

EXPOSURE DRAFT

VALUATION PROTOCOL – ENVIRONMENTAL, SOCIAL & GOVERNANCE IN REAL PROPERTY VALUATIONS

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Interpretations

In this Valuation Protocol (*VP*):

- (a) the *VP* headings or sub-headings and the table of contents are for convenience and navigation purposes only and should not be used in the interpretation of this *VP*;
- (b) a cross-reference to a section number is a reference to all of its sub-clauses;
- (c) words/terms used in the singular include the plural and vice versa, unless the context clearly indicates otherwise;
- (d) written communication refers to any mode of representing or reproducing words in a tangible and permanently visible form and includes electronic transmissions; and
- (e) a reference to any law, legislation, regulation, and/or other statutory obligation or directive (*law*), is a reference to the *law* current at the time that the *professional services* are conducted by the *Member*.

Definitions

The definitions below and elsewhere in this *VP* are provided to assist the interpretation and understanding of certain stated terms used within this *VP*.

Where a term is defined, the definition provided in this *VP* prevails over its ordinary or common meaning.

Defined terms are italicised. Where a term is not italicised, its ordinary meaning applies in the context in which it is used.

A defined term used in the singular includes the plural and vice versa, unless the context clearly indicates otherwise.

“*Institute(s)*”

All references to *Institute* mean, as the context requires, the Australian Property Institute (*API*) and/or New Zealand Institute of Valuers (*NZIV*).

“*Member*”

A *Member* of the *API* and/or *NZIV*.

“*professional services*”

means services provided by *Members* in compliance with:

- (a) the *Institutes* Code of Ethics and applicable Rules¹;
- (b) their membership category, certification(s) and/or registration; and
- (c) the agreed instructions for the services.

“*significant ESG factors*”

means an *ESG* factor that, having regard to the nature and circumstances of the *valuation service*, is reasonably considered by the *Valuer* capable of materially influencing the actions of market participants, the marketability of the asset, or the opinion of *value* or rent as at the valuation date.

¹ In Australia, the *API* Rules of Professional Conduct; and in New Zealand the *Valuers Act, 1948*.

“valuation process”

means a verified evidence-based process, which results in a *valuation report* containing the Primary Valuer’s reasoning and analysis and their opinion of *value* of the asset as at a specified date.

This process includes the necessary enquiries, investigations, procedures and processes, including a personal physical inspection of the subject property by the Valuer, to support their opinions and meet the requirements of the agreed instructions.

“valuation report”

means a *report* that has been prepared by a Primary Valuer as part of a *valuation process*.

“valuation services”

are *professional services* provided by a *Valuer* which includes their opinion, estimate or confirmation as to the *value* and /or rent for an asset(s) as at a specified date.

“value”

means the Valuer’s opinion of value, in monetary terms, for an asset as a result of a *valuation process* or desktop process as at a specified date.

“Valuer”

In Australia, means a *Member* who holds API certification of CPV, CPV (Residential), or RPV; and

in New Zealand, means a *Member* recognised as a valuer under the *Valuers Act, 1948*

1.0 Introduction

The purpose of this Valuation Protocol (VP) is to provide guidance to *Valuers* in relation to environmental, social and governance (“ESG”) factors when providing *valuation services*.

The principles and guidance outlined in this VP are relevant to all *valuation services* of real property where ESG factors are required to be considered by the *Valuer* in the agreed instructions, applicable law or where *significant ESG factors* are identified through reasonable enquiry.

The nature and extent of the consideration must be proportionate to the circumstances of the *valuation service*. The level of enquiry may differ materially between property classes.

Valuers must exercise professional skill, scepticism and judgement when determining whether ESG factors are relevant to the *valuation service*. Consideration should be limited to *significant ESG factors* identified through reasonable enquiry, including information reasonably observable, publicly available or as required by the agreed instructions or applicable law.

This VP is not provided as prescriptive guidance about *significant ESG factors*.

This VP is intended to assist *Valuers* in applying relevant valuation standards and judgement on ESG matters. Unless a provision expressly states otherwise, it does not create a separate obligation to undertake specialist environmental, sustainability, climate, engineering, legal or ESG investigations beyond the scope reasonably required for the *valuation service*, the agreed instructions and applicable law.

This VP does not require a *Valuer* to undertake an environmental audit, sustainability assessment, climate-risk assessment, engineering investigation, legal review or other specialist ESG investigation unless expressly included within the agreed instructions and within the *Valuer's* competence.

