

## **REMF45 – Investment Appraisal & Valuation**

### **Module reassessment – July 2019**

#### **Objectives and learning outcomes**

The purpose of this project is to apply the concepts and mathematics of investment appraisal and valuation to a commercial real estate investment opportunity. The project should develop skills in information retrieval, financial analysis, problem solving and written communication. By the end of the project, you should be able to:

- Understand the purpose of and outputs from a commercial real estate valuation.
- Interpret basic asset and lease related information for a real estate investment.
- Collect and interpret additional data needed for valuations and appraisals.
- Estimate Market Value using established techniques.
- Estimate and analyse cash flows over a specified time frame.
- Communicate results and recommendations in a clear and concise manner.

#### **The scenario**

Your client is a UK Pension Fund that wishes to bid for 33 Kingsway, WC2, an office building in Central London. The building was refurbished in 2012 and contains office space arranged over lower ground, ground and eight upper floors. It also contains ground floor retail space that should be ignored for this project. The property is currently for sale. Your client is considering making a bid and wishes you to analyse the asset accordingly. Details of the investment are set out in the accompanying sale particulars. These include more detail about the property and its tenants, but, to value the asset for this assignment, reference should be made to the simplified tenancy schedule shown below:

<b>Tenant</b>	<b>Area sq. ft.</b>	<b>Floor</b>	<b>Start date</b>	<b>Expiry date</b>	<b>Break date</b>	<b>Rent p.a.</b>
Michael Kors (UK)	11,321	7th-8th	01/01/2013	31/12/2022	n/a	684,921
Michael Kors (UK)	6,556	6th	01/04/2014	31/12/2022	n/a	396,638
Shionogi Limited	6,601	5th	01/07/2013	30/06/2023	30/06/2020	372,956
ChannelAdvisor UK	6,702	4th	01/01/2014	31/12/2023	n/a	408,800
ChannelAdvisor UK	6,687	3rd	01/01/2014	31/12/2023	n/a	401,200
Ascential Events (Europe)	6,665	2nd	01/01/2019	31/12/2022	n/a	476,547
Ascential Events (Europe)	12,116	LG-1st	01/01/2013	31/12/2022	n/a	572,000

Source: editing of information set out in the sale particulars.

In the tenancy schedule above, dates have been edited to make the cash flows easier to model, but, otherwise, lease terms and rent amounts follow the information stated in the particulars. All the leases are on full repairing and insuring (FRI) terms and would have had upward-only rent review clauses in line with standard UK market practice. It can be assumed that rental payments are made

quarterly in advance. The particulars state that one lease has a rent review outstanding. It should be assumed that this rent review is determined at the higher of Market Rent or the existing contract rent as at the valuation date.

**You should NOT enter the property or approach the landlord, tenants or agents for further information. Any student that is discovered to have done so will receive a grade of zero. Only information that is in the public domain should be used.**

### **The tasks**

- Task A: Estimate Market Value for this property as at a valuation date of 1 October 2019. You should use techniques that are typical and appropriate for the market in which the asset is situated. The task will involve assessing Market Rent and selecting an appropriate capitalisation rate. To support these judgements, comparable evidence will be required (such evidence should be tabled and discussed in your report).
- Task B: Estimate Investment Value for this property assuming acquisition as at 1 October 2019, and assuming a hold period of five years. To do this, model the cash flow over this period on a quarterly basis, considering the various lease events and their impact on income and resale price. The target rate of return that your client typically uses for prime London commercial real estate investments is 6% p.a. Whether this is an appropriate rate for the asset should be considered.
- Task C: Using the Investment Value found in Task B as the purchase price, undertake a sensitivity analysis that examines the effect on IRR of changes to key variables in the appraisal. You should identify realistic variations in key variables based on the information available and discuss the implications of the results.

### **Report format and word limit**

Your submission should be in the form of a report. The word guide for this report is 3,000 words and it should not exceed 4,000 words. These word counts exclude tables relating to the cash flow, sensitivity analysis, etc., and appendices. The report should comprise the following sections:

- Title page
- Executive summary
- Contents page
- Introduction
- Discussion of inputs for the market valuation
- Calculation of Market Value
- Discussion of inputs for the discounted cash flow
- Calculation of Investment Value
- Sensitivity analysis
- Conclusion
- References
- Appendices

Valuations and cash flows prepared in spreadsheets should be imported into your report as tables and appendices. Please ensure that such information is incorporated in a readable and professional looking format. The report does NOT need to include the following:

- A description of the building and location
- A general discussion of economic or property market conditions
- A description of the techniques used to appraise the project
- Definitions of the inputs
- Definitions of the outputs

These exclusions are to ensure that you focus on analysis rather than description of the asset and market. You can assume that the client is familiar already with the sales particulars and current market conditions. They are interested in your assessments of the value and expected cash flow for this investment opportunity. You should also assume that the client is knowledgeable about appraisal techniques. Therefore, you do not need to describe how the techniques work, but you do need to show that you can apply them successfully. We are interested in your rationale for the selection of different inputs and in your understanding of the outputs that are produced.

For the discounted cash flow appraisal, you are advised to use the Bloomfire platform, though you may prepare your own spreadsheet if you wish. You are not permitted to use proprietary software packages such as Argus Enterprise to produce the cash flow model.

Further materials pertaining to the techniques and inputs are available on the module Blackboard site, but you are expected to search for relevant additional information on the London office market to support your analysis.

### **Assessment criteria**

This project counts for 100% of the resit mark for REMF45, Investment Appraisal & Valuation. The criteria below will be used to determine the mark for different projects.

	Indicative weighting	Exceptional (85-100)	Excellent (70-85)	Good (60-69)	Satisfactory (50-59)	Below threshold (40-49)	Fail (0-39)
Discussion of inputs for market valuation	15%						
Calculation of Market Value	20%						
Discussion of inputs for the cash flow	20%						
Production of appropriate cash flow	20%						
Execution and discussion of sensitivity analysis	15%						
Report structure, presentation and referencing	10%						

A weighting has been indicated for each of the criteria, but this may be varied in cases where there are serious deficiencies in the performance of one or more elements.

### **Submission instructions**

**The submission deadline is 14:00 GMT, on Monday 2<sup>nd</sup> September 2019 via Blackboard to the Turnitin submission point.**

If you experience any difficulties in submitting your assignment through Blackboard, please contact the Postgraduate REP Admin Team – [pg-rep-admin@reading.ac.uk](mailto:pg-rep-admin@reading.ac.uk) before the submission deadline.

Further information and support can be found on ‘Support for Students’ tab on Blackboard where you will find a detailed student guide on how to submit assignments together with other guides.

You should note that we will formally check for plagiarism, where necessary using IT filtering systems. The penalties for plagiarism are severe and may result in automatic failure of the module.

Please note that late submissions will be penalised according to the University scheme.

If you are having difficulties in meeting the deadline due to illness or other extenuating circumstances, please contact the Henley School Office – [henleyschooloffice@henley.ac.uk](mailto:henleyschooloffice@henley.ac.uk) and follow the instructions at the following link - [Extenuating Circumstances](#).