



5 Property valuation methods you may not know about

What is a property valuation?

Things to consider before property investment

- 1. The building
- 2. The site
- 3. Lease Terms
- 4. Rent
- 5. Rental value
- 6. Rent Reviews
  - Upward only reviews
  - Predetermined Rent review
  - Index-linked rent review
  - Upwards or downwards rent review
  - Turnover rents
- Outgoings
- Value Added Tax

How to evaluate property values

- 1. The Comparative Method
  - Physical factors
  - Property specific factors
  - Tenant Selection
  - Market Data
- 2. The Valuation Approach
  - The all-risk yield approach
  - Freehold Rack-Rented Investments
  - Freehold Reversionary investment
    - Term and reversion (vertical separation)
    - Layer or Hardcore Model(horizontal separation)
    - Over-rented property
    - Equivalent yield
  - Non-conforming property investments
    - Rents fixed for long periods
    - Leasehold Interests
- 3. The Residual Method
  - How to calculate the value
  - Development Costs
  - Value of Land
- 4. The Profits Principle
  - Use of Profits Principle
  - How are assets treated in the final accounts?
- Profitability
  - 1. Return on capital employed
  - 2. Return on net assets employed
  - 3. Gross profit margin
  - 4. Net profit margin
  - 5. Expenses related to sales
- Liquidity
  - 1. Working Capital Ratio
  - 2. Liquid ratio
  - 3. Interest cover
- Asset Utilization
  - 1. Stock turnover ratio
  - 2. Debtors' collection periods
  - 3. Creditors' collection periods
  - 4. Asset turnover ratio
- 5. The Contractor's test
  - How to estimate costs?
    - Building Costs
    - Cost estimates
    - Superficial area
      - Cubic Content
      - Elemental Costs
      - Unit Costs
      - Approximate quantities

Eight ways to measure a property's value

- 1. Property's age
- 2. Location
- 3. Investment Size
- 4. Tenant Profile
- 5. Building construction
- 6. Holding Period
- 7. Property Quality
  - Class A Property
  - Class B Property
  - Class C Property
  - Class D Property
  - Triple-net-leased building
- 8. ROI (Return on Investment)
  - Cash Flow Return
  - Tax Loss Ratio
  - Resale Yield on Invested Capital
  - Internal Rate of Return