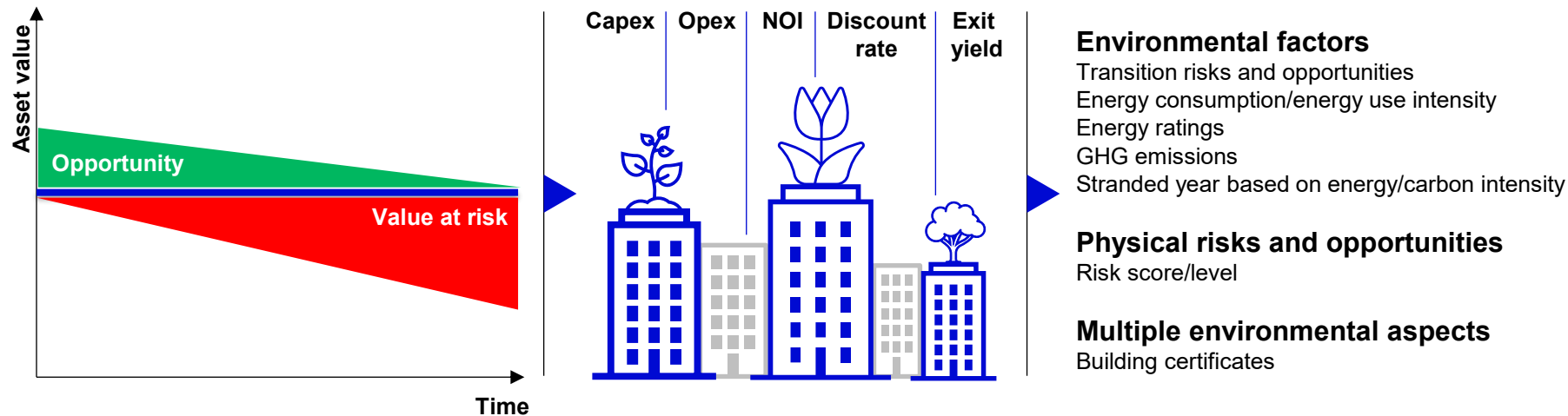


ESG in underwriting

Builds on valuation, using ESG to guide CAPEX, strategy, and shape future risk-return expectations

Value shift

ESG in investment underwriting



Example of how the market approaches scenario modeling

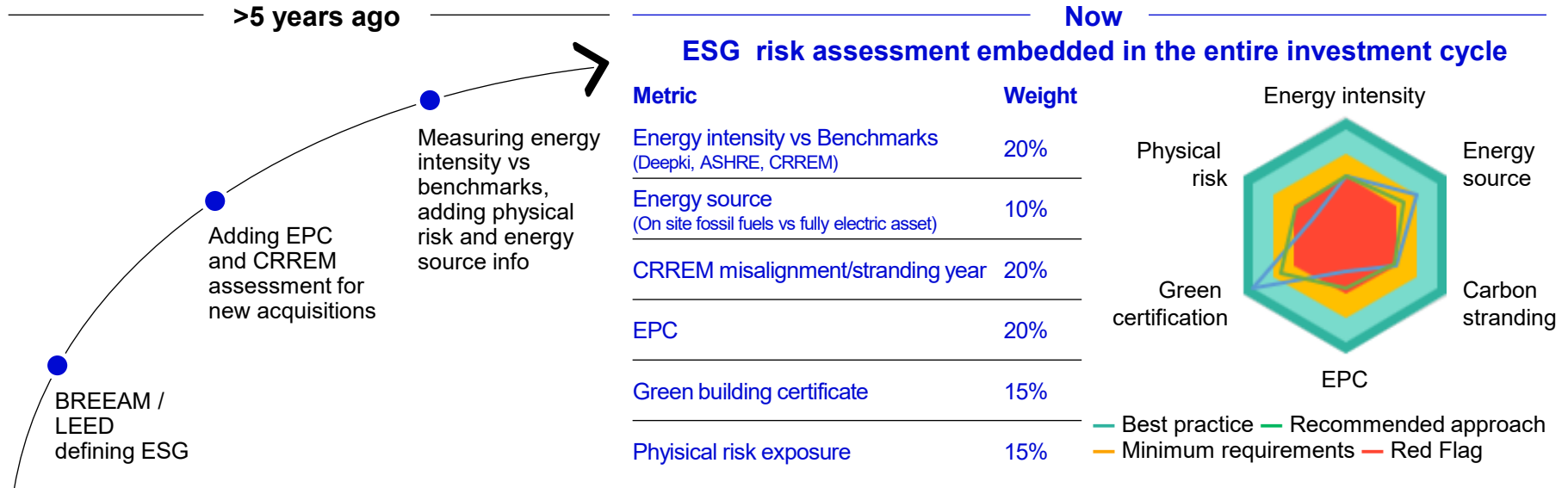
Risk -adjusted return calculation
 Green IRR with brown discount and green premium scenarios
 Shadow carbon pricing

