

A Critical Note on ESG and Social Governance in Real Estate Valuation

Tom J. Kauko^{1*}

¹*Independent Scholar, Budapest, Hungary*

*Corresponding author's email: tomjkauko@gmail.com

Article history: Received: 21 Sept 2025 Received in revised form: 04 June 2026

Accepted: 15 June 2026 Published online: 30 June 2026

DOI: <https://doi.org/10.11113/intrest.v20n1.442>

Abstract

This short paper critically examines the relevance of social governance criteria within real estate valuation. While Environmental, Social and Governance (ESG) principles have become increasingly visible in real estate investment, reporting and asset management, their direct application to valuation practice remains conceptually and methodologically contested. The paper argues that only social factors that are observable, market-relevant and capable of influencing property performance should be considered in valuation analysis. Through a conceptual review of selected ESG and real estate valuation literature, the paper distinguishes between broader corporate social governance ideals and valuation-relevant property attributes such as accessibility, safety, social infrastructure, neighborhood quality and user demand. The paper concludes that ESG considerations should not be rejected wholesale, but should be applied cautiously, transparently and only where they can be linked to market evidence, professional judgement and recognized valuation principles.

Keywords: Appraisal, Environmental, Social, and Governance (ESG), Social Governance, Valuation

© 2026 Penerbit UTM Press. All rights reserved

1.0 INTRODUCTION

Environmental, Social and Governance (ESG) principles have increasingly influenced real estate investment, development, finance and asset management. In valuation practice, however, the integration of ESG considerations remains more complex because valuation relies on market evidence, professional judgement and the identification of factors that influence value. While environmental criteria such as energy efficiency and building performance have received growing attention, the social and governance dimensions remain less clearly defined in relation to market value. From a more traditional academic point of view, one could namely argue that fashionable practices, while perhaps gaining respectability in the eyes of the desired audiences (notably, activists), are, in the long run, detrimental for the entire real estate field. In this viewpoint article rhetoric is used to champion a well-tested view against a fashionable but arguably more haphazard one. The main ideas of the present contribution have become especially topical, given that ESG is facing a huge backlash in the US because, evidently, it is not working anymore for many of the companies who chose to experiment with such policies. However, in what follows the critical comment on ESG capitalism is restricted to social governance issues. The environmental side is left out, because the underlying ideas today are almost entirely tied to the climate change agenda, where the arguments would require their own expertise (Wieteska-Rosiak, 2025).

The central issue addressed in this paper is whether social governance criteria can be meaningfully incorporated into real estate valuation without weakening the objectivity, transparency and market basis of appraisal practice. The concern is not whether social outcomes are important, but whether such criteria can be translated into valuation inputs that are measurable, comparable and supported by market evidence. This short paper therefore aims to examine the conceptual limits of social governance in real estate valuation. It seeks to distinguish between broad ESG ideals and social factors that may have demonstrable relevance to real estate value, investment performance or occupier demand.

This paper does not argue that ESG or social value should be dismissed from real estate analysis. Rather, it argues that valuation practice must distinguish between broad normative commitments and factors that are demonstrably relevant to property value. Non-market information may be useful where it affects risk, demand, income, cost, marketability or long-term asset performance. However, such information should be incorporated transparently and only when supported by professional judgement and market evidence.

The reasonable argument here is obviously that, to a limited extent, some non-market information is surely welcome, as long as we keep the focus (Ellison et al., 2007; Eichholz et al., 2010; Lorenz and Lützkendorf, 2011; Lorenz et al., 2018). Obviously sensible criteria such as energy efficiency, social responsibility and cultural awareness pass the test, depending on the circumstances (Kauko, 2017). But whatever extra elements the proponents of social governance would add to the value model or valuation practice are, following Occam's razor, totally misplaced (Kauko, 2020). Therefore, if the customers and shareholders reject the brand because the corporation neglects

Milton Friedman's old maxim of doing business (i.e. the company benefits the society best by maximizing its profits), and instead adapt to pressure from progressive activism, social governance goals cannot be considered valid in this context, no matter how elaborate the indicators applied are.

The remainder of the article is organised in five sections. Next the relevant conceptual issues are brought up in two sections. Then the established real estate sustainability concepts are reviewed, with focus on the SG component of the sketchy ESG agenda, first as a general discussion, and after that, specifically for valuation. Finally, as a short conclusion, a cautious view of this agenda is put forward.

■2.0 CONCEPTUAL APPROACH

This paper adopts a conceptual review approach. It does not present primary empirical data, but examines selected literature on ESG, sustainability and real estate valuation to assess how social governance considerations may relate to appraisal practice. The discussion is guided by three analytical questions:

1. Which social governance factors are commonly discussed in real estate literature?
2. Which of these factors may be relevant to valuation practice?
3. What limitations should valuers consider when incorporating such factors into valuation judgement?