Valuers are not required to investigate every possible ESG factor. *Valuers* should focus on *significant ESG factors* that are reasonably observable or publicly available and relevant to the behaviour of market participants, the marketability of the property or the opinion of *value* or rent as at the valuation date.

Valuers are reminded that when providing professional services, compliance with the API Rules of Professional Conduct is mandatory.

2.0 ESG and Sustainability

‘Sustainability’ is a broad, societal concept, whereas ‘ESG’ offers a more structured and investor-focused framework.

In the context of the built environment and real property, sustainability refers to an overarching and holistic approach to development, management, ownership and investment. It aims to create and maintain assets that meet the needs of the present without compromising the ability of future generations to meet their own needs. This concept is multi-dimensional, striving for a harmonious balance between economic viability, environmental stewardship, and social equity.

In the context of real property, sustainability refers to the capacity of a property to remain viable and operational over its economic life through the efficient use of resources and the mitigation of environmental and social impacts.

The modern concept and understanding of sustainability stems from the United Nations Brundtland report 'Our Common Future' 1987 definition of Sustainable Development which is:

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

ESG is a framework used primarily by investors and financial markets to assess the performance, risks, and opportunities of an asset, liability or entity. ESG is a structured set of criteria to measure and report on the impact of an investment across the areas of environment, social and governance factors.

3.0 What is ESG?

ESG is the initialism for the words environmental, social and governance.

ESG is a framework for evaluating the environmental, social and governance performance of an entity, asset or liability. It provides investors and other stakeholders a set of criteria for assessing environmental, social and corporate governance.

The three (3) pillars of ESG are:

Environmental:	This factor evaluates an entity's or property's impact on the environment. It considers factors such as carbon emissions, waste management, air and water pollution, contamination issues, resource scarcity or efficiency (e.g., energy, water and raw materials), natural disasters, biodiversity, and exposure to events driven by climate change (comprising current and future risk) factors.
Social:	This factor evaluates an entity's or property's impact on society. It considers factors such as working conditions and the working and living environment, health and well-being, diversity, gender and racial equality, human rights, data and privacy protection, community relations and customer satisfaction.
Governance:	This factor evaluates an entity's management, decision-making and corporate governance structures, and processes; as well as the stewardship, accountability and transparency of the arrangements that govern an entity or asset. It considers such factors as bribery and corruption, board composition, diversity and structure, executive and corporate governance and remuneration, succession planning, ESG regulatory and reporting standards and regulatory costs, asset management plans (for transition, resource use and climate risks), political lobbying, shareholder rights, the law and transparency. In the context of real property, this factor, also includes third party verification or certifications used to communicate sustainability credentials.

The above examples are non-exhaustive and are not a checklist of matters *Valuer's* are required to investigate. Their relevance will depend on the subject property, the market and agreed instructions.

4.0 International Valuation Standards

The *Institutes* adopt the valuation concepts and over-arching principles in International Valuation Standards (IVS) published by the International Valuation Standards Council (IVSC).

It is the *Valuer's* responsibility to comply with those valuation concepts and over-arching principles applicable at the date of valuation.

The 2025 edition of IVS contains specific ESG related provisions including;

- a definition of ESG in the Glossary
- that an IVS-compliant scope of work (instruction) must specify any ESG factors that the *Valuer* is to consider (IVS 101 Scope of Work, para 20.01 (m));
- an Appendix to IVS 104 Data and Inputs that outlines a conceptual framework for consideration of ESG factors as part of the valuation process; and includes a non-exhaustive list of factors attributable to each pillar; and
- requirement in IVS 106 Documentation and Reporting, para 30.06 (m) for an IVS-compliant valuation report to convey any *significant ESG factors* that the *Valuer* considered as part of the valuation process.

Refer to Annexure 1 of this *VP* for details of content in IVS regarding ESG.

Consistent with IVS, *significant ESG factors* should be considered by *Valuers* to the extent that they are measurable. The *Valuer* is required to apply professional judgement when assessing whether it is reasonable to report on identified or known ESG factors.

If specifically instructed, or any identified ESG factors are considered to significantly impact the *value* and/or marketability of the asset, *Valuers* should document their consideration of these factors and provide appropriate commentary in the *valuation report*.

5.0 Role of the Valuer when considering ESG

When undertaking a *valuation process*, the *Valuer* must interpret the market and must not set or lead the market.

