Briefing Paper

University of Manchester: SEED; Planning, Property and Environment

Coursework Outline: PLAN60331 PROPERTY VALUATION 2023-24

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Property Valuation: Briefing for Assignment Two

There are two assignments for this course unit. For Assignment Two, students will prepare an individual essay.

Assignment Two is worth 75% of the final mark for the unit.

ASSIGNMENT 2

This is an individual critical essay which must be submitted through Turn-it-in on Blackboard by **2pm on Tuesday 23rd January 2024**. The maximum **word count is 3,000 words**.

The property at **55 Princess Street Manchester, M2 4EW** has been on the market for over a month. A snapshot of the key features extracted from one of the property platforms available to us and a brochure describing the available space to let are provided as part of this assignment package.

You are to prepare a valuation for your client, Bridgeford Street Enterprises Ltd. They wish to purchase the property as an investment with an intended holding period of 10 years and have instructed an assignment due (valuation) date of 16/11/2023.[1] The valuation has been requested because they wish you to **assess the property's investment value via a discounted cash flow (DCF) model** taking account of all existing and future tenancies including (possible) lease renewals and/or new leases. The conclusions should additionally include advice to your client whether to accept the asking price.

NO PERSON OR ORGANISATION ASSOCIATED WITH THE ABOVE PROPERTY CAN BE CONTACTED FOR THE PURPOSE OF THIS ASSIGNMENT. ANY QUESTIONS SHOULD BE DIRECTED TO THE UNIT TUTOR (ilir.nase@manchester.ac.uk).

You are expected to build your own excel template for calculation purposes as no template will be provided for the DCF models. The subject property comprises of ground floor retail and office suites in the upper floors which requires analysis of market rents for both sectors. You need to do a market and tenant research to make informed decisions about lease renewals / new tenancies based on tenant covenants, (sub)market performance, etc. The 3rd floor space figuring

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[1] For ease of template building consider the whole final year (2033) in your calculations, this will mean that the precise holding period will be for 121.5 months.

The difference between the instructed valuation date and Assignment 2 submission date is significant (over 2 months). There could even be a transaction during this time which you might as well consider for indicative purposes only. Your market evidence, particularly for comps, cannot be after valuation date i.e., you cannot consider transactions after 16/11/2023.

as 'under offer' (Suite 2) can be assumed to be leased shortly[2]. Given the lack of negotiation details regarding the reported rents in the subject property (effective or asking), you are to consider all passing rents as effective. However, when analysing comps, you should consider only effective rents and, if no adequate comps information is available, follow the RICS guidance about the hierarchy of evidence.

You are free to consider various scenarios and estimate the corresponding asset values however, only one template screengrab is allowed in the assignment (Appendix with 2 screengrabs in total for calculations and formulas). If additional values have been calculated based on different scenarios (e.g. worst case scenario all tenants leave at the end of their leases or best case all tenants renew their leases and max 3 months void period with 1 month rent free for the new tenant(s) of the available spaces)[3] these can be reported in the Conclusions part.

Required elements of the valuation essay:

1. Introduction (c. 250 words)

2. Critically examine the relevant commercial real estate investment markets in Manchester City Centre and the implications for the subject property and your valuation (c. 750 words).

3. Critically analyse the factors affecting the input parameters in the DCF model and list these parameters' values to be used in your models. This includes, among others, market rents estimates and forecasts for both retail and office properties coming from your analysis of comps (750 words).

4. Discuss the various assumption and respective rationales related to lease renewals, new leases, void periods, concessions, etc. Assumptions that are not supported by rationale coming from market evidence/ desk research etc. will be marked down (c. 750 words).

5. Calculate the investment value of the property clearly showing your work in an appendix, equivalent to 250 words. One way to do this in your main body is to write 1-2 paragraphs about the calculated investment value of the subject property, other relevant outputs from the DCF, the valuation method, its benefits and limitations and cross reference here your calculations appendix.

   a) Screengrab showing your DCF model template (in excel) with calculations and valuation annotations. The word limit above is mostly to restrict annotations as the DCF templates will be relatively standard. Hence, the annotations should not be part of the screengrab but presented as word text as footnotes to the template – method 3 of annotating calculations.

   b) Screengrab showing the formulas used in your DCF model template. It is your responsibility to ensure that images are high quality and legible.

6. Conclusion (c. 250 words)

References, these should follow the UoM Library suggested format (Harvard style).

The rubric document provides guidance for each section and details of the expectations for each level of mark.

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[2] For consistency across calculations assume lease start date for this tenant as 01/01/2024.
[3] This is just for indicative purposes – only to name some examples – the RICS practice note on DCF valuation suggests that valuers should avoid such extreme scenarios.

GENERAL INFORMATION

1. Feedback

Feedback will be available within 15 working days (**this is excluding weekends, exam periods and university holidays**). Marks and feedback will be available electronically via Blackboard.

2. Word Count and Late Submission

Refer to your Programme Handbook for further information on what is included in the word count and the consequences of exceeding the maximum word count or of submitting work late.