

# Real Estate Valuation – Bases of Value in Practice

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# IVS defined bases of value



Real estate and valuation has become more global during the past centuries. The EU Regulation (EC) No 1606/2002 requires all listed companies to prepare their consolidated financial statements in accordance with a single set of international standards. This has led to the International Valuation Standards (IVS) Committee's role to become more pronounced.

**Market Value** (≈ Fair value, International Financial Reporting Standards (IFRS))

Market Rent

Equitable Value

Investment Value/Worth

Synergistic Value

Liquidation Value

Replacement Value

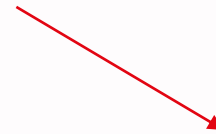
Income &  
comparison  
approaches

Cost approach

# Market value

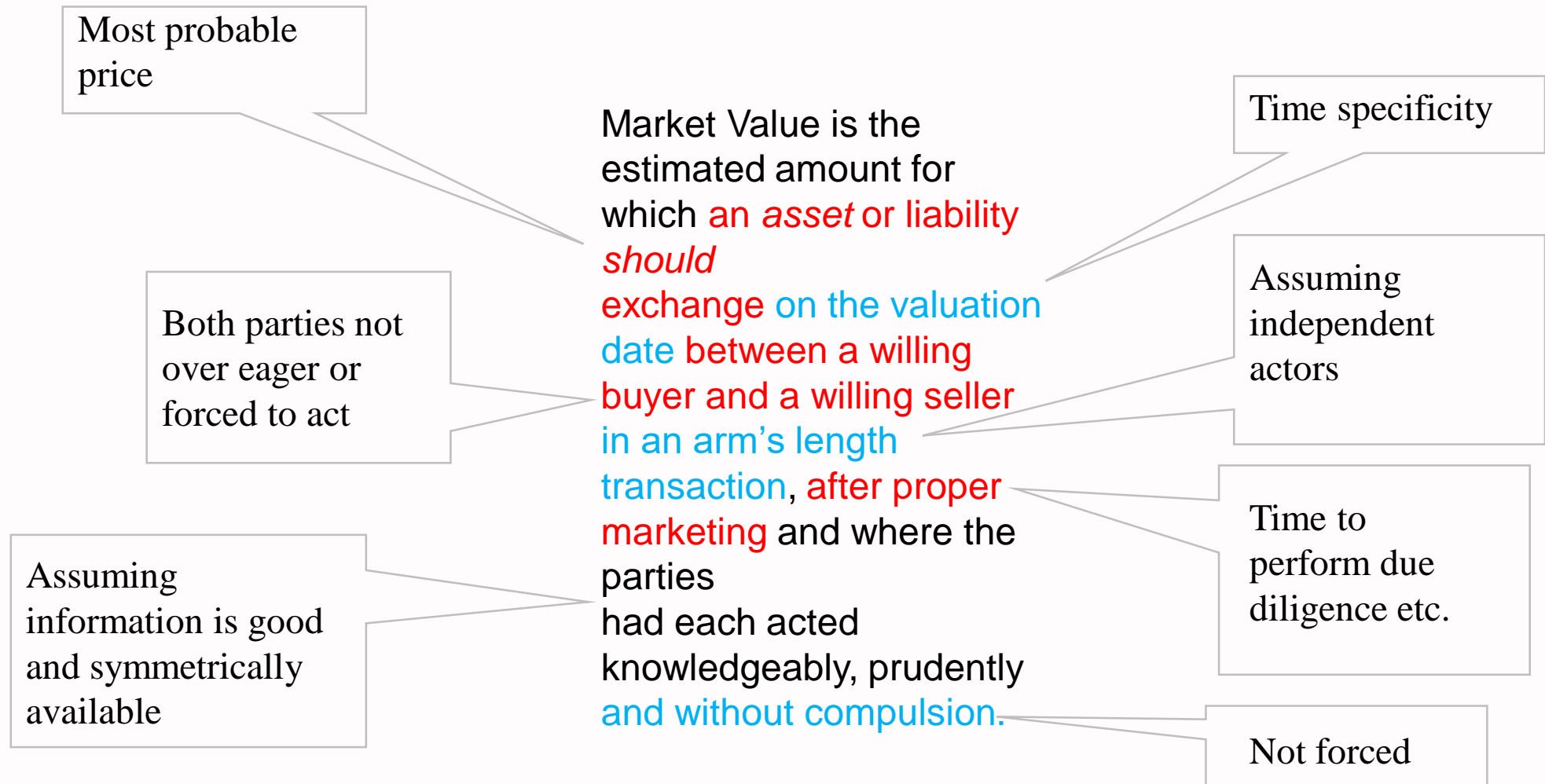


- Market value is the most often used basis of value
- Valuations based on market value used for accounting, financing, acquisition, sale purposes inter alia
- Trusted by shareholders, financiers and authorities
- Definition quite precise and requires a number of premises to be met
- Typically in transaction situations the specific assumptions from buyer side are technically hid with making special assumptions rather than using different value basis



Investment Value  
Synergistic Value

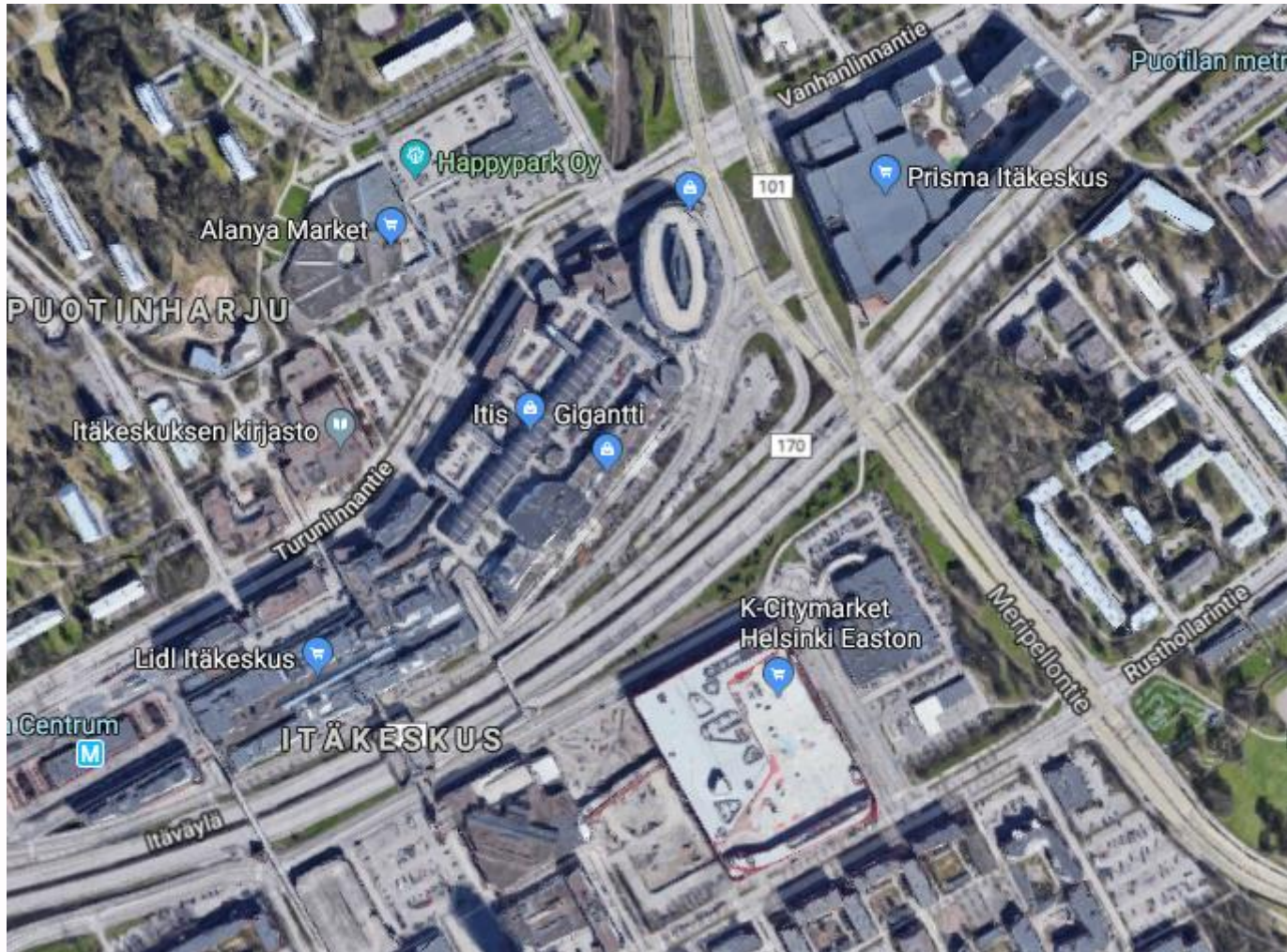
# Market value



Is market value always equal to trading price?