In relation to ESG factors, considerations for *Valuers* may include:

1. the identification and the collection of data and inputs in relation to any *significant ESG factors*, whether qualitative or quantitative;
2. assess the extent to which those *significant ESG factors* are considered by market participants when negotiating prices. ESG factors may be identified through the analysis of market evidence;
3. any identified *significant ESG factors* (either positive or negative) that the real property asset has on the environment and the society in which it is likely to transact;
4. consider whether any identified *significant ESG factors* comprise a risk or opportunity, and/or a marketability impact on the real property asset; and
5. consider whether there is any legislation, regulation or policy applicable to the real property asset or market participants and the implications of this on the real property asset.

The *Valuer* is not required to undertake investigations outside the agreed instruction or the *Valuer's* professional competence.

Valuers must exercise professional scepticism and judgement when identifying and considering reasonably observable or publicly known *significant ESG factors* that are likely to be considered material by market participants.

This requires assessment of the subject property within its specific market context, acknowledging that the expectations and data available will vary across different asset classes and markets. There may also be more information pertaining to certification of assets that classify and assist in comparing assets, for example, for commercial office assets NABERS certifications.

The depth and scope of ESG inquiry should be proportionate to the nature and circumstances of the *valuation service*, including the asset type, its scale and complexity, the purpose of the *valuation report*, and the reasonable expectations of the agreed reliant party(ies) of the *valuation report*.

As markets and information continue to evolve it is the *Valuer's* responsibility to maintain knowledge of relevant ESG developments that are applicable to the property types and markets in which they provide *valuation services*.

5.1 Valuers are not Experts on ESG

Valuers are not generally experts on ESG matters and must not include commentary in *valuation reports* that incorrectly implies otherwise.

Valuers should only provide ESG commentary within the scope of their professional competence and must not represent themselves as specialist environmental, sustainability, climate, engineering, legal or other experts unless appropriately qualified to provide such advice.

The *Institutes* recommend that *Valuers* consider including a clear qualification statement in *valuation reports* where they have provided commentary on ESG matters. The following is a sample qualification statement that *Valuers* may consider modifying or adapting for inclusion in *valuation reports*.

"The Valuer is not an expert on ESG matters and as such any observations or comments in relation to ESG are only provided in the Valuer's capacity as a property valuer. Any comments on ESG matters in this valuation report must not be relied upon as specialist environmental, sustainability, climate, engineering, legal or other technical advice on ESG matters."

This valuation report does not constitute an environmental audit, sustainability certification, climate-risk assessment, engineering advice or specialist ESG review.

The Valuer strongly recommends that the client, and any other agreed reliant party(ies), seek and obtain guidance, specific advice and/or opinion, or other appropriate specialist input, from specialists who have expertise and qualifications in ESG, in relation to any ESG matters raised in this valuation report and prior to any reliance on the valuation report."

5.2 ESG Factors May Not Always Be Quantifiable

ESG factors focus on both short and long-term impacts, and *Valuers* have a responsibility to identify risks and opportunities that may affect current and future investment and occupation decisions. *Valuers* should consider identified or publicly known *significant ESG factors* of the subject property in comparison to *significant ESG factors* of the market evidence. *Valuers* should consider *significant ESG factors* only to the extent that they are relevant and considered by market participants as at the valuation date.

A *Valuer's* opinion of market value is assessed at a specific valuation date and is based on market conditions and observable market evidence at that date. Any potential future ESG risk or benefit may not, by itself, result in a measurable impact on *value* at the valuation date.

Adjustments to the opinion of *value* should not be made arbitrarily because a *significant ESG factor* is considered environmentally or socially desirable or undesirable.

An arbitrary adjustment for *significant ESG factors* is considered inappropriate where:

- they are embedded in overall asset quality;
- their impact is outweighed by other market forces;
- benefits are intangible or operational;
- risks have not yet materialised, or;
- sustainability features are already expected by the market.

Any adjustments must be supported by relevant market evidence and analysis demonstrating its impact on *value*.

Not all ESG factors will warrant explicit adjustment by the *Valuer* when providing their opinion of *value*. Some ESG factors may be implicit in market evidence or may represent future risks that have not yet materially impacted prices or how assets trade in the market.

Significant ESG factors should be considered by *Valuers* to the extent that they are identifiable, and adjustments only made where quantifiable from the analysis of market evidence.

Valuers may consider including market commentary to demonstrate consideration of identified *significant ESG factors* and to explain how they align with available market evidence.

6.0 Regulatory and Rating Frameworks

A variety of national, state and local government regulatory frameworks exist as well as voluntary rating frameworks that incorporate or relate to ESG factors and may have implications for real property assets or for market participants. These are continually evolving and are subject to change.

Valuers are expected to have reasonable awareness of regulatory and rating frameworks as they evolve that are relevant to the property types, markets and market participants in which they provide valuation services.

