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# INTERNATIONAL STANDARDS KEY TO UNLOCKING THE VALUE OF ESG?

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In trying to understand ESG in real estate and the challenges that face us in delivering a sustainable real estate product, it is critical that we understand the context and delivery mechanisms within which the product is placed. By doing this we can focus efforts on the key change elements more effectively.

To this end it is important to recognise that the delivery of sustainable real estate is not happening in a vacuum and that technology and innovation are happening all around real estate and the pace of change is increasing. There is no apology that the article's extensively from economic theory. Economics is defined in the Oxford English Dictionary as The branch of knowledge (now regarded as one of the social sciences) that deals with the production, distribution, consumption, and transfer of wealth; the application of this discipline to a particular sphere; (also) the condition of a state, etc., as regards material prosperity; the financial considerations attaching to a particular activity, commodity, etc.

## **PERFECT MARKET ASSUMPTIONS**

Perfect market assumptions include equal access to information by all market participants, completely rational economic actors, and no transaction costs. However,

## **"PERFECT MARKET" CONDITIONS RARELY HOLD TRUE IN THE REAL WORLD**

The conditions may not exist in the real world but we must endeavour to put in place improvements that move towards market efficiency.

We will examine how the development and introduction of International Standards into the marketplace assist in this drive. It is however important to understand the background before examining the detailed issues of the standards to fully understand the implications.

## **FREE MARKET V REGULATION**

Although the perfect market does not exist the politics of many countries in the world has moved to the market being the principal method of allocating scarce resource between competing ends. The imperfections lead to the market not being 'fair' or 'nice'. It is a ruthless vehicle that allocates resources to competing needs on the information that is available to market at the time. The market can be a beast, as evidenced in 2008 when the global financial market came close to collapse. Following the global

financial crisis every government have been trying to establish the correct balance between allowing the free market to allocate the scarce resources and imposing regulations to control the excesses of the market but without becoming too bureaucratic to stifle entrepreneurship and innovation.

A key part of regulating the excesses of the market is improving the transparency of the information in the market and key to this are International Standards.

**ECONOMIC BENEFITS OF STANDARDISATION:**

Most industries in market economies are continuously striving to reduce costs or produce the same output from fewer resources. Standardisation of product is a major contributor to this as it facilitates economies of scale and critically allows for the division of labor by codifying what each element of a job entails and the skills required to undertake that element of the process.

**AS DESOTO SAID IN THE MYSTERY OF CAPITAL:**

"If standard descriptions of assets were not readily available, anyone who wanted to buy, rent or give credit against an asset would have to expend enormous resources comparing and evaluating it against other assets- which would also lack standard descriptions." (Fungibility Mystery of Capital 2001)

**INTERNATIONAL STANDARDS**

Let us now focus on International standards and the benefits that they could have in securing sustainable real estate. What is an International Standard? Referring back to the natural fragmentation of the real estate industry because of its economic characteristics it is not surprising that 'Standard Setters' have appeared in many different markets – usually Nationally based as governments adopt standards developed by Professionals in their respective countries. As the markets

expand across borders we have a situation where professionals are working to more than one standard and more than one standard means no standard. From this foundation standards-setting organisations throughout the world are coming together to develop international standards.

Let us look at some of the established International Standards associated with Real Estate.

**INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)**

International Financial Reporting Standards (IFRS) are set by the International Accounting Standards Board (IASB) which is a not-for-profit public interest organisation with oversight by a Monitoring Board of public authorities. The mission of IASB is to develop IFRS Standards that bring transparency, accountability, and efficiency to the financial markets around the world. The work serves the public interest by fostering trust, growth and long-term financial stability in the global economy. IFRS governance and due process are designed to keep the standards independent from special interests while ensuring accountability to stakeholders around the world.

**INTERNATIONAL VALUATION STANDARDS (IVS)**

International Valuation Standards are set by the International Valuation Standards Council (IVSC). IVSC is an independent not-for-profit organisation that produces and sets standards for the valuation of assets across the world in the public interest. The organisations mission is to establish and maintain effective, high-quality international valuation and professional standards, and to contribute to the development of the global valuation profession, thereby serving the public interest.

### **INTERNATIONAL ETHICS STANDARDS FOR THE REAL ESTATE AND RELATED PROFESSIONS (IES)**

International Ethics Standards (IES) for real estate and related professions are set by the International Ethics Standards Coalition (IESC). IESC is a coalition of not-for-profit Professional Bodies that have come together to agree with a single set of Ethical Standards for real estate and related professions. The objective of IESC is to create a universal set of ethical principles for real estate and related professions that will provide assurance, consistency, and confidence to all users of professional services.

### **INTERNATIONAL PROPERTY MEASUREMENT STANDARDS:**

International Property Measurement Standards (IPMS) are set by the International Property Measurement Consortium (IPMSC). This is a coalition of not-for-profit professional bodies who have come together to agree on a single set of measurement standards for the measurement of real estate by use class. This is the first time a single set of standards for the measurement of real estate has been introduced on an international scale. IPMSC is working to develop and embed a single property measurement standard. IPMS will ensure that property assets are measured in a consistent way, creating a more transparent marketplace, greater public trust, stronger investor confidence, and increased market stability.

### **INTERNATIONAL CONSTRUCTION MANAGEMENT STANDARDS (ICMS)**

International Construction Management Standards are being developed and set by The International Construction Management Standards Coalition (ICMSC). ICMSC is a coalition of not-for-profit Professional Bodies who are working together to develop and implement international standards for benchmarking, measuring, and reporting construction project costs. At present, the

way construction projects are reported and costs vary significantly between markets. These differences make it difficult to compare projects around the world, increasing investment risk and impeding transparency. The ICMSC seeks to develop and implement a common standard for construction management which will enhance transparency, investor confidence, and public trust in the sector.

### **CONCLUSION:**

All the International Standards discussed above have the same objectives to act in the public interest by increasing transparency, fostering trust, growth, and long-term financial stability in the global economy. It is important to envisage the totality of the individual standards and how together they create a vastly improved transparency to the market which aids market efficiency.

The provision of more accurate information to the marketplace through international standards allows better-informed decisions to be made by the market. This will include more transparent reporting of how society and investors view the environmental characteristics of buildings reflecting them in the market price and is a key objective of the V20 for G20 initiative.