



Identifying a
site



The Role of a Developer



- λ Identifies need / opportunity
- λ Considers viability
- λ Acquires site
- λ Obtains Consents
- λ Builds Project
- λ Creates Investment

To achieve final stage , all preceding stages need to be fulfilled properly; development needs to fulfil **buyers** requirements

What do investors want?



- λ Acceptable return on investment
- λ Sustainable Project (growth?)
- λ Income security
- λ Real Estate Fundamentals
- λ Ability to raise debt
- λ Attainable exit

Characteristics of Property



- λ Illiquid (lot size, reliance on banks)
- λ Unforgiving (if fundamentals are wrong, difficult to correct)
- λ Consistent revenue stream
- λ No fixed maturity
- λ Requires management
- λ High transaction costs
- λ Inefficient Market

Developers need to get their properties right – there are hundreds of examples in the CE region where they haven't!!

Getting the site right



- λ **Location**
- λ **Infrastructure**
- λ **Tenant Demand**
- λ **Legal Issues**
- λ **Planning Issues**

Getting the Fundamentals right – How?



- λ Feasibility Study – a fine line between what is realistically achievable and what is theoretically possible.
 - λ Supply – assessed through actual market data
 - λ Demand – assessed through actual market data
 - λ Both demand and supply should be location and property type specific.
 - λ and are sensitive to subjective projections about the future value of the factors that influence demand and supply.
 - λ When relevant, comparable examples from other markets can be used to support the projections
 - λ Catchment and target markets
 - λ Supporting infrastructure (how does it work – Budapest Airport)
 - λ Connectivity, Utilities, Surrounding areas
 - λ Know your market –
 - λ legal and regulatory limitations
 - λ General market know how
 - λ Always check for alternative development options – the goal of a feasibility study is to propose the development with the highest achievable end value on a given location

Getting the Fundamentals right



- λ Tenant Demand – the key investment estimate
 - λ The true value of the investment comes from its ability to lease
 - λ Estimate the demand through actual knowledge of the market and the market players
 - λ Understand tenant's requirements (location, specification market size etc)
 - λ Target the right tenants
 - λ Conduct Tenant interviews
 - λ As a second step draw statistical conclusions from the interview results
- λ Correctly estimated tenant demand is thus one of the key inputs in projecting future cash-flows for the property

Valuation Issues



Valuation issues



λ Valuations at the acquisition stage are relied upon by

λ Buyers

λ Their backers

λ Funding banks

λ **VALUE = PRICE ACHIEVEABLE!**

λ Valuations should therefore be based on market techniques of prospective buyers

λ But Valuations should be read in the context of assumptions made

There are a lot of valuations which do not follow market techniques – make sure your provider knows what he is doing

Valuation Techniques



Investment assets:

- λ By some form of capitalisation of current / expected income through either:
 - λ Discounted Cash Flow
 - λ Traditional methods (Term & Reversion / Hardcore)

λ Development assets

- λ Direct Comparison
 - λ Land has many unique facets; very difficult to compare
 - λ Difficult to get full story
- λ Residual Approach
 - λ Highly volatile - can seemingly “prove” anything
 - λ Needs to be read in context of actual pricing achievable

Valuation Methodology



Building A

- λ Sold for €12m
- λ Rent was €1m, meaning initial yield of $\text{€1m} / \text{€12m} = 8.33\%$
- λ ERV was €900,000, meaning 10% over-rented
- λ Held on a 15 year lease to a single tenant

Term

Rent:

€1,000,000

X Years Purchase 15 years @ 7.5%

8.827

€ 8,827,120

Reversion

Rental Value

€900,000

**X Years purchase in Perpetuity @ 8.5%,
deferred 15 years**

3.46

€ 3,114,122

€11,941,142

SAY €12,000,000

Valuation of comparable building



Building B

- λ Rent €1m,
- λ ERV of €900,000, meaning 11% over-rented
- λ Held on a 3 year lease to a single tenant

Term

Rent:		€1,000,000
X Years Purchase 3 years @ 7.5%	<u>2.601</u>	
		€ 2,060,525

Reversion

Rental Value	€900,000	
X Years purchase in Perpetuity @ 8.5%, deferred 3 years	<u>9.21</u>	
		€ 8,289,615
		<u>€10,890,140</u>

SAY €10,900,000

- λ **A drop of €1.1m in value terms (9%) compared to Building A,**
- λ **Initial yield 9.174% (8.33% for Building A)**

Valuation Considerations & Outputs



- λ An opinion of market value
- λ A thorough understanding of current market conditions
- λ A view as to likely future market trends
- λ An economic understanding of legal and statutory issues together with their impact
- λ A view as to the sustainability of income
- λ An overview of key risks and their impact

