

ANNEX I: VALUATION AND ENERGY EFFICIENCY CHECKLIST



The checklist is aimed to complement existing valuation instructions. Since no standard reporting template exists, some of the indicators below might already be part of existing valuation instructions. If the instruction allows, however, it is advised to consider and make specific reference to those indicators and observed energy efficiency characteristics which potentially could have an impact on value. The checklist does not attempt to be a comprehensive list of all factors which the valuer will consider.

The checklist is intended to serve different lending scenarios; these include but are not limited to:

- origination of a new or extension of an existing mortgage for a property undergoing renovation,
- origination of a new mortgage for an already energy efficient property,
- re-mortgage.

Depending on the lending scenario and/or the property-specific information already available/recorded, lending institutions may wish to complement existing valuation instructions with selected indicators from the checklist. In either case it is, however, important to consider that capturing information on the indicators contained in the checklist is essential for measuring the performance of energy efficient mortgages and for benchmarking them in relation to key risk indicators such as probability of default (PD) or loss given default (LGD).

INSTRUCTIONS

Please complete the grid below in accordance with the colour code. The description column only needs completing if the factor is not detailed in your valuation report. The comment column is for you to provide a brief rationale for your 'RAG' judgement where this is not obvious.

Guidance on completion is contained in the guidance notes following the checklist.

If your instruction precludes you for completing the full checklist, please complete the documentation (Section A) and/or summary section (Section D) only.

Red: Below market 'norm' – value actually/potentially at risk over period of proposed loan

Amber: Towards the lower end of market expectations – may be at risk in medium term

Green: At or above market expectations

Grey: No data available

THE CHECKLIST

	Indicators with potential impact on energy demand	Description (if not already included in valuation report)	Red (does not meet normal expectations)
CORE INDICATORS			
A1	EPC rating		
A2	Calculated &/or measured energy in kWh/m ² /pa		
A3	Building documentation availability (guarantees etc; evidence of regulatory compliance)		
A4	Condition of structure		
A5	Quality of windows and frames		
A6	Insulation of building envelope / walls		
A7	Floor insulation		
A8	Roof insulation		
A9	Type of heating system		
A10	Age and condition of heating system		
A11	Type of cooling / ventilation system		
A12	Age and condition of cooling / ventilation system		
COMMENTARY REGARDING ADDITIONAL ENERGY PERFORMANCE-RELATED RISK CONSIDERATIONS			
B1	Building age		
B2	Type of Construction		
B3	Renewables on site?		
B4	Primary energy source		
B5	Orientation and Exposure		
B6	External shading / solar control system?		
B7	Type of lighting system		
B8	Building management system?		
B9	Combined Heat & Power?		
ASSESSMENT SUMMARY			
C1	Market expectations		
C2	Requirements for upgrade		
C3	Ease of upgrade		
C4	Risk of value decline based on energy assessments		

GUIDANCE

The EeMAP consortium is working on additional reporting guidelines to support the practical application of the checklist. Provisional guidance on selected core indicators is provided below:

EPC rating

If the property has a valid EPC (Energy Performance Certificate), the EPC rating should be declared and assessed against the national/regional normal/average for the type of property; the valuer should therefore be cognisant of the general level of EPCs and any market implications thereof. It should be noted that EPCs do not always represent a true measure of a building's energy efficiency. Their currency and accuracy may depend on the date at which they were produced and the methodology used. The valuer will mark the property with a "Red" where the EPC is below the normal and will mark the property "Green" normally only if it is recorded at 2 grades above the average.

Further, it is to note that many historic buildings or ones that have not transacted since 2008 will probably not have a valid EPC.

Market expectations

Property markets are complex and diverse. The standard expectations of market players vary according to location and value bracket among other factors. The valuer is asked to reflect on the overall energy efficiency characteristics of the property and make a judgement as to whether the property is below the general expectation and requires (possibly) significant capital investment to bring it to the market norm (Red) or is in line with expectations currently but is likely to require some work 'within cycle' to retain its position (Amber) or significantly better than would be expected, possibly due to reliance on renewables, a well-insulated envelope appropriate to the location and any level of weather exposure, modern good quality services and with little expectation of upgrade needs within the medium term (Green).

The valuer is not required to undertake a survey to do this but to reflect on market expectations and direction of travel.

Requirements for upgrade

If a building is rated overall at Red or Amber, there is likely to be upgrade work required immediately or in the near future. The valuer is asked to reflect on whether, in relation to the overall value of the property, this expenditure is very significant and essential (Red); often this will relate to works to the envelope. This would indicate a Red rating. Where works are minor and within the scope of recurrent works, such as boiler replacement, new light fittings, the judgement will be Amber. Where the valuer considers that there are no requirements for upgrade, the judgement will be Green.

The valuer is not expected to obtain costings for any work but to use their skill, expertise and experience to make a judgement. However, there may be some cases where, in the valuer's opinion, a valuation of the asset does require input from an energy assessor or building surveyor/building engineer before reaching their value judgement. In such cases the rating will be established after such additional report has been obtained.

Ease of upgrade

As above, what is required is a generalised judgement – not a detailed estimate of a work programme. The key consideration is the extent to which the works are disruptive – and could involve the borrower in costs of e.g. alternative accommodation – or could be easily accommodated alongside works of decoration or e.g. kitchen or bath/shower room refits.

Risk of value decline based on energy assessments

It is acknowledged that, in most markets, there may be little current market evidence to directly link energy efficiency to market value, however it is rising up the list of consumer preferences. Additionally, the legislative and regulatory frameworks are encouraging consumer awareness or incentivising the choice of 'greener' stock. Further, as new stock comes on to the market which is more energy efficient, that which is not may suffer value decline (brown discount). Valuers are asked to grade the subject property according to the level of risk of value decline due to the energy efficiency characteristics weighed against other valuer drivers.



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