



CASE STUDY

VALUING A MULTI-TENANT INVESTMENT PROPERTY FOR DISPOSAL

DESCRIPTION

This case study demonstrates how to assess the value of a multi-tenanted commercial property currently held as part of portfolio of investment properties. The owners intend to sell this property and the assessment of value will determine its reserve price at auction.

SCENARIO

- The property is a 4 story commercial building in a Sydney suburban office market.
- The property is located close to rail and road links and is well serviced with tenant amenity.
- The subject site area is 2,000sqm with about 4,400sqm of NLA and is almost fully leased. Tenants have been secured for vacant areas, some to commence post-valuation date.
- The commercial space is leased to various lessees who are considered strong covenants.
- The building commenced a major refurbishment last year, its last major refurbishment more than 10 years ago. The refurbishment programme is still ongoing, timed to coincide with the starts of tenancies.

INPUTS

PREFERENCES

- General > Regional Settings
 - Currency = \$AUD
 - Stamp duty = NSW
 - Input Number Format = Sqm
- General > Cash Flow Periods
 - Number of years = 10
 - Cash flow activity occurs at = Middle of Month (15th day)
 - Financial Year End = June
- Calculations > Rent Review
 - Market Rents = Entered as per Current Tenant Lease Type

INTRODUCTION

- Project Name Divestment Strategy
- Property Name Links Building
- Project Number 001
- Property Type Commercial
- Interest Valued Freehold
- Valuation Date 1/1/2011
- Purpose of Valuation Disposal
- Instructions To value the property on a Market Value basis
- Prepared by Your Name
- Prepared for Training

SETUP

PURCHASE AND SALE

- Date of First Period 1/1/2011
- Acquisition inputs are not relevant for this case study
- Selling Costs 1.5%
- Disposal Date 31/12/2020

USES

Code	Description	Added to NLA?	Unit of Input	Capitalisation Rates	
				Current	Terminal
COM	Commercial	Y	/sqm or unit p.a.	8.50%	8.75%
CAR	Car parking	N	/unit per month	8.50%	8.75%
STR	Storage	N	Per month	8.50%	8.75%
VAC	Vacant	Y	/sqm or unit p.a.	8.50%	8.75%

ESCALATION PROFILES

- CPI 3.00%
- Fixed 1 3.50%
- Fixed 2 3.75%

CAPITALISATION AND DCF

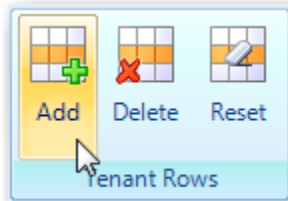
- Capitalisation rate sensitivity $\pm 0.25\%$
- Long Term Vacancy Allowance 8.00%
- Discount rate for Bonus Rent 8.75%
- Discount rate for Rental Shortfalls 8.75%
- Months of Capex to deduct from Capital Value 12
 - Discount? 'Y'
- Months of Letting Up to deduct from Capital Value 12
- Discount Rate (Target IRR) 10.50%
 - Sensitivity $\pm 0.25\%$
- Terminal Capitalisation rate sensitivity $\pm 0.25\%$
- Long term vacancy allowance 8.00%

OTHER INCOME

- Description Signage
- Income for the first month \$2,500
- Capitalisation rate 8.00%
- Escalation profile Fixed 1

TENANTS WORKSHEET

Use 'Add Tenant Rows' to insert 8 more rows.



Enter in the following inputs:

Tenant Information and Rents

Tenant ID	Tenant Name	Floor	Suite	Use Code	Lease Type	NLA (sqm) or Units	Unit Type	Current Base Rent Amount	Unit of Input
001	Neil Partners	G	1	COM	Net	220	Sqm	\$350	/sqm or /unit pa
002	Fitness Freaks	G	2	COM	Net	624	Sqm	\$330	/sqm or /unit pa
003	Buds of May	1	1	COM	Net	400	Sqm	\$300	/sqm or /unit pa
004	Sienna Tech	1	2	COM	Net	420	Sqm	\$295	/sqm or /unit pa
005	G Factor	1	3	COM	Net	379	Sqm	\$295	/sqm or /unit pa
006	Mad Mann	2	1	COM	Net	400	Sqm	\$290	/sqm or /unit pa
007	Silk Compose	2	2	COM	Net	420	Sqm	\$300	/sqm or /unit pa
008	Wave & Co.	2	3	COM	Net	379	Sqm	\$310	/sqm or /unit pa
009	Dual Strategy	3	1	COM	Net	400	Sqm	\$305	/sqm or /unit pa
010	Places	3	2	COM	Net	420	Sqm	\$310	/sqm or /unit pa
011	Hull Advisers	3	3	COM	Net	379	Sqm	\$320	/sqm or /unit pa
012	Neil Partners	B		CAR	Net	4	Spaces	\$200	/unit per month
013	Fitness Freaks	B		CAR	Net	20	Spaces	\$180	/unit per month
014	Sienna Tech	B		CAR	Net	5	Spaces	\$220	/unit per month
015	Mad Mann	B		CAR	Net	4	Spaces	\$200	/unit per month
016	Dual Strategy	B		CAR	Net	4	Spaces	\$210	/unit per month
017	Places	B		CAR	Net	4	Spaces	\$210	/unit per month
018	Hull Advisers	B		CAR	Net	4	Spaces	\$200	/unit per month
019	Fitness Freaks	B		STR	Gross	1	Units	\$500	Per month
						4,441	Sqm		