This approach is appropriate for a short paper because the objective is not to test a statistical relationship, but to clarify conceptual boundaries and identify areas requiring professional caution.

■3.0 CONCEPTUAL CONTEXT

The social dimension of ESG is complex because it often includes concepts such as equity, inclusion, stakeholder responsibility, community impact and corporate accountability. These concepts may carry different meanings across jurisdictions, institutions and markets. For valuation purposes, the key question is not whether these concepts are socially desirable, but whether they produce measurable effects on property demand, risk, income, cost, liquidity or investment performance. This would none the less be in accordance with Friedman's maxim.

Some ESG-related concepts, particularly those associated with diversity, equity, inclusion and social responsibility, could be normatively important but difficult to operationalize in valuation practice. The challenge is that such concepts may be interpreted differently across jurisdictions, institutions and market participants. For valuation purposes, the relevant issue is whether these social factors can be translated into observable property attributes, risk indicators or market preferences that influence value. (Kauko, 2020). Here one realizes that these contested concepts are Orwellian newspeak; anything but expressions of a claimed universal moral code. Here the goals (e.g. in terms of percentage for sufficient diversity) are never stated. Inclusion means that everyone must have the same broader political opinions: left of center at any rate. And equity: the fact is that the world was never equal, and any attempts to change this has only made matters worse, as those who experienced communism might testify.

The specific question here is whether the limited ESG agenda will have a future in real estate appraisal – including real estate finance (Kauko, 2022). And particularly, when we zoom in on the social governance side, is there anything that would trigger our curiosity beyond the mere institutionalized mantras discussed above? To find out, we need to survey the state of the art in real estate academia concerning the uptake of ESG agenda in given circumstances.

■4.0 THE DISCUSSION

The discussion now turns to how ESG, particularly its social dimension, is reflected in real estate practice and valuation-related literature. Although ESG has become increasingly visible in investment and reporting frameworks, its application in valuation remains uneven. This is partly because valuation requires evidence of how specific factors influence market behavior, rather than reliance on general corporate responsibility claims. According to research by Wolters Kluwer the European Banking Authority (EBA) is flexible on their ESG guidance; following more the spirit rather than the letter (Roeland, 2022). The commentary is rather similar on their RICS counterpart (Zehra, 2021). Thus, no discussion on any of the issues outlined in previous sections are included in neither EBA real estate financing practices nor the RICS commercial property monitor.

It is to note that the ESG agenda is relatively new in this field, and therefore is often used as an approximation of the somewhat fuzzier but more established sustainability agenda (with its roots in early 1990s UN resolutions). At a solely academic level, in this line of research the social side is to some extent isolated for instrumental purposes. For instance, when we consider the established socio-cultural real estate sustainability concepts, the socio-cultural dimensions of sustainable real estate could be categorized as follows (applying Kauko, 2019):

- Social: Social cohesion and inclusiveness, asocial behavior, children's playgrounds, leisure and recreational opportunities, safety against crime and assault, security measures, transport links, and similar criteria.
- Cultural: Preservation and awareness of the local heritage and history, strong sense of place, aesthetic design or natural elements, fit with surroundings and the rest of the area in terms of style, supporting local artists and traditions, and similar criteria.

Thus, building on this list of attributes, we are firmly dealing with real estate rather than the issue of ESG in itself. The logical next step would be to examine available evidence and observe whether and to what extent these elements are picked up. In other words, these factors should not be treated as automatic ESG valuation inputs. Instead, each factor must be assessed according to whether it affects

property-specific performance. For example, transport access may influence rental demand, safety may affect marketability, and heritage value may influence uniqueness or planning restrictions. By contrast, broad corporate ESG commitments may have limited relevance unless they are reflected in observable market behavior.

Now the inevitable question follows: if these factors support real estate sustainability in a more general sense, what are their relevance for appraisal? In other words, what are the more detailed issues picked up by appraisal profession within the general ESG influence on the real estate industry outlined above? This is an intriguing and answerable question. Ostensibly, we also have to prepare for a relative thinness of evidence, if we single out the social governance dimensions rather than ESG as a whole.