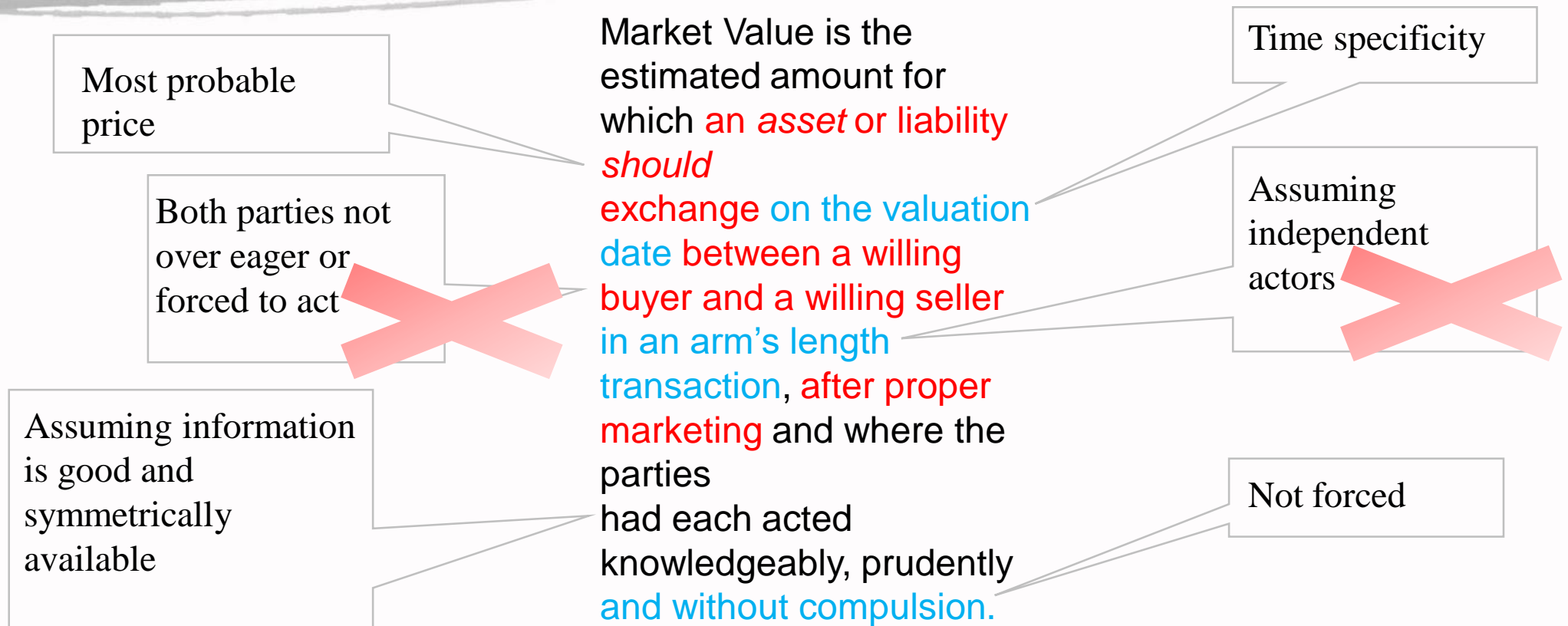
# Market value conditions – Case Itäkeskus



