

Valuers' Insights on Incorporating ESG Factors into Commercial Property Valuation Process

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Abstract

This study explores how Environmental, Social and Governance (ESG) factors are incorporated into the three core stages of the commercial property valuation process, from the perspective of Sri Lankan valuers. Although the RICS Red Book Global Standards emphasize the ESG factors consideration, the traditional valuation process hasn't incorporated those factors. As a Qualitative study, descriptive analysis was conducted. Data were collected through face-to-face interviews with 10 valuers, accredited by RICS and/or IVSL, each possessing ten or more than 10 years of experience in the valuation field. Finding reveals that, while Environmental and Social factors are increasingly incorporated into the valuation process, Governance factors remain less emphasized. Further, among three core stages of valuation process, in the Inspection and Reporting stage most of the ESG factors are being incorporated rather than in the calculation stage. This study contributes to the literature, regarding ESG and commercial property valuation process in Sri Lankan context. The study calls on regulatory authorities to establish a standardized framework or upgrade to the traditional valuation process to incorporate ESG factors.

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Introduction

In recent times, concern about the sustainability has increased. The term Sustainability covers a broad range of Environmental, Economic and Social factors defined as the 'three dimensions' in the global UN Sustainable Development Goals. This range of factors, sometimes referred to in a corporate or investment context as Environmental, Social and Governance (ESG). (Sustainability and ESG in Commercial Property Valuation and Strategic Advice - RICS Guidance Note, n.d.) The incorporation of sustainability aspects into property valuation became a requirement set by Royal Institute of Chartered Surveyors (RICS), International Valuation Standard Council (IVSC) (Palm, 2025)

Red Book Global Standards also includes a requirement for the valuer to consider 'any sustainability and ESG factors that could affect the valuation' (VPS 2 paragraph 2.3). Red Book Global Standards VPGA 8 Section 2.6 (c), 'Valuation of real property interests' also stated, '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. With that, International Valuation Standards, which is effective from 31 January 2025 includes an Environmental, Social and Governance (ESG) Appendix within IVS 104 Data and Inputs. (RICS Valuation-Global Standards, n.d.)

Even though there is a growing concern about ESG in valuation practices, ESG factors have not incorporated in the traditional valuation process.(Warren-Myers, 2013) states that, difficulties in valuation profession, made the effective incorporation of ESG into valuation practice. Also, it stresses the point that concentrating on ESG is becoming important in the commercial property valuation process in Sri Lanka (Viduranga & Fernando, 2022) However, few studies have explored the incorporation of ESG factors into commercial property valuation process and continuously valuers rely on practicing traditional valuation process.

Therefore, this study explores how the ESG factors are incorporated into the commercial property valuation process. Mainly in the three core stages of valuation process: Inspection , Calculation and Reporting,

Objective/s of the Study

The research is guided by the following objective,

1. To identify what are the ESG factors are incorporated in each stage of valuation process, as in:
 - a. Inspection of the property
 - b. Undertaking the calculations
 - c. Preparation and delivery of the valuation report.

Literature Review

Discussion on Sustainability and ESG has become increasingly important discussion over the past decades. Sustainability and ESG are often viewed as similar concept. But, while sustainability covers kind of waste area of Environmental, Economic and Social factors, in investment context it could referred as Environmental, Social and Governance factors.(Sustainability and ESG in Commercial Property Valuation and Strategic Advice - RICS Guidance Note, n.d.).

Property valuation is a process of value estimation of property(Olausson et al., 2025) It involves a number of steps and Inspection, Calculation and Reporting are considered as core stages on the entire valuation process. The inspection stage valuers collect the data that needed to do the calculations under one of the three valuation approaches, and in reporting stage, the value opinion and other related details will be communicated, along with the assumptions.(Shapiro et al., n.d.)

Literatures also highlight the growing recognition of sustainability and ESG in determining the property value. Buildings with more sustainability features rates a higher price, rather the one with low or poor sustainable performance(Tunku & Rahman, 2024).Also, (Tharushika Jayasiri et al., n.d.) emphasize that even the financial benefits of sustainable features are being highlighted, there were no standardized framework to incorporate them. Valuers still face a number of challenges. Further, research (Koczar et al., 2023) states that integrating ESG principles supports to improve profitability, lower the capital costs and better valuation multiples. Overall, it indicates that, ESG considerations are being increasingly recognized in the market. Aligning to that concern, this research also will build a foundation for this prevailing issue.

Number of research highlighted in relation to ESG and property valuation. Such as, a recent study explores 'whether ESG elements impacts on Market Value of commercial property'(Chandrasekara & Wickramaarachchi, 2025)it concludes that even there is a growing concern on ESG when it comes to estimate the market value of the property, applying ESG is limited and faces many challenges. also, (Tunku & Rahman, 2024)research, 'how building sustainability assessments could incorporate into

traditional valuation process. This study explores the challenges faced by the valuers in incorporating ESG elements into valuation practice. But none of them have addressed about the issue, ESG factors incorporation into three core stage of valuation process of commercial property in Sri Lankan context.

Methods

As this study explores how the ESG factors can be incorporated into commercial property valuation process, it is crucial to adopt recognised and widely accepted ESG factors. For the study context, the study adopts the ESG factors outlined in the RICS Red Book Global Standards, effective from 31 January 2025. (RICS Valuation-Global Standards, n.d.) Further this study utilizes Qualitative approach with Descriptive analysis, catering to the study objectives. For the responses collected from the check list table related to the first question, descriptive analysis had been used to summarize the frequency and distribution of ESG factors considered by valuers at each stage of the valuation process.