■5.0 THE IMPLICATION OF VALUATION

The key implication for valuation practice is that ESG should not be treated as a uniform value driver. Environmental performance, social infrastructure and governance quality may affect real estate value differently across asset classes and market contexts. For example, safety, accessibility and neighborhood quality may influence residential values, while occupier wellbeing, building certification and operational transparency may be more relevant to commercial assets. Therefore, valuers should avoid adopting ESG criteria mechanically. ESG-related factors should instead be assessed according to market relevance, evidence availability, asset type and the purpose of valuation. To this end, a brief survey was carried out with Google Scholar (5 December 2023); using ‘ESG – real estate appraisal’ as search key finds the following sample of studies (in order of decreasing relevance given by the search engine):

- Brounen and colleagues (2021) analyzed the application of transparent environmental, social and governance (ESG) ratings and their interaction with public real estate performance across European markets. They found that investors are willing to pay to access companies with better sustainability ratings.
- Newell (2023) assessed the increasing Importance of the social dimension of ESG in the real estate space and the strategies. He concluded that, whilst there is an increasing range of social information being reported in the real estate industry, there is a need for more metrics.
- Antipin and colleagues (2023) argued for the need to facilitate the integration of ESG principles into real estate management practice.
- De Paola and colleagues (2021) noted how the real estate industry has taken a central role in ESG investments as the concept of sustainability is being expanded.
- Battisti (2023) defined a set of local-level evaluation criteria and indicators, specifically within housing projects; he also speculated about the usefulness of ESG within this domain.
- Hebb and colleagues (2010) explored responsible real estate investment in Canada using stakeholder interviews; specifically, the impact of ESG on financial performance of real estate investment with particular emphasis on institutional investors.
- According to Archer-Svoboda (2022) the inclusion of social factors in real estate can make a building more attractive, reduce vacancy rates and ultimately increase long-term returns.
- Wilkinson and colleagues (2018) urged corporate real estate owners and investors to recognize their fiduciary duty to understand and actively manage ESG.
- Zhao (2023) analyzed how real estate owners, asset managers and developers approach asset-level and portfolio-level ESG issues based on interviews with ESG leaders of major market players.
- Ametefe and colleagues (2023) addressed the real estate economic and financial relevance of ESG in developing economies.

A cautious approach does not mean that social governance should be ignored. Rather, valuers must distinguish between social value and market value. Social value may be important for planning, policy and community development, while market value requires evidence of buyer, tenant or investor behavior. This distinction is essential to preserve the credibility, transparency and professional objectivity of valuation practice.

The sample of real estate appraisal research above suggests that a growing awareness of the whole ESG idea, including its social elements, exists within the real estate research community. Most recently, the encouraging albeit somewhat contradictory findings by Nguyen and Nguyen (2025) add to this impression. Precious little of the cynicism of contemporary general business culture appears to be present within real estate yet, in so far as the ESG idea still represents something of a new acquaintance. The foci covered is however relatively narrow due to the constraints posed by existing data registers and metrics of date. The selected issues covered are still within the range of generally altruistic, sensible features in the real estate field, rather than the more suspicious influences driven by the global ESG agenda. Apparently the general ESG and its real estate equivalent do not overlap to a great extent; the latter domain is still cautious about this new agenda.

The conceptual review suggests three main findings. First, ESG is increasingly visible in real estate discourse, but its social governance dimension remains less clearly operationalized than environmental performance. Second, some social factors are relevant to valuation when they influence demand, risk, marketability, income potential or asset performance. Third, broad normative ESG claims should not be incorporated into valuation unless supported by market evidence or professional standards. These findings support a selective, evidence-based and transparent approach to ESG in valuation practice.

6.0 CONCLUSION

In this contribution rhetoric was used to make the point about the aptness of Friedman's maxim vis-à-vis certain fashionable ideas rooted in progressive social liberalism. While more critical comments are yet to emerge, social governance matters are already driven into corporate decisions and business protocols. Bluntly put, the value of the social equity concept has never really been proven credibly within an economic valuation realm. The fact is that ESG reasoning operates at a self-proclaimed moral superiority level and with gross disregard for Friedman's maxim.

The problem here is that ESG idealism is ultimately bound to fail us, if we attempt to connect it with real market and appraisal concepts in too radical fashion. To be fair, as it stands, the real estate academia is optimistic about the potential of ESG in this context. If nothing else, the new elements brought in to the universe of appraisal-relevant information are likely to trigger a comprehensive reassessment of needs and goals. After that, the discussion can and will move on again, either with or without the new propositions. Eventually, Occam's razor will settle the debate.

Another finding is that, while the extreme ESG agenda has hit hard on much of corporate business practices, within the realm of real estate appraisal the situation is not yet that bad. Why this laggardness prevails is difficult to confirm, but it may have to do with the longevity of the end product or the relatively conservative nature of real estate practitioners, or both. This state of affairs will help professionals in buying time until any mandatory guidelines are conceived. Meanwhile, any appraiser would be advised to exercise caution when being confronted by any advocates of ESG capitalism.

Acknowledgement

The author thanks the Editor and the reviewers for improving the manuscript with their suggestions.

Conflict of Interest

The authors declare that there are no conflicts of interest regarding the publication of this manuscript.