Several funds with available investment capacity – target retail

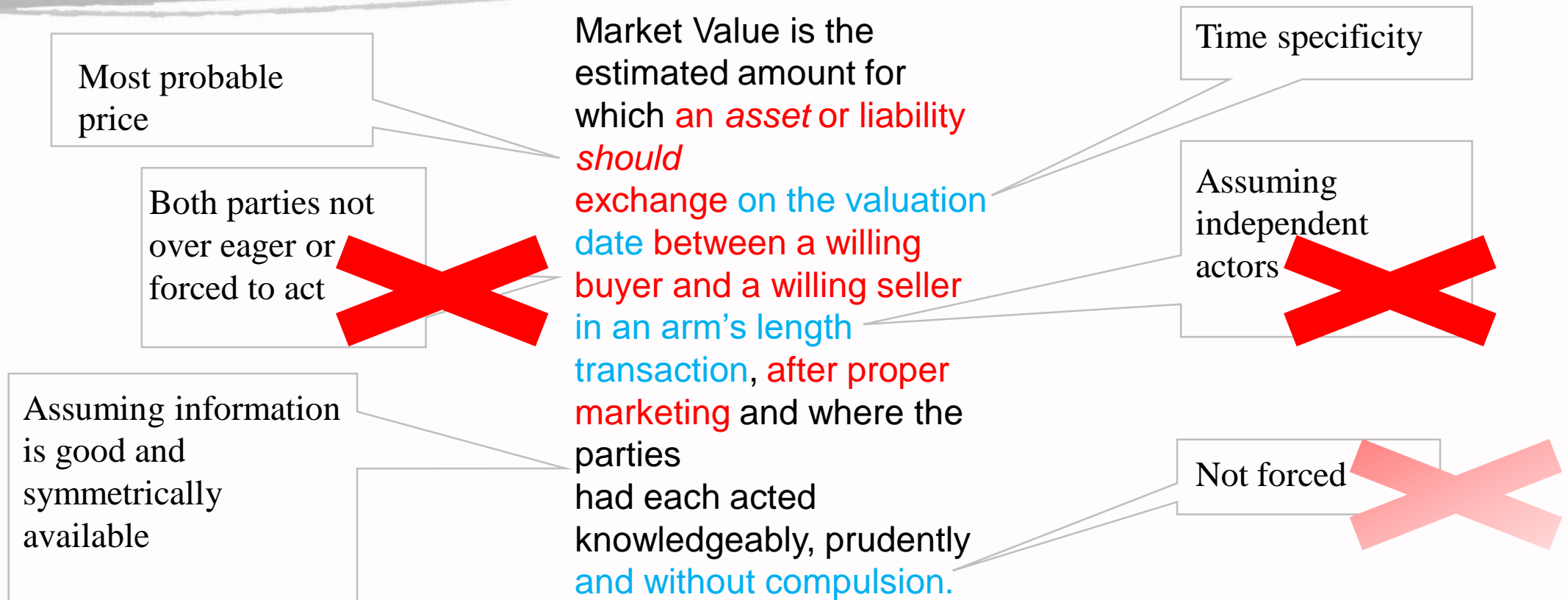
A fund with investment capacity – target retail in Itäkeskus area

# Market rent



- Defining market rent normal part of valuation process
- Formal market rent determination as self is often done to properties that don't really have a liquid market
- Examples of these are publicly owned (government/city) properties such as the opera, for which the problem arise as there is basically only one possible tenant for the property and conversely the property is the only property in the market that is suitable for the tenant.