Outgoings and Lease Terms

Tenant ID	Recovered O/Gs	Lease Terms				Incentives			
		Start Date	Previous Review	Expiry Date	Effective Start Date	Description	Amount	Start Date	Span (mths)
001	Enter each tenancy as a % of total NLA	1/06/10	1/06/10	30/05/15	1/09/10				
002		1/01/10	1/01/10	31/12/19					
003		1/01/10	1/01/10	28/02/14					
004		1/01/10	1/01/10	15/06/16					
005		25/11/10	25/11/10	24/11/13	25/02/11				
006		1/02/11	1/02/11	31/1/16	1/08/11	Fit out	\$20,000	1/02/11	1
007		1/07/10	1/07/10	30/06/15	1/01/11				
008		5/01/11	5/01/11	4/01/14	5/07/11	Fit out	\$10,000	5/01/11	1
009		1/01/10	1/01/10	31/12/16					
010		1/01/10	1/01/10	17/05/14					
011		1/01/10	1/01/10	20/09/14					
012		1/06/10	1/06/10	30/05/15	1/09/10				
013		1/01/10	1/01/10	31/12/19					
014		1/01/10	1/01/10	15/06/16					
015		1/02/11	1/02/11	31/1/16	1/08/11				
016		1/01/10	1/01/10	31/12/16					
017		1/01/10	1/01/10	17/05/14					
018		1/01/10	1/01/10	20/09/14					
019		1/01/10	1/01/10	31/12/19					

Options, Reletting and Rent Reviews

Tenant ID	Option		Termination and Reletting		Rent Review			
	Option Period (months)	Option Probability	Leasing Up Period (months)	Reletting Fees (%)	Next Review	Base Rent Escalation Profile	Current Net Market Rent	
001	36	75%	3	14%	1/06/11	Fixed 2	\$350	CPI
002	60	75%	6	14%	1/01/12	Fixed 1	\$330	CPI
003	24	75%	6	14%	1/03/11	Fixed 1	\$300	CPI
004	36	75%	3	14%	16/06/11	Fixed 2	\$300	CPI
005	12	75%	6	14%	25/11/11	Fixed 1	\$300	CPI
006	48	75%	3	14%	1/02/12	Fixed 2	\$300	CPI
007	36	75%	3	14%	1/07/11	Fixed 2	\$300	CPI
008	12	75%	6	14%	5/01/12	Fixed 1	\$300	CPI
009	36	75%	3	14%	1/01/11	Fixed 2	\$300	CPI
010	24	75%	6	14%	18/05/11	Fixed 1	\$300	CPI
011	24	75%	6	14%	21/09/11	Fixed 1	\$300	CPI

Tenant ID	Option		Termination and Reletting		Rent Review			
	Option Period (months)	Option Probability	Leasing Up Period (months)	Reletting Fees (%)	Next Review	Base Rent Escalation Profile	Current Net Market Rent /sqm or /unit pa	Escalation Profile
012	36	75%	3	14%	1/06/11	Fixed 2	\$2,400	CPI
013	60	75%	6	14%	1/01/11	CPI	\$2,400	CPI
014	36	75%	3	14%	16/06/11	Fixed 2	\$2,400	CPI
015	48	75%	3	14%	1/02/12	Fixed 2	\$2,400	CPI
016	36	75%	3	14%	1/01/11	Fixed 2	\$2,400	CPI
017	24	75%	6	14%	18/05/11	Fixed 1	\$2,400	CPI
018	24	75%	6	14%	21/09/11	CPI	\$2,400	CPI
019	60	75%	6	14%	1/01/12	CPI	\$6,000	CPI

