



Current Trends in Real Estate Valuation.

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23rd January 2018



The speaker

•Vince Harney is one of the leading experts in Property Development, and Real Estate Software. He has had over 25 years' experience of the construction and property markets. He has worked in both the UK and Internationally, having worked as a Group Finance Director for a Large European Property Developer based in Prague CZ ,a Divisional Finance Director for Bovis Homes as well as Senior Commercial Finance Roles at AMEC (now MUSE)Developments.

•He is a Chartered Accountant and Chartered Tax Advisor who has been involved commercially in Property Development for over 20 years.

•Vince heads up the European Operations of Estate Master and works closely with RICS to provide valuable programmes for the Membership including work for RICS in the Middle East. He has also presented courses to Property Developers on a wide range of related topics covering Feasibilities, Management, Fund Management and International Cross Border Transactions .



Current Trends in Property Valuation

How Does the Market inform Current Practice ? (Does it??)

Current Practice and Techniques in Property Valuation in todays Markets

- Current Property Finance Market
- Main appraisal techniques
- Current Valuation Issues
- How to use the best for your valuation and get the inputs right



Current Property Finance Market

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- Commercial Property- Retail , Offices
- Residential Property – Houses, Apartments, Buy or Let
- "Alternative" Real Estate / Property- Student Accommodation, PRS/BTR(Private Rented Sector/Build to Rent), Healthcare, Retirement Living
- Leasehold versus Freehold

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Commercial Market

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- Retail – Shopping Centres – Primary , Secondary , Tertiary markets. Typically Lease led – 5 year leases +- Traditionally a favourite of Investors due to reliability of income and tenure length. The recession and crash of 2007 has significantly reduced (with the exception of Primary Market) this as a valuable asset class.
- Having said that the UK is now experiencing the strongest growth since 2014
- Offices– Traditionally strong asset class with Long leases and pretty much guaranteed income. Today's working practices may/have impact(ed) on the Market resulting in shorter leases and sharper prices. Strong growth outside the Capital eg. Manchester and Birmingham

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Residential Market

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- Freehold – Traditional Houses-Flatish market but lack of availability of good quality stock in certain locations drives up values (location key for Residential). London prices some of the most expensive in the World.
- Key issues here – Availability of Affordable stock in Key locations, coupled with Mortgage availability and easier entry for First time buyers. Equity Share Schemes etc can assist.
- Core issue – More build required nationally
- Leasehold–Apartment Living, Houses ..much more attractive due to affordability and lack of long term liability (Mortgage). UK is increasing its leasehold demographic – combination of affordability and lifestyle (Renting is common in Europe as Standard)
- Attractive to Investors as Multi Family/ Private Rented Sector

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Alternative Real Estate Investment Market

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- Student Accommodation- Asset class since advent of Fee paying Higher Education.Offers quality and lifestyle for the tenants, attractive to Investors due to income guarantee and turnover in Students.ALSO ..part of Lifestyle Change
- Private Rented Sector – Inner City Apartment Living – Lifestyle – imported from the States but increasing cogent with Investors due to income churn and minimum exposure
- Retirement Living – Aging population increasing – likely to be a growth area and one Investors will move into increasingly

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Valuation Techniques

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- Commercial Property- RICS Red Book – Traditional Method
- Residential Property – DCF/Traditional
- Operational Assets- eg Hotels . Stabilised NOI (Net Operating Income) at relevant Yield
- "Alternative" Real Estate / Property- DCF, International Variations – Europe DCF, Middle East DCF, Australia Income Capitalisation

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Valuation Techniques Traditional

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- Commercial Property- RICS Red Book – Traditional Method
- UK mainly, some US
- Commercial focus
- Hardcore , Shell and Hardcore , Term and Reversionary
- Comparables
- Mature Market

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Valuation Techniques DCF

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- Any asset – Discounted Cashflow
- CONSIDERS REVENUES AND COSTS IN CASH AND TIME
- Widespread Internationally especially Europe
- Discount Rate driven
- Net Present Value based on discounted Future Cash flows
- No or limited Comparables available
- New to Mature Markets

Valuation Techniques Operational Stabilised

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- Hotels and Similar Income Producing assets– Stabilised NOI at relevant Yield
- Widespread Internationally Hotel Valuation Standard (HVS)
- NOI Driven – Need stability period
- Yield Capitalisation
- Dependent on reliable and accurate Income Data – ADR , Occupancy levels

Valuation Techniques RLV

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- Any asset – Residual Land Value
- Essentially calculating the Value of Land by reference to being Developed
- Margin based approach – shorter term projects
- Net Present Value based approach – longer term projects
- No or limited Comparables available
- New to Mature Markets

Valuation Issues/ Challenges 1

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- Availability of Information
- SUSTAINABILITY!
- What is Yield equilibrium?
- Discount Rates or are WACC driven Valuations more accurate?
- Net Present Value based on discounted Future Cash flows
- No or limited Comparables available
- Immature versus Mature Markets
- Untested unknown new Asset classes eg PRS



Valuation Issues/ Challenges 2

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- Affordability in Residential challenge
- Location valuation challenges
- Green certifications impact (as Sustainability)

Naturally there are many more but the Key is to identify and understand the risk and build into the model/valuation.



Valuation – Key Inputs to getting it right 1

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- Availability of Information for comparables
- Detail in Leases and Lease renewal assumptions
- Factoring in Financing – generally 100% Debt assumed – realistic?
- Yields- Accurate??Appropriate??
- Discount Rate ? What is it?
- Differing technique for Asset Tenure? E.g. DCF for Assets held > 50 years??
- Residential Short Term Leases – held for the long term?
- Differing Commercial Measures – LEED BREEEM etc



Valuation – Key Inputs to getting it right 2

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- Risk Management – Are we reflecting the Risk properly – Risk Premium in Discount Rate – or increase void provision
- Use best available information to mitigate as far as possible Market volatility

Finally a Valuation or Appraisal is ONLY as good as the Data input so ensuring that all the risks and components have been verified (to the extent that they can) is critical

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Current Trends in Valuation

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Thank you.

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