

Valuation Scenarios and Sustainability Considerations

SCSI Valuations and Sustainability CPD

30th May 2024

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Generic Asset Type

- Valuation exercise based on types of assets below
- Size of subject building: 25,000 sq ft
- Lease due to expire in two years time
- Passing rent/ ERV etc. : See next slide



Scenario 1 AS IS Do Nothing

Term and Reversion Method

Key Information

Current/Term Rent	€1,018,000	FRI
ERV (Estimated Rental Value)	€893,000	FRI
Yrs to Reversion/Expiry	2	
Void for expiry/works/reletting	2	
Yield as is	7.50%	

Note: All figures are illustrative only.
Assumptions do not represent general
rule of thumb.

Term and Reversion Method - Example 1

Step 1 - Value the Term				Passing Rent Analysis			
					Sqft	€psf	Total Annual Rent
Term Rent		€1,018,000	pa	Floore Area sqft	25000	40	1000000
Value for 2 years YP for 2 years at				Cars	6	3000	18000
	$= \frac{1 - (1+i)^{-n}}{i}$	1.795565		Total Passing Rent			1018000
7.50%			€1,827,885	Yield =	7.50%	N = 2	
Step 2 Value the Reversion				ERV 'Light Refurbishment'			
					Sqft	€psf	Total Annual Rent
Estimated Rental Value		€893,000		Floore Area sqft	25000	35	875000
Value in Perpetuity YP into perp. @	$\frac{1}{i}$			Cars	6	3000	18000
7.95%	x			Total Passing Rent			893000
deferred for n=	$(1+i)^{-n}$			CAP EX (GIA)	28750	€100	€2,875,000
4		9.262800	€8,271,680	Yield =	7.95%	N = 4	
Sub Total							
Less Capex							
Gross Value							
Less Costs 9.96%							
Net Value							
Capital value psf							

Scenario 2 Light Refurbishment

Likely floor by floor lettings

Term and Reversion Method

Key Information

Current/Term Rent	€1,018,000	FRI
ERV (Estimated Rental Value)	€1,143,000	FRI
Yrs to Reversion/Expiry	2	
Void for expiry/works/reletting	1.5	
Yield as is	7.50%	

Note: All figures are illustrative only.
Assumptions do not represent general rule of thumb.

Term and Reversion Method - Example 2

Step 1 - Value the Term

Term Rent		€1,018,000	pa
Value for 2 years YP for 2 years at			
7.50%	$= \frac{1 - (1+i)^{-n}}{i}$	1.795565	
			€1,827,885

Step 2 Value the Reversion

Estimated Rental Value		€1,143,000	
Value in Perpetuity YP into perp. @	$\frac{1}{i}$		
6.50%	x		
deferred for n=	$(1+i)^{-n}$		
3.5		12.341360	€14,106,174

Sub Total			€15,934,060
Less Capex			€2,875,000
Gross Value			€13,059,060
Less Costs 9.96%			1.0996
Net Value			€11,876,191
Capital value psf			€475.05

Passing Rent Analysis

	Sqft	€psf	Total Annual Rent
Floore Area sqft	25000	40	1000000
Cars	6	3000	18000
Total Passing Rent			1018000
Yield = 7.50%		N= 2	

ERV 'Light Refurbishment'

	Sqft	€psf	Total Annual Rent
Floore Area sqft	25000	45	1125000
Cars	6	3000	18000
Total Passing Rent			1143000
CAP EX (GIA)	28750	€100	€2,875,000
Yield = 6.50%		N= 3.5	

Upgrade works might include:

- Common areas refurbished
- LED Lights/Sensor Lighting
- Minimum plant replaced
- Smart building controls and metering

Scenario 3 Deep Retrofit

Term and Reversion Method

Key Information

Current/Term Rent	€1,018,000	FRI
ERV (Estimated Rental Value)	€1,393,000	FRI
Yrs to Reversion/Expiry	2	
Void for expiry/works/reletting	2	
Yield	7.50%	

Note: All figures are illustrative only.
Assumptions do not represent general rule of thumb.

Term and Reversion Method - Example 1

Step 1 - Value the Term

Term Rent		€1,018,000	pa
Value for 2 years YP for 2 years at			
7.50%	$= \frac{1 - (1+i)^{-n}}{i}$	1.795565	
			€1,827,885

Step 2 Value the Reversion

Estimated Rental Value		€1,393,000	
Value in Perpetuity YP into perp. @	$\frac{1}{i}$		
6.00%	x		
deferred for n=	$(1+i)^{-n}$		
4		13.201561	€18,389,775

Sub Total			€20,217,660
Less Capex			€5,750,000
Gross Value			€14,467,660
Less Costs 9.96%			1.0996
Net Value			€13,157,203
Capital value psf			€526.29