Regulation, legislation and policy may exist at an International, Federal, State/Territory and/or local government level that may affect an asset directly, indirectly, or impact stakeholders, whether through ownership, use or financing.

Valuers are not expected to, nor should, provide legal, regulatory or specialist compliance advice.

Annexure 2 provides examples of regulatory and voluntary frameworks current at the date of publication. It is illustrative only, is not exhaustive, and must not be relied upon as a statement of current law or regulatory requirements.

7.0 Valuation Reports

For valuation reporting purposes, *significant ESG factors* are environmental, social or governance matters relevant to the subject property or the market in which it is likely to transact that may influence the marketability and/or *value* or rent of the subject property.

Valuation reports should, subject to the *Valuer's* professional judgement, include ESG commentary where *significant ESG factors* are:

- reasonably observable and/or publicly known,
- likely to be considered by market participants
- requested in the agreed instructions,
- are required under legislation, regulation, or regulatory policy, or
- the omission of any identified *significant ESG factors* from the valuation considerations and report could result in the valuation report being materially misleading

The extent of this commentary will depend on the subject property, and the agreed instructions.

Where instructions specifically request the *Valuer* to consider *ESG* factors, the *valuation report* must include commentary on any identified *significant ESG factors*.

Where *ESG* consideration forms part of the agreed instructions and no *significant ESG factors* are identified, the *Valuer* must state this in the *valuation report*.

It is important to remember that commentary on *ESG* factors is not the reporting of identifiable locational and environmental factors that impact marketability and *value* of the subject property, that have always been considered and addressed in *valuation reports* and must continue to be identified and reported.

Where *ESG* factors are considered to significantly impact (either positive or negative) the *value* and/or marketability of the asset, *Valuers* should document the evidence to support their consideration of these factors and provide appropriate commentary in the *valuation report*.

Commentary on identified *significant ESG factors* that demonstrate the subject property's impact on the environment and society, in the market in which it would most likely transact, must be based on genuine market research, reasonably reliable information or verifiable facts.

There may also be *ESG* considerations, such as 'certifications' or frameworks that may be a core consideration in the *ESG* profile of a real property asset.

7.1 Sample ESG Qualification Statements

The *Institutes* have included 'sample *ESG* qualification statements' in Annexure 3 of this Valuation Protocol.

Sample qualification statements contained within Annexure 3, or elsewhere in this *VP*, do not constitute legal advice, or advice that could only otherwise be given by an *ESG* specialist.

Valuers are advised to seek legal and/or other advice with regards to the drafting of qualification statements for *valuation reports*.

Any qualification, limitation or assumption should clearly identify the matter concerned, its relevance to the valuation, and any limitation it places on the scope, investigation or reliance on the valuation report.

Qualification statements, included by *Valuers* in *valuation reports*, must be drafted so as to bring to the reader's attention something that the *Valuer* expressly wants the reader to have regard to prior to any reliance on the *valuation report*.

The *Institutes* accept no responsibility for any loss or damage suffered by *Valuers*, or any other party/parties in relation to the use of any of the sample qualification statements.

8.0 Effective Date

This *VP* is applicable from DD MMMM YYYY.

Annexure 1: ESG Content in IVS 2025 edition

Extracts from IVS have been reproduced in this Annexure.

Content reproduced from IVS is shown in blue; including IVS defined terms which are italicised and listed at the end of this Annexure.

The *Institutes'* explanatory comments in the information boxes are provided to assist *Valuers* in the interpretation and application of IVS in relation to ESG.

Glossary

10.08 Environmental, Social and Governance (ESG)

The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, asset or liability. ESG comprises three pillars: *Environmental, Social and Governance*, all of which may collectively impact performance, the wider markets and society.



ESG is a label for an investing principle that prioritises environmental issues, social issues and corporate governance.

It is a framework used to assess an entity's or property's sustainability and ethical impacts.

The main purpose of an ESG framework is to provide investors, and other stakeholders, with a set of criteria to assess an entity's or property's impact on society and the environment, as well as an entity's corporate governance factors.

IVS 101 Scope of Work

20. Valuation Requirements

20.01 The scope of work *must* specify the following:

- (m) *Environmental, Social and Governance* factors: Any requirements in relation to the consideration of *significant environmental, social and governance* factors.



IVS 101 Scope of Work, para 20.01 sets out the minimum requirements for the content of an IVS compliant valuation instruction. That is, the scope of work must include all the details outlined in items (a) to (p) of para 20.01.

Item (m) requires that an IVS-compliant scope of work (instruction) must specify any ESG factors that the *Valuer* is to consider.