References

- Ametefe, F. K., Brenni, P. A. & Viruly, F. (2023). Sustainable real estate investment and finance in developing economies: challenges and opportunities. In: J. Y. Abor (Ed.), *Sustainable and Responsible Investment in Developing Markets A companion* (pp. 262-285). Cheltenham: Edgar Elgin.
- Antipin, I., Vlasova, N. & Shishkina, E. (2023). Real estate market as an indicator of urban sustainable development. *E3S Web of Conferences*, 451, 02006.
- Archer-Svoboda, L. (2022). *The path towards ESG-compliant real estate in Switzerland: outlook for a comprehensive ESG rating for real estate*. Master thesis, Winterthur: ZHAW Zürcher Hochschule für Angewandte Wissenschaften, Winterthur. Retrieved on 7 December 2023 from <https://digitalcollection.zhaw.ch/handle/11475/29248>.
- Battisti, F. (2023). SDGs and ESG Criteria in Housing: Defining Local Evaluation Criteria and Indicators for Verifying Project Sustainability Using Florence Metropolitan Area as a Case Study. *Sustainability*, 15(12), 9372.
- Brounen, D., Marcato, G. & Op't Veld, H. (2021). Pricing ESG Equity Ratings and Underlying Data in Listed Real Estate Securities. *Sustainability*, 13(4), 2037.
- De Paola, P., Tajani, F. & Locurcio, M. (2021). Sustainable Real Estate: Management, Assessment and Innovations. *Sustainability*, 13, 4676.
- Eichholz P., Kok N. & Quigley J. (2010). Doing Well by Doing Good? Green Office Buildings. *American Economic Review*, 100 (December), 2492-2509.
- Ellison, L., Sayce, S. & Smith, J. (2007). Socially responsible Property Investment: Quantifying the Relationship between Sustainability and Investment Property Worth. *Journal of Property Research*, 24(3), 191-219.
- Hebb, T., Hamilton, A. & Hachigian, H. (2010). Responsible Property Investing in Canada: Factoring Both Environmental and Social Impacts in the Canadian Real Estate Market. *Journal of Business Ethics*, 92 (Suppl 1), 99-115.
- Kauko, T. (2017) *Pricing and sustainability of urban real estate*. Routledge, Abingdon, UK. 2017.
- Kauko, T. (2019). How to pick relevant sustainability criteria for the built environment: A bottom-up approach. *Urbanism. Architecture. Constructions*, 10(1), 5-16.
- Kauko, T. (2020) *Illusions of Wokeness and Western Urbanism. Some ruminations*. LAP, Riga, Latvia.
- Kauko, T. (2022) *Out of Plato's cave: A dissident's guide to urban real estate analysis*. Generis publishing, Chişinău, Moldova.
- Lorenz, D., Dent, P. & Kauko, T. (2018). *Value in a Changing Built Environment*. Oxford: Wiley-Blackwells.
- Lorenz, D. & Lützkendorf, T. (2011). Sustainability and property valuation: Systematisation of existing approaches and recommendations for future action. *Journal of Property Finance and Investment*, 29(6), 644-676.
- Newell, G. (2023). Real Estate Insights The increasing importance of the "S" dimension in ESG. *Journal of Property Investment & Finance*, 41(4), 453-459.
- Nguyen, H.H. & Nguyen, H.T. (2025). Do the ESG factors truly enhance real estate companies' valuation and performance in uncertain times. *Journal of Property Investment & Finance*, 43(2), 190-221. <https://doi.org/10.1108/JPIF-03-2024-0036>
- Roeland, F. (2022, July). Going Green and Reporting It: a Step-by-Step Guide to Pillar 3 Disclosures of ESG Risks. Commentary, The European Banking Authority's (EBA) Environmental, Social, and Governance (ESG) Pillar 3 disclosures rules, Wolters Kluwer, Alphen aan den Rijn.
- Wieteska-Rosiak, B.S., 2025, Integrating the circular economy into ESG in the real estate sector: Current practices, challenges, and pathways to standardization. *Real Estate Management and Valuation*, 33(2), 109-122. DOI: <https://doi.org/10.2478/remav-2025-0019>
- Wilkinson, S., Dixon, T., Sayce, S. & Miller, N. (2018). Sustainable real estate: Where to next? In: S. Wilkinson, T. Dixon, N. Miller & S. Sayce (Eds.), *Routledge Handbook of Sustainable Real Estate* (pp. 395-409). Abingdon: Routledge.
- Zehra, K. (2021). World Built Environment Forum, Sustainability report, RICS Research, London.
- Zhao, Ch. (2023). Integration and Implementation of ESG Strategies for Real Estate Companies. Graduate thesis, Massachusetts Institute of Technology, Center for Real Estate, Cambridge, MA. Retrieved on 7 December 2023 from <https://dspace.mit.edu/handle/1721.1/150141>.