

Cleantech homes, sustainability and residential property valuation

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SUMMARY

Residential property plays a vitally important role in society. In addition to its primary purpose of meeting the housing requirements of the population it is also a growing investment asset class. Occupation of residential property ranges from rental through intermediate forms of tenure, including shared ownership, through to full owner occupation. Residential property's use as an investment asset is growing rapidly. Direct investment is undertaken at all levels, ranging from large institutional investors through to private individuals.

At the same time, sustainability, which covers a broad range of physical, environmental and social factors, is playing an increasingly important role in legislation and patterns of economic behaviours and preferences. With extreme weather events, becoming increasingly common, this will have an impact on the valuation of a property.

In 2024, RICS joined a number of organisations and policymakers involved across the UK housebuilding value chain. The group considered the merits of faster decarbonisation of the UK's new-build residential property sector. The report highlights the progress made to date and the further industry and policy actions required to accelerate the transition from gas to clean technologies.

The group specifically considered 'Cleantech homes'. Cleantech homes are defined as those that have electric heating systems like heat pumps. They are not connected to the gas grid and do not use any other fossil fuel for heating. They can go further than electric heating, for example with an electric vehicle charger or solar panels and batteries. These homes are 'net-zero ready' – as they only have electric appliances, the energy they use will be carbon-free once the National Grid achieves its 100% clean electricity target, which is currently by

2030.

This paper aims to consider the commercial case for developers who are considering developing Cleantech Homes. The paper examines the emerging evidence of value premiums for cleantech homes in the UK. This evidence base can then be used to facilitate conversations with other countries' experiences to compare and contrast experiences.

It is vital that valuers of residential property are fully aware of the sustainability characteristics of buildings and the legislation, public policy and fiscal measures that may have an impact on their value. It is likely that residential markets, over time, will become progressively sensitised to sustainability considerations. Therefore, valuers are advised to keep abreast of trends and the changing views of stakeholders, and collect appropriate and sufficient sustainability data when inspecting property.

Valuation acts as a core pillar of financial reporting, investment analysis, public policy, secured lending and property purchasing /renting decisions. Its importance extends not just to those preparing valuations, but also to those who rely heavily on them, which includes investors, auditors, regulators, owner occupiers and renters.

Given the importance of housing in society having an understanding of some of the drivers that underpin the valuation of sustainability considerations within residential property are therefore of immeasurable benefit to society as a whole.