Where the agreed instructions do not specify the ESG factors that the *Valuer* must consider, as well as reporting requirements; *Valuers* should still consider if the subject property significantly impacts the environment or society in which the property is most likely to transact and disclose this in the *valuation report*.

IVS 103 Valuation Approaches: Appendix



The comparable transactions method is the term used in IVS to describe any method of analysis where the *Valuer* relies on and analyses market transactions.

The extracts from IVS reproduced below are from the discussions under the sub-heading “*Comparable Transactions Method*” and relate to metrics that Valuers may make informed adjustments to account for difference between the market evidence and the subject asset.

- A10.08 The *valuer* should analyse and make adjustments for any *significant* differences between the comparable transactions and the subject *asset*. Examples of common differences that could warrant adjustment s may include, but are not limited to:
- (a) material characteristics (age, size, specifications, etc.)
 - (b) size adjustments,
 - (c) size of the stake (partial or majority),
 - (d) relevant restrictions on either the subject *asset* or the comparable *assets*,
 - (e) geographical location (location of the *asset* and/or location of where the *asset* is likely to be transacted/used) and the related economic and regulatory environments,
 - (f) profitability or profit-making capability of the *assets*,
 - (g) historical and expected growth,
 - (h) yields/coupon rates,
 - (i) types of collateral,
 - (j) unusual terms in the comparable transactions,
 - (k) differences related to marketability and control characteristics of the comparable and the subject *asset*,
 - (l) differences in *ESG* considerations, and
 - (m) ownership characteristics (eg, legal form of ownership, amount percentage held.)

IVS 104 Data and Inputs: Appendix

The *valuer* should be aware of relevant legislation and frameworks in relation to the *environmental, social and governance factors* impacting a *valuation*.

A10. Environmental, Social and Governance (ESG) Considerations

A10.01 The impact of *significant ESG factors* should be considered in determining the *value* of a company, *asset* or *liability*.



The *Valuer's* role is not to set or lead the market, rather the *Valuer* is required to interpret the market, and in the case of ESG, this may include consideration of ESG factors that were considered by market participants when negotiating prices.

A10.02 *ESG factors* may impact *valuations* both from a qualitative and quantitative perspective and may pose risks or opportunities that *should* be considered.



The *Institutes* recommend that when reading and applying A10.02 the term “valuations” is replaced and read as “valuation reports”. That is, “*ESG factors may impact the value and market perception of the entity, asset or liability from both a qualitative and quantitative perspective and may pose risk and opportunities that should be considered.*”

When providing *valuation services*, the *Institutes* recommend that *Valuers* consider and disclose ESG factors that impact the value and market perception of an asset and/or may pose ESG risks and opportunities.

A10.03 Examples of environmental factors may include but are not limited to the following:

- (a) air and water pollution,
- (b) biodiversity,
- (c) climate change (current and future risks),
- (d) clean water and sanitation,
- (e) carbon and other gas emissions,
- (f) deforestation,
- (g) natural disaster,
- (h) resource scarcity or efficiency (eg, energy, water and raw materials),
- (i) waste management.

A10.04 Examples of social factors may include but are not limited to the following:

- (a) community relations,
- (b) conflict,
- (c) customer satisfaction,

- (d) data protection and privacy,
- (e) development of human capital (health & education),
- (f) employee engagement,
- (g) gender equality and racial equality,
- (h) good health and well-being,
- (i) human rights,
- (j) working conditions,
- (k) working environment.

A10.05 Examples of governance factors may include but are not limited to the following:

- (a) audit committee structure,
- (b) board diversity and structure,
- (c) bribery and corruption,
- (d) corporate governance,
- (e) donations,
- (f) ESG reporting standards and regulatory costs,
- (g) executive remuneration,
- (h) institutional strength,
- (i) management succession planning,
- (j) partnerships,
- (k) political lobbying,
- (l) rule of law,
- (m) transparency,
- (n) whistle-blower scheme.

A10.06 ESG factors and the ESG regulatory environment *should* be considered in *valuations* to the extent that they are measurable and would be considered reasonable by a *valuer* applying *professional judgement*.



ESG factors which may be both risks or opportunities with positive or negative impacts to the asset on the environment and/or society must be considered by *Valuers* as part of a *valuation process*.

IVS 106 Documentation and Reporting

30.06 Valuation reports *must* convey the following, at a minimum:

(m) *significant environmental, social and governance factors used and considered,*



IVS 106 Documentation and Reporting, section 30 Valuation Reports sets out the minimum requirements for an IVS-compliant valuation report. That is, an IVS-compliant valuation report must include all that is outlined in items (a) to (p) of para 30.01.