Exiting the Project



Exiting the Project



- λ It's all about the timing – selling when prices are high and buying when they are low
- λ During the project life cycle and securing full exit
 - λ A trade-off between limiting risk and increasing reward
 - λ All partners require elements of Control over the project
- λ Before completion
 - λ Secures exit
 - λ Limits the reward - Letting guarantees or earn-out structures for the un-let space reduces end profit
 - λ Loss of total control – buyer will want to have a say
- λ After completion
 - λ No secure exit – exposure to business cycles
 - λ Increases potential profit at exit (mainly depending on the leasing performance)
 - λ Full control over the entire cycle of the project
- λ Inviting JV partners during the development phase partly mitigates the risk
 - λ Development risk, financing risk, leasing risk

Exit Strategy – C&W approach



WORK

1. Pre-sale preparation

- Internal audit of the Property and SPC's
- Collection/verification of data & documents
- Market research & develop the 'story'
- Verify key financial data / NOI
- Finalise Investment Memorandum

2. Engage with investors

- Shortlist key potential buyers
- Best relationship ?– Cross Border Team
- Marketing material
- 'Roadshow'
- Feedback

3. Due Diligence & Closing

- Careful selection of the preferred buyer
- Risk minimisation
- Pre-empt issues (pre-sale preparation)
- Active Data Room management
- Effective negotiation of QPA

RESULT

Prepared a comprehensive Memorandum that best explains what is being offered for sale

Cleared all skeletons from the closet that would result in a price reduction during DD

Identified a willing buyer who will pay the highest achievable price

Allowed for a sufficient time to pass

4. Successfully closed sale
- a satisfied seller and buyer

Exit Strategy - Timeline



Stage	Tasks	2008			2009												
		Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
1	C&W appointed		█														
	Review lease contracts		█	█													
	Estimate total income			█													
	Establish Net Operating Income			█													
	Run cash flow				█												
2	Prepare Investment Memorandum		█	█	█												
	Organise plans /visuals		█	█	█												
	Finalise Tenancy Schedule			█													
3	Offer to ING REIM					█											
	Presentation /negotiations						█										
	Receive valuation report				█												
4	Review ING REIM offer						█										
	Target investors list					█	█										
	Road show							█									
5	Marketing							█	█								
	Receipt of offers								█								
	Analysis of bids									█							
	Sign LOI										█						
	Due diligence											█	█				
	Red flag												█				
	QPA negotiations													█	█		
	Signing														█		
	Mergers clearance (if required)															█	█
	Closing																█
Handover																	█

Exit strategy – X Sharepoint site snapshot



- A useful tool for sharing documents disclosed during the Marketing stage and during DD
 - easy to control and supervise
 - saves costs of a DD process
 - Open 24/7

The screenshots illustrate the SharePoint site structure for the Allee Shopping Centre project. The first screenshot shows the main site page with a navigation menu on the left and an aerial photo of the shopping centre. The second screenshot shows the 'Tenancy schedule' page, which displays a table of lease dates and names. The third screenshot shows the 'C) Leases' page, which displays a detailed list of lease agreements.

Type	Name	Modified	Modified By	Checked Out To
Document	Allee - Tenancy Schedule - August 28th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - August 7th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - July 20th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - June 11th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - October 2nd	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - September 18th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - September 29th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - September 4th	2009.12.03.17:41	Emilka Vass	
Document	Allee - Tenancy Schedule - September 9th	2009.12.03.17:41	Emilka Vass	
Document	Tenancy Schedule Allee - April 2009	2009.12.03.17:41	Emilka Vass	

Type	Name	Modified	Modified By	Checked Out To
Document	001_Anl_New_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	002_Garbi_Bel_Cap_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	003_Both_Gozsdt_Private_Enterpreneur_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	003a_Both_GoldTrend_Lease_Agreement_Assignment	2009.12.03.17:43	Emilka Vass	
Document	004_Boston_Fattier_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	005_Budai_Projekt_2007_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	005a_Budai_Projekt_2007_KR_Lease_Agreement_modification	2009.12.03.17:43	Emilka Vass	
Document	005b_Budai_Projekt_2007_KR_Supplementary_Agreement	2009.12.03.17:43	Emilka Vass	
Document	007_CA_Mode_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	008_Champion_East_Europe_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	008a_Champion_East_Europe_KR_Supplementary_Agreement	2009.12.03.17:43	Emilka Vass	
Document	009_CIB_BELA_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	009a_CIB_BELA_KR_Lease_Agreement_modification	2009.12.03.17:43	Emilka Vass	
Document	010_Nevel_Cast_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	011_Dallas_Sport_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	011a_Dallas_Sport_KR_Lease_modification	2009.12.03.17:43	Emilka Vass	
Document	012_Bm_drgema_makr_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	012a_Dockwrt_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	014_Katpeter_Extremetal_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	014a_Katpeter_Extremetal_KR	2009.12.03.17:43	Emilka Vass	
Document	015_F_Optika_Foto_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	016_Euro_Fitness_2002_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	016a_Euro_Fitness_2002_KR_Agreement_on_assignment	2009.12.03.17:43	Emilka Vass	
Document	017_Hydra_Cast_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	018_Huzsh_Card_Magyarorszag_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	019_Horvath_Cipos_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	019a_Horvath_Cipos_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	
Document	019b_Horvath_Cipos_KR_Agreement_on_the_modification_of_Lease	2009.12.03.17:43	Emilka Vass	
Document	019c_Horvath_Cipos_KR	2009.12.03.17:43	Emilka Vass	
Document	020_Retrn_International_KR_Lease_Agreement	2009.12.03.17:43	Emilka Vass	

