

HOW IMPORTANT IS SUSTAINABILITY IN ASSET VALUE?

Far from being a new concept in the real estate lexicon, Sustainability has taken on a central role in the sector's development model, and has currently become a crucial part of the strategies outlined by major investors.

However, in concrete terms, *«how important is sustainability in real estate asset value?»*. This question is more relevant than ever, and we provide the answer in this edition, sharing in the pages ahead the vision of experts who agreed to participate in this opinion poll.



Gemasolar Concentrated solar power plant CSP, system generate solar power using mirrors lenses to concentrate large area of sunlight onto receiver. Seville, Andalusia.



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Secretary General

Environmental, social and governance (ESG) factors are increasingly important criteria in investors' decision-making processes when the time comes to allocate their capital to all types of assets, including real estate. The fact that an investment is sustainable from an ESG perspective also has an impact on its future economic viability, not only because assets may suffer potential future depreciation due to climate change, but also as a consequence of the transition risks, namely the costs that may arise if environmental regulation imposed new obligations or restrictions, as yet unknown.

In addition to determining value differentials (upwards or downwards) in the value of comparable assets currently on the market, measuring sustainability in real estate assets allows a more sensitive analysis of the property's future capacity to continue to be useful for its intended purpose and to generate economic benefits, which also has an impact on its current value. Furthermore, the evaluation of sustainability allows the anticipation of possible physical risks arising from environmental conditions. Therefore, it is crucial that the international valuation industry as a whole reaches a consensus on the most objective and technically correct way of measuring and incorporating sustainability factors in the valuation process.

In the current scenario, any real estate asset should be conceived or redesigned with a long-term sustainable approach in order to maintain its market value. This means that not being on the side of sustainability or, more broadly, of a harmonious relationship between real estate and the environment, will lead to a loss in competitive position.

All major players and partners in the property market already demand sustainable criteria to avoid excluding their assets from future opportunities.

Sustainability certifications, which are increasingly evolved and demanding in the quantity and quality of parameters to be measured, guarantee a property's efficient use of resources, which are becoming more scarce and costly every day, and the reduction of emissions, while also helping identify ways to improve an asset that increase its value. And this is not an occasional process, but rather a continuous development and improvement that must be adapted to the technological and social development of our environment.

For all these reasons, exhibiting the various sustainability seals has become an indispensable tool to maintain the competitive position, and therefore the value, of an asset in a market that is clearly moving towards sustainability.



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SAVILLS AGUIRRE NEWMAN

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Not being on the side of sustainability will lead to a loss in competitive position



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Less than two years ago, the European Green Pact for the European Union (EU) was presented, an agreement among member countries created to tackle climate change. This is a growth strategy to make the EU the most prosperous, as well as sustainable place, with a modern economy that uses its resources in an efficient and competitive manner, with net zero greenhouse gas emissions by 2050.

One of the sectors that has been in the spotlight is real estate, more specifically, building renovations and their efficient use of energy. Buildings represent 40% of energy consumption, which means that these need to be renovated to reduce energy poverty and environmental depletion.

At Cushman & Wakefield, we focus on sustainable offices and are committed to reducing ours and our clients' environmental impact through sustainable architectural design. Furthermore, in the long term, these types of

buildings are also economically beneficial, since they are less likely to become obsolete, resulting in lower costs, better tenant retention and a more positive impact on the surrounding community.

Therefore, we identify solutions that offer the best sustainable value with maximum financial return, also advising on CSR strategies and responsible investment. These solutions are designed to reduce the environmental footprint and diminish costs, comply with regulations and manage risk, according to the Energy Management System based on ISO 50001 and LEED, WELL, BREEAM certifications, applicable to each part of the building's life cycle.

We have a long-term commitment to sustainability and are totally dedicated to achieving a "new generation" of buildings that are more respectful of the environment and, ultimately, of society.

«Sustainability is already a staple in new buildings»

Over the last years, concerns about sustainability have spread across different sectors within our society, and real estate is no exception. This covers topics such as construction materials to energy efficiency, including energy sources. Regulations will likely be stricter in the future, as is already happening in other countries. For example, properties with an EPC (energy performance certificate) rating greater than F or G cannot be sold or let in the UK. In these cases, the value deterioration is such that owners will have to upgrade their properties. The impact of sustainability on property values is not directly measurable, but it does have an impact on liquidity. This comes from two different drivers: First,

occupier demand, as in some cases major companies or government bodies will reject being located in a property that lacks certain sustainability requirements. Secondly, some investors can only acquire assets that comply with certain sustainability standards. In this sense, an increasing number of funds are already investing in ESG assets or considering doing so. Another impact of sustainability on values comes from energy efficiency and the associated cost reduction, which leads to less charges for tenants and therefore more competitive properties. If owners want to protect the value of their assets, they will have to invest in energy efficiency and other sustainability measures in the short and medium term.



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