The target population comprises professional valuers in Sri Lanka who hold accreditation from the RICS (Royal Institute of Chartered Surveyors) or IVSL (Institute of Valuers of Sri Lanka) or both. A purposive sampling technique was employed to select a sample of 10 valuers, each possessing minimum of 10 or more than years of experience in the valuation field.

Results and Discussion

In this section the Results have been presented based on the Face-to-face Interviews conducted with the professional Valuers. The charts below represent, what are the factors under E, S and G being incorporated by the valuers, in the three core stages (inspection, calculation and report) of valuation process of commercial property.

Table 1

Number of valuers, incorporating Environmental factors during the 3 stages of valuation process.

ENVIRONMENTAL (13)	Inspection	Calculation	Reporting
Energy rating requirements & upgrades	0	0	0
Energy use for heating/cooling/lighting	10	6	6
Energy sources	10	10	10
Onsite energy generation	10	10	8
Size/specs of renewable system	10	6	7
Environmental certifications	4	0	4
Carbon emissions from operations	6	4	0
Future emission risk	0	0	0
Physical climate risk factors	10	10	10
Water usage	0	0	0
Water management	5	0	0
Green Landscaping & biodiversity	0	0	0
Materials used in construction/ renovation.	10	10	10

Source: Surveyed data, 2025

The above table indicates, how many of ten valuers incorporate each factor under the environmental category at each stage of the valuation process: in inspection, calculation and reporting. Among thirteen factors, nine were incorporated in the inspection stage while seven were incorporated during calculation and reporting stage. Factors such as energy rating requirements, water usage and green landscaping were not incorporated at any stage of the valuation process by any of the valuers. In contrast, factors such as energy sources, physical climate risk and materials used in construction or renovation were incorporated by all the valuers in all three stages of the valuation process.

Table 2: Number of valuers, incorporating Social factors during the 3 stages of valuation process.

Source: Surveyed data, 2025

The above table indicates how many ten valuers incorporated each factor under the Social category at each stage of the valuation process: inspection, calculation and reporting. According to table 2, in the calculation stage apart from the location characteristics, none of the other factors were incorporated by

SOCIAL (6)	Inspection	Calculation	Reporting
Location characteristics	10	10	10
EV/bike facilities & sustainable mobility	5	0	8
Building access for people with disabilities	6	0	0
Indoor air quality	0	0	0
Impact on local community	10	0	5
Flexibility/adaptability of design	0	0	0

the valuers. However, in the inspection stage, four factors and three factors at the reporting stages, were incorporated. Factors such as Indoor air quality, Flexibility of the design of the property were not incorporated by any of the valuers in any stages of valuation process.

Table 3:

Number of valuers, incorporating Governance factors during the 3 stages of valuation process.

GOVERNANCE (6)	Inspection	Calculation	Reporting
Building safety compliance	10	5	4
Ownership legal risks/criminal checks	10	0	0
Reputation of owner/tenant	0	0	0
Inclusive design (DEI) features	0	0	0
Green lease terms or contract	0	0	0
Zoning, registration, licensing, heritage and legal matters.	10	10	10

Source: Surveyed data, 2025

The above table illustrates how many of ten valuers incorporate each factor under the Governance category, at each stage of the valuation process: inspection, calculation and reporting. Among six factors in this category, Zoning factor was the only factor considered by all the valuers throughout all three stages. In contrast, three factors were not considered by any of the valuers at the valuation process.

According to the above data, consideration of Governance factors is less than the other two categories: environmental and social. It means only 50% of factors under the Governance category are being considered while social and environmental categories are being considered 100% and 70% respectively. It doesn't mean that all those factors considered were incorporated at all three stages of the valuation process. Some factors were incorporated in one stage of the valuation process, while others were incorporated in all stages of valuation process. Also, some factors are not even incorporated at any stage.

Further, when it comes to each core stage of the valuation process, during the inspection and reporting stages ESG factors are incorporated, while in the calculation stage it remains comparatively limited because of the challenges of quantifying those factors. Regardless of the category, most of the factors were incorporated in the Inspection stage.

If a factor is to be incorporated at the calculation stage it has to be quantified accurately. But according to the valuers, most of the factors cannot be quantified since we do not have proper mechanism or tools to proceed. So, without knowing the impact of those factors, it's impossible to incorporate such factors into calculating stage(Chandrasekara & Wickramaarachchi, 2025).

Then when it comes to reporting stage, according to the valuers' opinions, the factors are generally incorporated. But there are some instances where the clients do not like to be disclosing certain factors, thinking that they may have a negative impact. So, some factors will be omitted in the reporting stage.

Overall, since valuers have the awareness of ESG integration, the degree the process remains uneven in each stage of the valuation process. Also, limited incorporation of factors, mostly within the calculation stage, highlights the practical challenges of quantifying the impact of ESG factors on the property.

Conclusion

According to the data shown in the above Table 1, Table 2 and Table 3, environmental and social factors are incorporated by the valuers rather than the governance factors. Most factors are not incorporated during the calculation stage, whereas they are largely considered during inspection and reporting stages. This suggests that more attention must be given to incorporating the ESG factors mainly with the governance factors, into the calculation stage. Valuers indicated that, continuous trainings, clear guidelines and regulatory requirements by the regulatory requirements from governing bodies could help to overcome this challenge.

Overall, this study elaborates, that adoption of ESG incorporation have been increased among the valuers in Sri Lankan. However, a standardized framework or an update to the traditional valuation process would provide stronger foundation for systematically incorporating of the ESG factors into commercial property valuation process.

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