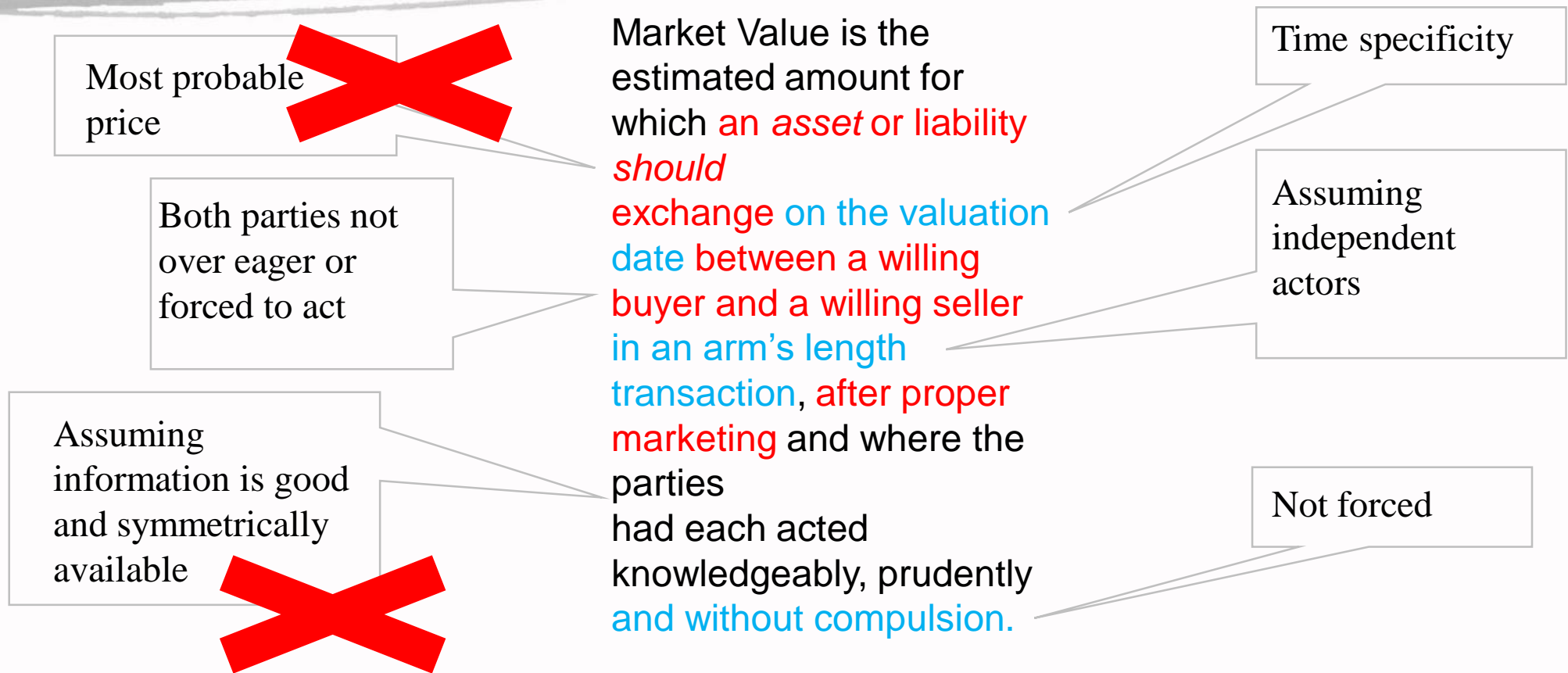
# Equitable value – profit sharing between parties



- Typically a buyer can get advantages that typical market party cannot have, for example, with neighbouring property enables redevelopment, in situation in which also selling party understands this synergy
- Often used in court of arbitration (välimiesoikeus) in compulsory purchase cases



# Investment value – certain investor’s calculation



Investment value can be thought as the potential that each investor sees in a property that may differ from the market value. As an example having pre-agreements for future tenants can increase the investment value while leaving the market value unchanged. As different investors may have different plans for the future of the property, their investment values vary.



# Investment value example



For example, the former VR headquarters beside Helsinki central railway station was sold to an investor that probably valued the property higher than the market value, as the investor had a notably better potential view of the property with existing pre-lease with future hotel operator.



PROJEKTIT KIINTEISTÖT KORJAUSRAKENTAMINEN RAKENTAMINEN 5.12.2018 3

## NCC muuntaa Eliel Saarisen suunnitteleman entisen VR:n pääkonttorin hotelliksi

NCC on valittu korjausrakentajaksi muuttamaan entiset VR:n toimistotilat hotelliksi Helsingin päärautatieasemalla.