ESG embedded in functional organization



Step 1 | Find out what “good ESG credentials” mean

ESG assessment evolution over time



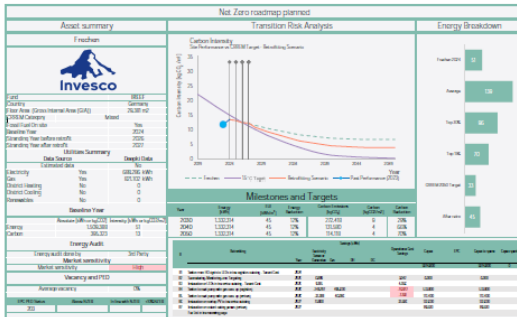
Challenges | Lack of data during the transaction, gaps in real data collection, benchmarks limitations

Step 2 | Create improvement plan and prioritise impactful CAPEX



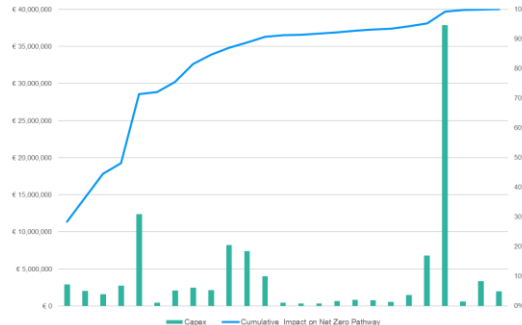
Measures

Net zero/energy audits
EPC assessments
Certification assessments
Physical risk adaptation plans



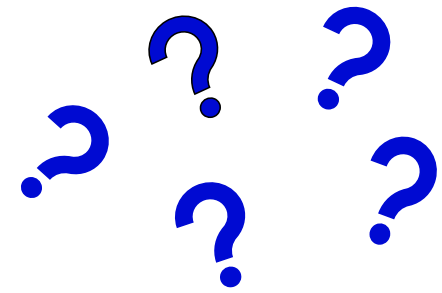
Questions

What does it mean for my performance + valuation?
How to prioritise my CAPEX ?
What if I don't invest at all?



Challenges

True return on ESG investment
Market evidence on price impact
Direct impact on valuation



Note | Relevant assessment against fund/portfolio non-financial targets should be included in the analysis

Step 3 | Assess impact on performance with available information



Market sensitivity analysis
Location/sector differences
in reflecting ESG impact
Difference in occupier
demand/perception



Asset characteristics
Age
Location
Unique selling points



Asset strategy
Holding period
Refurbishment plans
Letting schedule

| | Office | Hotel | Residential - Multi family | Industrial, Distribution warehouse (warm) | Mixed | Retail, Shopping Centre | Industrial, Distribution Warehouse Cooled |
|----------------|--------|--------|----------------------------|---|--------|-------------------------|---|
| Germany | High | Medium | Medium | Medium | High | Medium | Medium |
| Denmark | High | High | High | Medium | High | Medium | Medium |
| Ireland | High | Medium | High | Medium | Medium | Medium | Medium |
| Poland | Medium | Medium | Low | High | Medium | Low | High |
| Czech Republic | Medium | Medium | Low | Medium | Medium | Low | Medium |
| Spain | Medium | Medium | Medium | High | Medium | Medium | High |
| France | High | High | High | High | High | High | High |
| Portugal | Medium | Medium | Medium | Low | Medium | Medium | Low |
| Sweden | High | High | High | Medium | High | Medium | Medium |
| United Kingdom | High | High | High | Medium | High | Medium | Medium |
| Austria | High | Medium | Medium | Medium | Medium | Medium | Medium |
| Italy | High | High | Medium | High | Medium | Medium | High |
| Netherlands | High | Medium | Medium | Medium | High | Medium | Medium |
| Norway | High | High | High | Medium | High | Medium | Medium |