OUTGOINGS WORKSHEET

Description	Payment Frequency	Payment Dates		Current Outgoings per annum		Escalation Profile	Recoverable
		Start	End	Amount	Rate/sqm		
Council Rates	Bi-annually	1/07/10	-	\$30,000		CPI	Y
Water Rates	Bi-annually	1/07/10	-	\$25,000		CPI	Y
Land Tax	Annually	1/03/10	-	\$98,000		CPI	Y
Insurance	Quarterly	1/01/11	-	\$18,000		CPI	Y
Air conditioning	Monthly	1/01/11		\$24,000		CPI	Y
A/C Repair and Maintenance	Monthly	1/01/11	-	\$20,000		CPI	Y
General Repair and Maintenance	Monthly	1/01/11	-	\$22,300		CPI	Y
Cleaning (common areas)	Monthly	1/01/11	-	\$17,800		CPI	Y
Lifts	Quarterly	1/01/11	-	\$18,000		CPI	Y
Electricity	Quarterly	1/01/11	-	\$86,000		CPI	Y
Engineering	Monthly	1/01/11	-	\$4,900		CPI	Y
Fire Protection	Monthly	1/01/11	-	\$7,500		CPI	Y
Landscaping	Monthly	1/01/11	-	\$2,900		CPI	Y
Administration and Management	Monthly	1/01/11	-	\$60,000		CPI	Y
Security	Monthly	1/01/11	-	\$1,800		CPI	Y
Waste removal	Monthly	1/01/11	-	\$7,000		CPI	Y
Non-recoverables	Monthly	1/01/11		\$15,400		CPI	N

CAPITAL EXPENDITURE WORKSHEET

Description	Units	Base Rate/Unit	Start Date	Span (mths)	End Date	Remarks	Total Cost
Level 2 refurbishment (Suite 1)	1	\$200,000	1/02/11	2	31/03/11	On lease commitment	\$200,000
Level 2 refurbishment (Suite 3)	1	\$150,000	5/01/11	1	4/02/11	On lease commitment	\$150,000
End of term make good and refurbishment	1	\$2,000,000	1/09/19	12	31/08/20	On terminal sale	\$2,000,000

REVIEW RESULTS

CAPITALISATION SUMMARY

As a manual input, enter a 'Letting-up' allowance (as a formula of 6 months' rent)

Manual Adjustments	
Allowance for Letting up	(741,478)

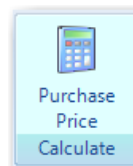
What are the capital values calculated at the bottom of the Cap Summary sheet for each valuation method? **These indicate what the value of the property is based on its current (passing) income, its income if any vacancies were fully leased, its income if all leases were at market rent and its market income with any adjustments for shortfalls and overage.** Therefore it is a one basis the owner can use to determine a suitable reserve price.

	Passing Income	Current Income Fully Leased	Net Market	Reversionary Market
Total Capital Value	16,453,992	14,637,043	14,561,982	14,120,514

DCF

Click the [Purchase Price] button to calculate desired purchase price at the target IRR.

What value is calculated in the 'Nominated Purchase Price' at the bottom of the DCF? – **This indicates what a potential purchaser would pay for this property given a desired IRR of 10.50%.** Therefore it is another basis the owner can use to determine a suitable reserve price.



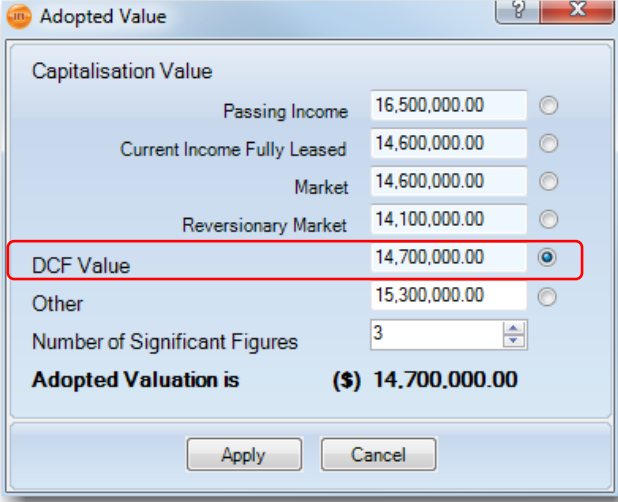
Nominated Purchase Price	14,677,619
Calculated IRR (per annum Effective)	10.50%
Net Present Value (NPV)	-
Total Purchase Price (inc. costs)	15,470,378
Discount Rate (per annum Effective)	10.50%

EXECUTIVE SUMMARY

The Executive Summary provides a snapshot of the key results of the two valuation methods –DCF and Capitalisation – along with a summary of the key metrics of the property, such as vacant area, weighted lease duration, top 3 tenants, etc.

It also allows the user to indicate a final valuation for the property.

Press the [Adopted Value] button and select the appropriate valuation method that you have selected for this property. It was decided that the DCF valuation was to be adopted, select 'DCF Value' and press [Apply]/



Adopted Value

Capitalisation Value

Passing Income 16,500,000.00 ☐

Current Income Fully Leased 14,600,000.00 ☐

Market 14,600,000.00 ☐

Reversionary Market 14,100,000.00 ☐

DCF Value 14,700,000.00 ☒

Other 15,300,000.00 ☐

Number of Significant Figures 3

Adopted Valuation is (\$ 14,700,000.00)

Apply Cancel

Prepared For:	Prepared For Demonstration
Purpose:	Purpose of Valuation
Instructions:	To value the property on a Market Value basis
Interest Valued:	Freehold
Valuation Date:	Sat, 01 Jan, 2011
Valuation:	\$14,700,000 Fourteen Million Seven Hundred Thousand