What do buyers want in today's market



λ Transparency up front

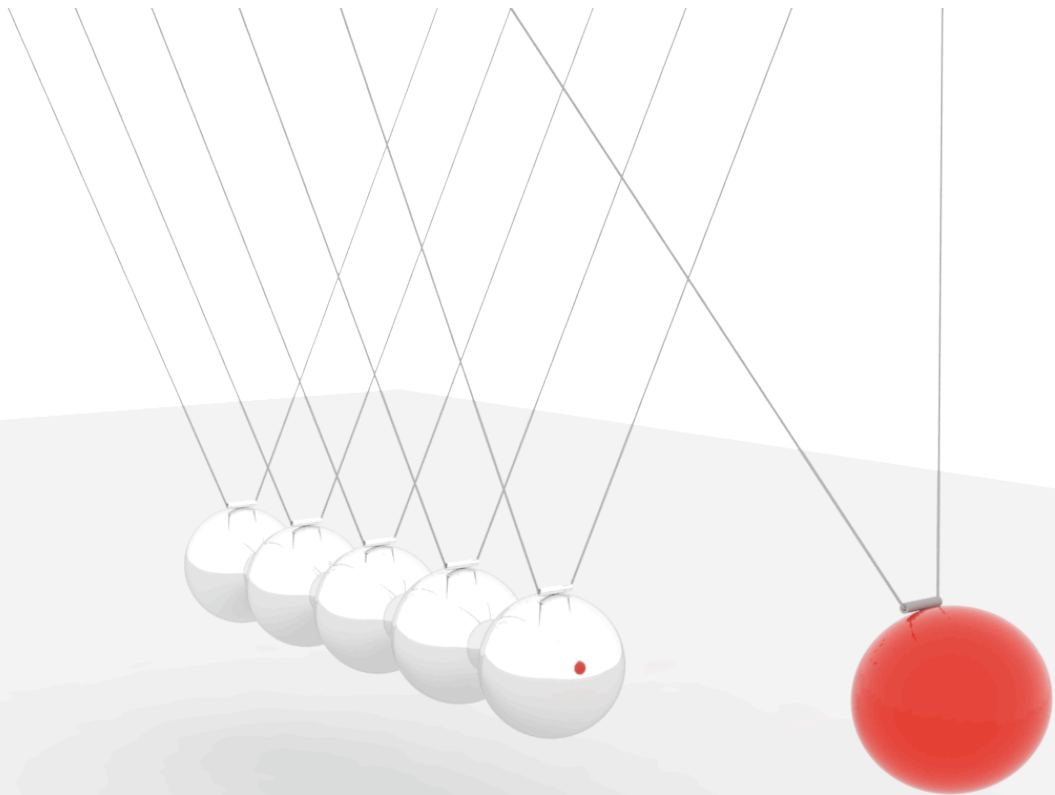
- λ As much data as possible
- λ It pays to flush out the skeletons – they will be uncovered in the DD process
- λ Give buyers a reason to buy – cash flow projections
- λ Analyse income
- λ Detailed market analysis; supply, demand, competition

Exit – Professional advisors add value



λ When to use a professional advisor

- λ At any stage during the development cycle of the property (starting with site search and finishing with a disposal) an advisor can add value
- λ During disposal process advisors should demonstrate:
 - λ Access to global investors through their international offices
 - λ Established relationships with key investors
 - λ Real estate and property specific expertise
 - Identify possible risks
 - Influence the pricing – also by adding value to the project by identifying “soft income” elements of the property
 - λ Understanding how global capital markets function (debt structuring, other investment options)
 - λ Clean and structured sales process
 - λ Adhering to the client set timelines
 - λ A track record of past successes to demonstrate the ability to deliver
 - λ A fee that is in line with the market and justifies the use of advise
- λ Complementary to the disposal advise Investors sometimes use an impartial valuation advise to verify the best attainable pricing has been achieved



Thank
you!