Passing Rent Analysis

	Sqft	€psf	Total Annual Rent
Floore Area sqft	25000	40	1000000
Cars	6	3000	18000
Total Passing Rent			1018000
Yield =	7.50%	N= 2	

ERV 'Deep Retrofit'

	Sqft	€psf	Total Annual Rent
Floore Area sqft	25000	55	1375000
Cars	6	3000	18000
Total Passing Rent			1393000
CAP EX (GIA)	28750	€200	€5,750,000
Yield =	6.00%	N= 4	

Upgrade works might include (*subject to full specialised costing*) :

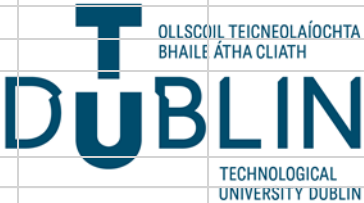
- Removal of fossil fuel/Replacing boilers with Air Sourced / Ground Sourced Heat Pump
- Upgrade existing AC units/AHU
- Solar PV system
- Reducing air permeability, upgrading u Value of existing walls and roof areas
- No major façade replacement works
- LED and sensor lighting
- Smart building controls and metering
- Waste management plan
- Water harvesting
- End of trip facilities, cycle storage, showers, electric vehicle charging

Scenario 4 DCF Valuation showing Deep Retrofit

Key Information

Current/Term Rent	€1,018,000	FRI
ERV (Estimated Rental Value)	€1,393,000	FRI
Yrs to Rent Review	2	
Rent review pattern	5	
Growth Rate	2.50%	
Discount Rate (TRR)	9.75%	
BER A3 say	5.75%	

ERV 'Deep Retrofit' and Estimated Costs			
	Sqft	€psf	Total Annual Rent
Floore Area	25000	55	1375000
Cars	6	3000	18000
Total Passing Rent			1393000
CAP EX (GIA)	28750	€200	€5,750,000
Inflation on costs over 2 years say		2.50%	€6,041,094
Costs per annum		€210.13	€3,020,546.88



Step 1: Calculate the Rent at Reversion years 4 & 9		
Rent end of year 4	(1.025)^4	€1,537,611.36
Rent end of year 9	(1.025)^9	€1,739,666.12

Step 2 : Value end of Year 10 based on Yr 10 Rent		
Estimated end of Yr 10 Rent		€1,783,157.77
Yp in perp at ARY	5.75%	17.3913
		€31,011,439.48

Step 3: Step up Cashflow										
Cash flow										
Period	1	2	3	4	5	6	7	8	9	10
Rent	€ 1,018,000	€ 1,018,000	€ -	€ -	€1,537,611	€1,537,611	€1,537,611	€1,537,611	€1,537,611	€1,739,666
Capex Requirement			-€ 3,020,547	-€ 3,020,547						
Exit Value										€31,011,439
NCF	€ 1,018,000	€ 1,018,000	-€ 3,020,547	-€ 3,020,547	€ 1,537,611	€ 1,537,611	€ 1,537,611	€ 1,537,611	€ 1,537,611	€ 32,751,106
9.75%	(1+i)^-1	(1+i)^-2	(1+i)^-3	(1+i)^-4	(1+i)^-5	(1+i)^-6	(1+i)^-7	(1+i)^-8	(1+i)^-9	(1+i)^-10
PV Factor @ TRR% above	0.91116	0.83022	0.75646	0.68926	0.62803	0.57223	0.52140	0.47508	0.43287	0.39442
PV	€ 927,563	€ 845,160	-€ 2,284,925	-€ 2,081,936	€ 965,659	€ 879,872	€ 801,706	€ 730,483	€ 665,589	€12,917,566
NPV (Gross Value)	€14,366,735									

