Risk assessment is becoming an increasingly important component of due diligence and the management of assets. As a result, the valuation profession need to be aware of decision makers changes to approaches for investment and asset risk analysis. Yet, one of the most significant risks to property is getting little attention within the sector, by owners, investors, occupiers and valuers; is the associated implications of climate change for property. Albeit, the property sector is not immune to risks associated with natural disasters or extreme weather events, and this is well known and forms part of the analysis and consideration in valuation. However, the future projected consequences of climate change and the implications of increased extreme weather events, severe temperature durations and sea level rise have a detrimental, immediate and significant impact on property. Yet, at present, there is little research or discussion being held as to examining the implications for the property sector; risk assessment or contemplation and consideration in investment or valuation.

Increasing catastrophic events as a result of climate change will have a substantial impact on the property sector financially, physically and socially. Furthermore, sea level rise will affect many cities, regions and whole countries; and this risk is being substantially underestimated in its implication for property. The financial cost repercussions for property is only going to escalate, as populations grow, a larger percentage of property – residential, commercial, infrastructure situated in cities will be at risk and the incidence of events will exacerbate the economic and social impact.

The property sector is directly responsible for 40 percent of the worlds global greenhouse gas emission, 40 percent of solid waste generation, 20 percent of the worlds water usage and a third of the worlds resources, with the commercial property responsible for just under half of these (UNEP SBCI, 2006). Furthermore, the property industry as a whole has some form of responsibility be it through owning, selling, leasing and/or management. Hence, there is significant opportunity for mitigation and adaption in the sector that will ensure a more resilient built environment for future generations.

As the issues and associated implications of climate change become clearer for owners, investors and occupiers, this will affect prices paid and subsequently, valuers and their valuations. A key point to note is that valuations need to reflect the market so, if the market is not pricing in climate change risks, then the valuer should not reflect that in the valuation. The risks to property and value are notable, yet limited research has investigated current approaches to risk assessment or investigated value implications.

What approaches, considerations, analyses are owners and investors using to examine the inherent climate change related risks and is this affecting the value in their opinion, if so by how much and how is it being evaluated? As it is the role of the valuer to reflect the market in the assessment of market value. The question being, for some property, within a period of time there will likely be a total loss of the property due to say, sea level rise, which means the concept of an income in perpetuity for that property is not realistic. However, if the market is not considering this in their actions, valuers are effectively constrained in their valuation because of market activities ignoring this risk; yet the risk to income and future value maybe catastrophic. We may think and argue that the market is wrong and irrational to ignore those
risks but it is not for the valuer to place a value on a property that is lower because of the risk adjustment. Market value is the price and markets often get that number wrong but it is not the role of the valuer to “correct” that. Yet, valuers need to be cognisant of the risks, already this is built into valuation approaches, standards and reporting, in effect no different from properties situated in existing flood prone areas. Although, information for buyers, investors and occupiers is limited in considering the risks to assets from climate change, when more information is available and the market is relying on this, valuers need to be prepared and educated to ensure that when conducting their valuation, they are reflecting the market for that property exposed to those risks.

There will be increased need for knowledge development amongst the profession, likely more advanced risk consideration, tools, approaches and investigation. Further, there is a mounting need for more information to inform property stakeholders in relation to the risks associated with climate change at the property specific level. As the market develops a more sophisticated risk awareness to the potential implications and actual outcomes of climate change, this will be built into their assessment, analysis, consideration and price paid. As valuers we also need to be mindful and return to the fundamentals of the role of valuation, and market value, in reflecting the current market conditions. This current edition considers a changing valuation environment, albeit not climate change specifically, it notes the new challenges and issues associated with change, providing emphasis of the need for valuers to stay abreast of legislative changes; market transformations and process considerations of buyers and sellers. This edition is a poignant reminder of the importance of the role of the valuer and the need for knowledge development, challenging of heuristics and a need to develop new ones, and the consideration of risk and uncertainty; whilst adhering to practice standards and approaches which underpin financial structures.

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