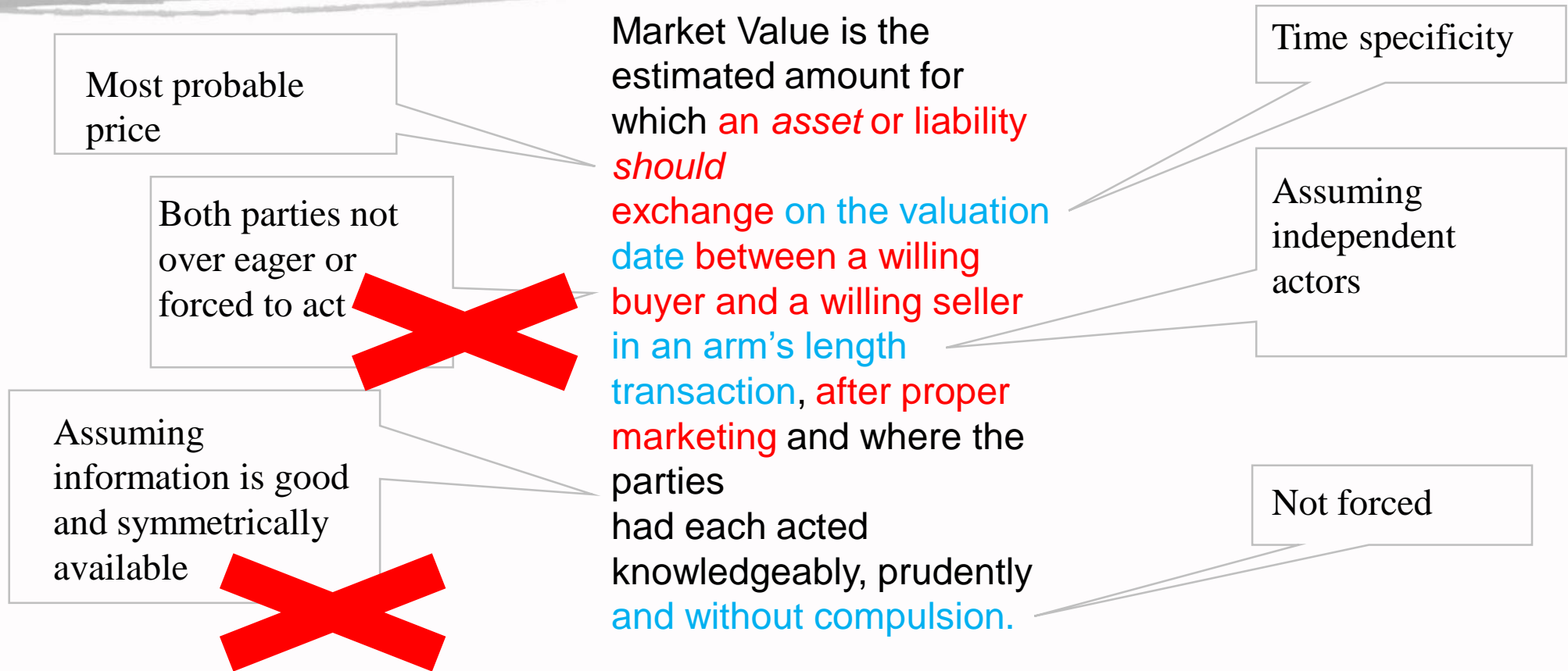
Rakennuslehti

NCC:n asiakas on kiinteistösijoitusyhtiö Exilion, joka aiemmin tehdyn esisopimuksen mukaisesti on 5. joulukuuta toteutetussa kaupassa ostanut rautatieaseman hallintorakennuksen. Kiinteistökaupan arvo on 55 miljoonaa euroa. NCC:n sopimuksen arvo on puolestaan noin 71 miljoonaa euroa.

Kuva: Tuomas Uusheimo



# Synergistic value



Eg. Case Seurahuone, synergy when possess the whole entity



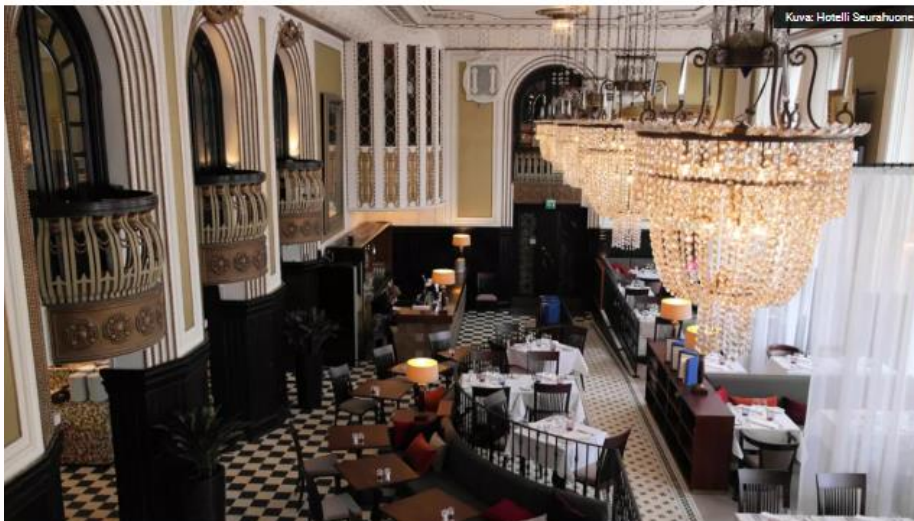
# Synergistic value example



## Helsingin yliopiston ylioppilaskunta osti Seurahuoneen talon – Ydinkeskustaan syntyy uusi iso hotelli

Kaivopihan kortteli palaa suurelta osin alkuperäiseen käyttötarkoitukseensa.