Where the agreed instructions do not specify the ESG factors that the *Valuer* must consider, as well as any reporting requirements; *Valuers* should still consider if the subject property significantly impacts the environment or society in which the property is most likely to transact and disclose this in the *valuation report*.

IVS 400 Real Property Interests



The extract from IVS reproduced below are from the discussions in IVS 400 relating to “data and inputs”. It reinforces the concepts and requirements of IVS 104 Data and Inputs.

When considering data to be used as inputs in a *valuation process*, *Valuers* should consider significant ESG factors relating to the subject asset, the market and market participants.

100.06 *Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.*

IVS 410 Development Property



The extract from IVS reproduced below are from the discussions in IVS 410 relating to “data and inputs”. It reinforces the concepts and requirements of IVS 104 Data and Inputs.

When considering data to be used as inputs in a *valuation process*, *Valuers* should consider significant ESG factors relating to the subject asset, the market and market participants.

120.06 *Significant ESG factors associated with the value of an asset should be considered as part of the data and input selection process.*

IVS Glossary

10.01 Asset or Assets

The right to an economic benefit.



An item or right having value that is legally recognised and can be owned or controlled by an entity or person, and which can be transferred, exchanged, leased, licensed or gifted to another entity or person.

10.08 Environmental, Social and Governance (ESG)

The criteria that together establish the framework for assessing the impact of the sustainability and ethical practices, financial performance or operations of a company, *asset* or *liability*. ESG comprises three pillars: *Environmental, Social and Governance*, all of which may collectively impact performance, the wider market and society.



ESG is a label for an investing principle that prioritises environmental issues, social issues and corporate governance.

It is a framework used to assess an entity's or property's sustainability and ethical impacts.

The main purpose of an ESG framework is to provide investors, and other stakeholders, with a set of criteria to assess an entity's or property's impact on society and the environment, as well as an entity's corporate governance factors.

10.16 Liability

The present obligation to transfer an economic benefit, A *liability* has the following two essential characteristics:

- (a) it is a present obligation,
- (b) the obligation requires an entity to transfer or otherwise provide economic benefit to others.



A liability, in the case of valuation reports, is also an *asset* as it can be transferred, gifted or exchanged between entities or persons.

10.19 Must

Actions or procedures that are mandatory.



The IVS definition requires all parties to the *valuation service*, including *valuers*, instructing parties and agreed intended uses to comply with any mandatory requirements within IVS that are applicable to the *valuation service*.

10.22 Professional Judgement

The use of accumulated knowledge and experience, as well as crucial reasoning, to make an informed decision.



This definition requires the *Valuer* to use their knowledge, expertise and experience throughout the *valuation process* to support their opinion of *value*.

10.25 Should

The *valuer* is expected to comply with requirements of this type unless the *valuer* can demonstrate that alternative actions are sufficient.



The IVS requires *Valuers* to consider the requirements within IVS that are applicable to the *valuation service*.

Indicates responsibilities that are presumptively mandatory. The *Valuer* must comply with the requirements in IVS unless the *Valuer* is able to demonstrate that alternative actions and processes were sufficient to achieve the requirements.

10.26 Significant

Any aspect of a *valuation* which, in the *professional judgment* of the *valuer*, greatly impacts the resultant *value*.



The *Institutes* recommend that when reading, interpreting and applying IVS that the italicised term “significant” is read as;

Anything which, in the *professional judgment* of the *valuer* is considered to be an important or noteworthy factor impacting their opinion of *value*.

10.30 Valuation

The act or process of forming a conclusion on a *value* as of a *valuation date* that is prepared in compliance with IVS.



The definition of “*valuation*” in IVS relates to the process that a *valuer* follows when providing their opinion of value for an asset or liability as at a specified date. It also requires that process to meet all the requirements of IVS applicable to the task.

Except for the requirement for an IVS compliant valuation process to meet all the requirements of IVS, this definition is in alignment with the concept of “valuation” used by the *Institutes*.

Valuation is the term used to describe the established evidence-based process undertaken by Valuer to form an opinion of *value* and/or rent as at a specified date.

10.38 Value (noun)

The *valuer's* quantitative conclusion on the results of a *valuation* process that is fully compliant with the requirements of IVS as of a *valuation date*.



The *Institutes* consider the concept of “value” to not be a fact, rather it is the *Valuer's* opinion/estimate of the price most likely to be concluded by market participants for an asset available for purchase, or rent, at the valuation date.