| Asset Sustainability Performance - Analysis Overview | | | | Current situation | | Results - improvement plan | |
|--|--|--|--|---------------------------------|----------------------|---|--------|
| Physical and Transition Assessment | | | | Minimum standard | 2.33 | Recommended approach | Weight |
| Energy | | | | 136.4 | Minimum standard | 90.0 | 30% |
| Asset energy intensity (kWh/m ² /y) | | | | | | | |
| Index energy intensity 15% | | | | 86.0 | | | |
| Index energy intensity 20% | | | | 107.0 | | | |
| Index energy intensity average | | | | 137.0 | | | |
| CREAM energy intensity target (kWh/m ² /y) | | | | 95.0 | | | |
| To be reached by | | | | 2035 | | | |
| Energy source | | | | No on-site fossil fuels | Recommended approach | No on-site fossil fuels | 10% |
| Carbon | | | | Minimum standard | 2 | Recommended approach | 3 |
| Asset carbon intensity (kgCO ₂ e/m ² /y) | | | | 78.5 | | 78.5 | 0% |
| Index carbon intensity 15% | | | | 22.7 | | | |
| Index carbon intensity 20% | | | | 28.3 | | | |
| Index carbon intensity average | | | | 36.4 | | | |
| Stranding year (CREAM) | | | | 2035 | Minimum standard | 2045 | 20% |
| Certification | | | | Minimum standard | 2.3 | Recommended approach | 3.4 |
| EPC | | | | D Red flag | 1 | B Recommended approach | 3 |
| GBC | | | | BREAM/In Use - Outstanding | Best practice | BREAM/In Use - Outstanding | 15% |
| Physical risk | | | | Red flag | 1.0 | Recommended approach | 3.0 |
| High and Very High risks: Surface water flooding | | | | | | No vulnerability assessment, no longer high/very high risks | |
| Total Physical and Transition Rating | | | | Minimum standard | 2.05 | Recommended approach | 3.15 |
| Fast Sustainability Checklist | | | | (Y/N/D) | Current status | Targeted result | |
| On-site renewable energy (e.g. PV panels) | | | | No | Yes | Yes | |
| Off-site renewable energy from PPA | | | | Yes | Yes | Yes | |
| Sufficient EV chargers (check regulatory consideration) | | | | Yes | Yes | Yes | |
| Net zero audit completed | | | | Yes | Yes | Yes | |
| Smart metres and/or automatic data collection | | | | Some smart metres or automation | Yes | Fully smart metres and automated | |
| LED lights installed in majority of building | | | | Yes | Yes | Yes | |

Output examples

ESG factored in financial modelling

Recommendations

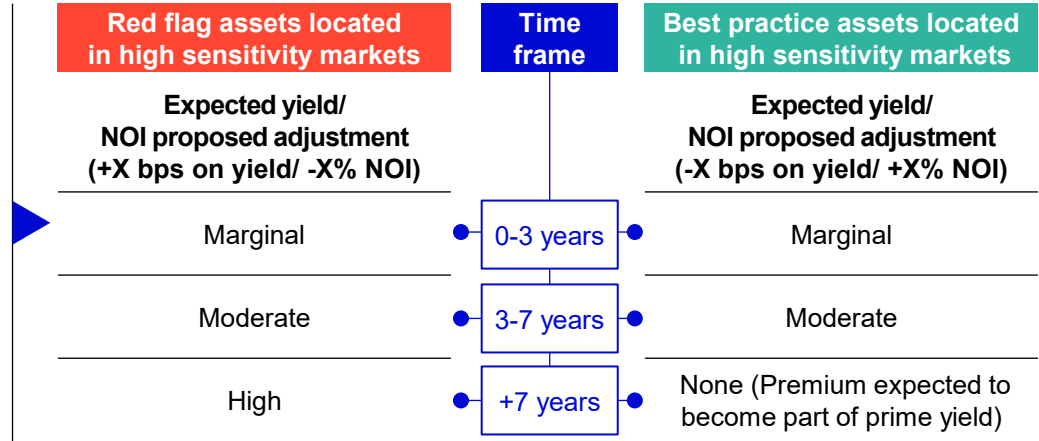
Price forecast impact (NOI & exit yield adjustments)

Market sensitivity

High

Investment plan brings asset to

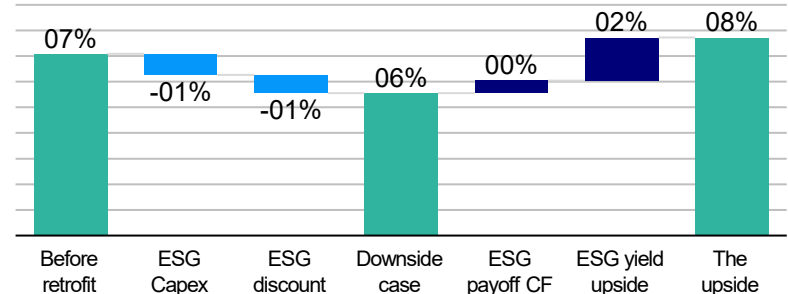
Red flag



Example of sustainable investment capex and yield sensitivity on portfolio returns - For illustrative purposes only

Possible value adjustments include:

- **ESG Discount Yield:** Additional +Xbps on exit yield to reflect weaker ESG credentials and reduced liquidity.
- **ESG Payoff:** Direct return from ESG via rent premiums or operational savings.
- **ESG Yield Upside:** Valuation uplift from stronger ESG profile, reflected in lower exit yield and improved cash flow.



Next step

Industry collaboration and support



Industry support e.g.

**INREV professional
standard papers
INREV ESG in valuation project
C Change (Preserve tool)
ARES I**



Increasing market evidence

**Industry lobby for
market transparency**



Regulatory enhancement

**EPBD
EU taxonomy revision
RICS Red Book update**

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