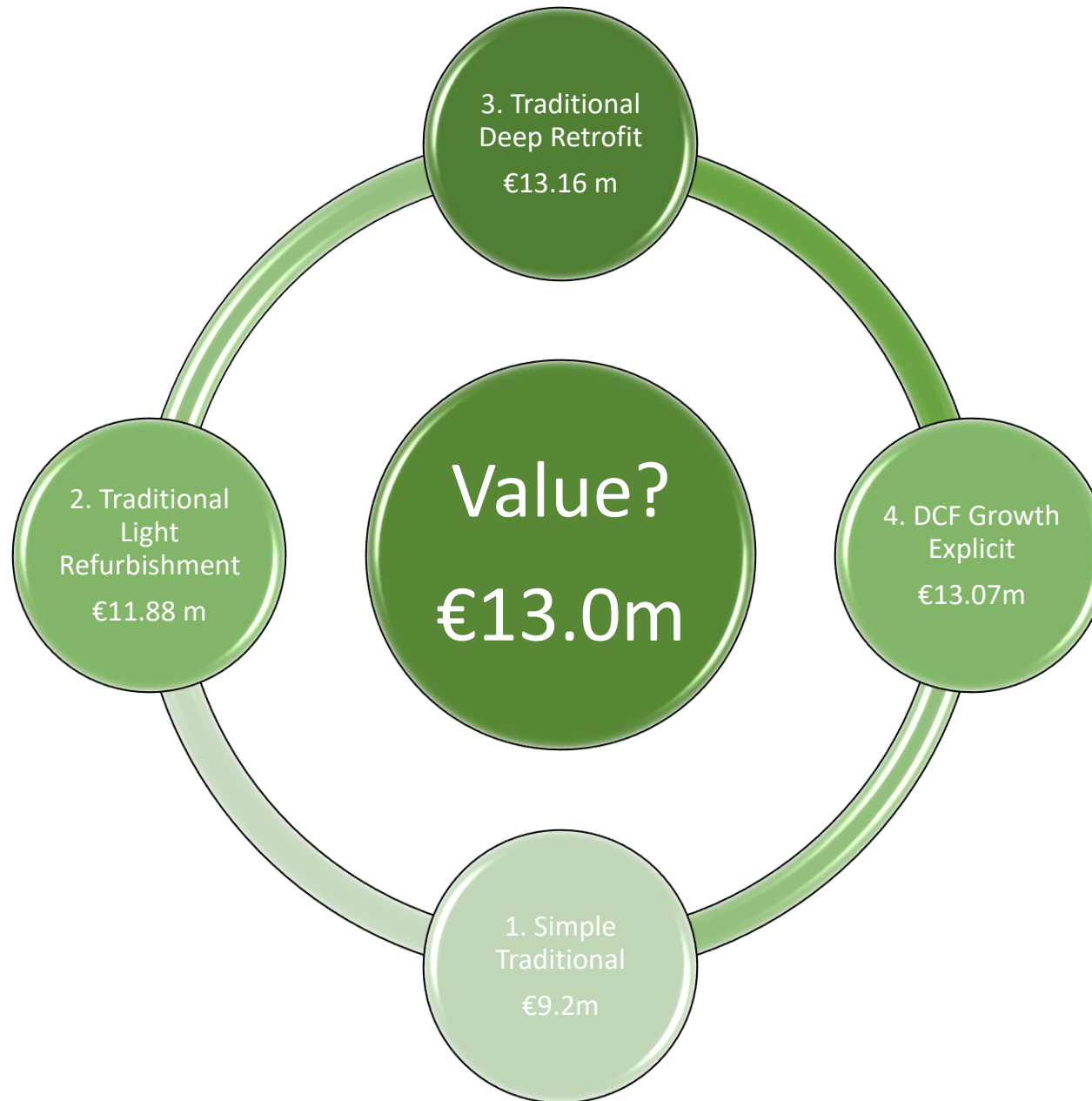
Net Value (Gross Less Costs at 9.96%)		€13,065,419
Compared with Traditional Approach	€	13,157,203
Difference	€	91,784

Note: All figures are illustrative only. Assumptions do not represent general rule of thumb.

Summary Results- Allowing for Sustainability Considerations in Valuations

Key Valuation Assumptions Adopted	Example 1 Traditional Simple Term and Reversion	Example 2 Traditional Term and Reversion with Light Retrofit	Example 3 Term and Reversion with deep Retrofit	Example 4 DCF with Deep Retrofit
Value Result	€9,184,763	€11,876,191	€13,157,203	€13,065,419
Capital Value per sqm	€367	€475	€526	€523
Passing Rent	€1,018,000	€1,018,000	€1,018,000	€1,018,000
Market Rent as per retrofit level proposed	€893,000	€1,143,000	€1,393,000	€1,393,000
ERV €psf	€35	€45	€55	€55
Retrofit Cost Estimated (subject to costing)	n/a	-€2,875,000	-€5,750,000	-€6,041,094
Retrofit Cost Estimated €psf (GIA) (subject to costing)	n/a	€100	€200	€210
Comparable Market Yield As Is	7.50%	7.50%	7.50%	7.50%
Market Yield for Retrofit Stock	n/a	6%-6.5%	5.75%	5.75%
Yield Applied to Reversion	7.95%	6.50%	6.00%	5.75%
Void Allowed	2.00	1.50	2.00	2.00
Rental Growth Rate Assumed	n/a	n/a	n/a	2.50%
Discount Rate	n/a	n/a	n/a	9.75%

**'Sense' Check
Compare to
Comparable
Evidence
Yields, ERV,
CAP VAL PSF**



**Explore
Redevelopment
?**

Summary/ Key Takeaways



ESG Risk Pressures – Climate, Legislation, and Markets (investors, occupiers, lenders)



Strategy for Valuers (TOE, ESG data requests, demonstrate how ESG is being considered within reports)



Comparables – consider sustainability features in evidence



Impact on value – valuation approaches, consider impact on ERV's, Yields, Voids and costs.



Capex – request from client/enlist specialist advice where necessary



Continue to upskill