10.39 Valuer

An individual, group of individuals or individual within an entity, regardless of whether employed (internal) or engaged (contracted/external), possessing the necessary qualifications, ability and experience to execute a *valuation* in an objective, ethical and competent manner. In some jurisdictions, licensing is required before one can act as a *valuer*.



The *Institutes* consider that a *Valuer* is a person who possesses the requisite training, recognised qualifications, and applies their knowledge, expertise and experience to undertake a *valuation process*, or a desktop process, in an independent, objective, unbiased, ethical and professionally competent manner.

Annexure 2: Examples of Regulatory and Voluntary Frameworks Relating to ESG

The following examples are a non-exhaustive list and were current or considered relevant at the date of publication.

It is the responsibility of the *Valuer* to determine what requirements are relevant to the particular *valuation service*.

ESG-related regulatory and rating frameworks are evolving.

Valuers must not rely on this Annexure to identify applicable regulatory and voluntary frameworks relating to ESG.

The following legislation is in existence at the date of issue of this protocol, may impact the subject property and require consideration by *Valuers*:

- Federal legislation and regulation: Building Energy Efficiency Disclosure Act 2010 and, Building Energy Efficiency Disclosure Regulations 2010, affect some assets directly. For example, commercial office premises over 1,000sqm are required to have a Building Energy Efficiency Certificate comprising a NABERS Energy certification at the point of sale or lease. Note the Federal government has a roadmap for expansion to other asset classes.
- State or Territory based legislation and policy: For example, the Victorian Planning and Environment Act (1987) Ministerial Direction No. 22 (Climate Change Consideration), and the NSW State Environmental Planning Policy (SEPP) (Sustainable Buildings) the reporting of embodied emissions for new residential and non-residential developments.
- Local government: often include reference to Australian Standards and other reference documents such as the Australian Rainfall and Runoff (ARR 4.2) which makes reference to climate change and changes required in development design and stormwater.

Examples of other policy that may affect market participants including owners, occupiers and/or financiers of the asset:

- Australian Sustainability Reporting Standards relating to climate-related disclosures for applicable entities. Requiring the reporting by entities (which could be owners and/or tenants) of Scope 1, 2 and 3 emissions and climate-related risks and opportunities.

There are also voluntary rating certifications and market benchmarks like:

- The Green Building Council of Australia (GBCA) Green Star Rating system for the built environment; the New Zealand Green Building Council (NZGBC).
- National Australian Built Environment Rating System (NABERS & NABERSNZ) building performance rating system for commercial buildings.
- Nationwide House Energy Rating Scheme (NatHERS) relates to new dwellings (as a compliance pathway of the National Construction Code) and is being expanded to existing dwellings.

Annexure 3: Sample ESG Qualification Statements

The sample ESG qualification statements below outline to the reader that the *Valuer* has considered ESG factors in the *valuation process* to the extent that they are identifiable and/or publicly known.

The sample qualification statements may be used, modified, combined and/or adapted where necessary for the *valuation report*. Any use or reliance on the sample qualification statements is a decision for the *Valuer* based on their professional judgement and legal advice.

Valuers are responsible for ensuring that any qualification or limitation included in a *valuation report* accurately reflects the agreed instructions, enquiries undertaken and conclusions reached.

The *Institutes* accept no responsibility for any loss or damage suffered by *Valuers*, or any other party/parties in relation to the use of any of the sample qualification statements.

A3.1 ESG factors Considered

"In preparing this valuation report, the Valuer has had regard to any reasonably observable or publicly available environmental, social and governance (ESG) factors considered relevant to the subject property and the market in which it is most likely to transact.

The valuation process included the Valuer's investigations and analysis of available market evidence, as at the valuation date, including the extent to which market participants recognise and assess ESG factors in their decision making.

Market transactions and prices include the market participants perceptions and appraisal of both positive and negative (ESG) impacts that the property has on the environment and/or society.

The assessed market value is based on the Valuer's analysis of market transactions and market prices, which, unless otherwise identified and explained separately in the report, have been interpreted to include the market participants' consideration of ESG factors on prices.

The Valuer is not an expert in ESG matters and as such any observations or comments in relation to ESG are only provided in the Valuer's capacity as a property valuer.

This valuation report does not constitute an environmental audit, sustainability certification, climate-risk assessment, engineering advice or specialist ESG review."

A3.2 ESG factors not identified

"In preparing this valuation report, the Valuer has had regard to any reasonably observable or publicly available environmental, social and governance (ESG) factors considered relevant to the subject property and the market in which it is most likely to transact.

Based on the investigations undertaken and market evidence available, no significant ESG factors were identified that warrant separate adjustment or commentary.

The Valuer is not an expert in ESG matters and as such any observations or comments in relation to ESG are only provided in the Valuer's capacity as a property valuer.

This valuation report does not constitute an environmental audit, sustainability certification, climate-risk assessment, engineering advice or specialist ESG review.”

A3.3 ESG factors identified but not quantifiable

“In preparing this valuation report, the Valuer has had regard to any reasonably observable or publicly available environmental, social and governance (ESG) factors considered relevant to the subject property and the market in which it is most likely to transact.

The Valuer identified significant (ESG) impact(s) that the subject property has on the environment and/or society which may be relevant to market participants perception of market performance, operational efficiency, capital expenditure, regulatory compliance and/or investment decision-making.

There is currently insufficient evidence to isolate and quantify the specific impact of identified significant ESG factors on the overall value as at the valuation date (as a separate apportionment of the overall value).

The value reflects the extent to which market participants recognise and assess ESG factors in their decision making.

The Valuer is not an expert in ESG matters and as such any observations or comments in relation to ESG are only provided in the Valuer’s capacity as a property valuer.

This valuation report does not constitute an environmental audit, sustainability certification, climate-risk assessment, engineering advice or specialist ESG review.”

A3.4 Valuation reports for institutional entities required to report on ESG factors

“In preparing this valuation report, the Valuer has had regard to any reasonably observable or publicly available environmental, social and governance (ESG) factors considered relevant to the subject property and the market in which it is most likely to transact.

ESG factors may be relevant to market demand, leasing, operating costs, capital expenditure requirements, regulatory compliance and return on investment.

The Valuer has considered reasonably observable and/or known significant ESG factors and through the investigations undertaken has assessed, by analysis of available market evidence, the extent to which market participants have considered these factors in their decision making. The Valuer’s opinion of value reflects this.

The Valuer is not an expert in ESG matters and as such any observations or comments in relation to ESG are only provided in the Valuer’s capacity as a property valuer.

This valuation report does not constitute an environmental audit, sustainability certification, climate-risk assessment, engineering advice or specialist ESG review.”

The Institutes accept no responsibility for any loss or damage suffered by Valuers, or any other party/parties in relation to the use of any of the sample qualification statements.

Annexure 4: Checklist for ESG Considerations by Valuers

This checklist is applicable where:

- the agreed instructions require the Valuer to consider ESG factors, and/or
- the Valuer identified ESG factors applicable to the subject property.

Where either circumstance exists, the checklist below should be completed and retained as part of the valuation process.

Whether the subject property has any observable ESG factors is a matter for the Valuer to determine through the application of scepticism and professional judgement.

Where the Valuer determines that the subject property has no observable ESG factors impacting the environment or society in which it is most likely to transact, and the agreed instructions do not require the Valuer to consider ESG factors, it is not mandatory to complete this checklist. This determination is itself part of the valuation process and should be documented and retained on the Valuer's file.

The following is a non-exhaustive list of steps/items relating to the consideration of ESG factors in the valuation process. Each of the items in the checklist below are independent of each other.

Where a Valuer has undertaken an individual step, it is appropriate to tick the check box confirming the step was considered and completed as part of the valuation process.

Property Address:

Inspection Date:

Valuation Date:

Report Date:

At instruction negotiation stage

▪ Agreement with the instructing party as to the extent of the ESG consideration/investigations to be undertaken.	☐
▪	
▪ Any required documentation has been received.	☐

During the valuation process

▪ Collection of ESG related data applicable to the subject property and comparable market evidence.	☐
▪ Identification of the risks and opportunities that ESG factors present for the subject property.	☐
▪ Evaluation of the comparable evidence's ESG factors to the subject	☐
▪ Consideration of ESG factors and the ESG regulatory framework applicable to the subject property and comparable market evidence.	☐
▪ Consideration and assessment of whether any obsolescence affects ESG factors of the subject property (e.g. technical/operational, market or economic factors).	☐

Valuation Report

▪ Disclosure of significant ESG factors identified and considered, or as required in the agreed instructions.	☐
▪ Disclosure of the impact, if any, of significant ESG factors identified and considered on the Valuer's opinion of value and/or rent.	☐
▪ Details of any assumptions, special assumptions, limitations, conditions or qualifications relating to significant ESG factors.	☐
▪ Inclusion of appropriately worded ESG qualification statement(s).	☐
▪ Where a separate ESG-related adjustment has been made, confirm that the adjustment is supported by appropriate market evidence or other documented valuation analysis and is not based solely on an assumed ESG premium, discount or policy objective.	☐

EXPOSURE DRAFT