Helsingin yliopiston ylioppilaskunta 28.9.2018 klo 09:03 | päivitetty 28.9.2018 klo 15:37



Kuva: Hotelli Seurahuone

Seurahuoneen ravintolatilat uudistettiin, kun hotelli täytti sata vuotta.



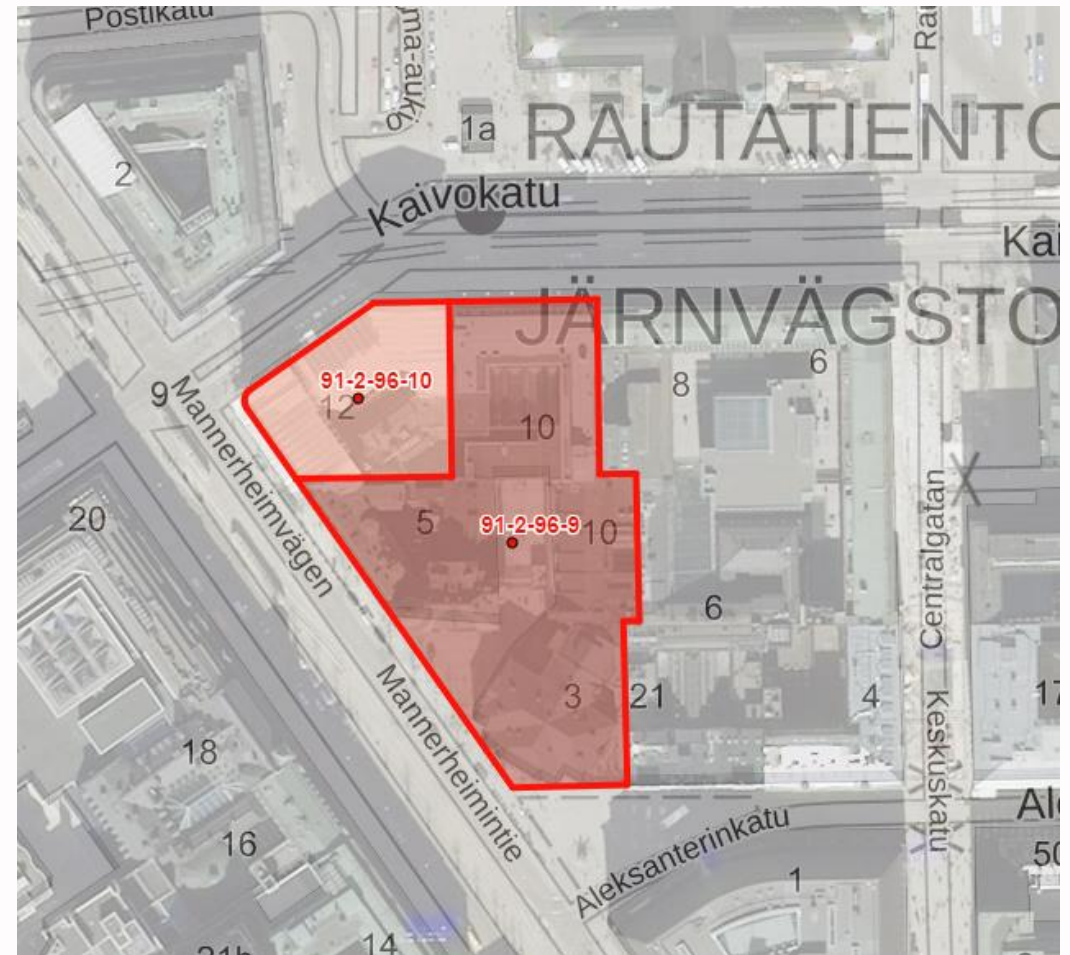
Saija Nironen



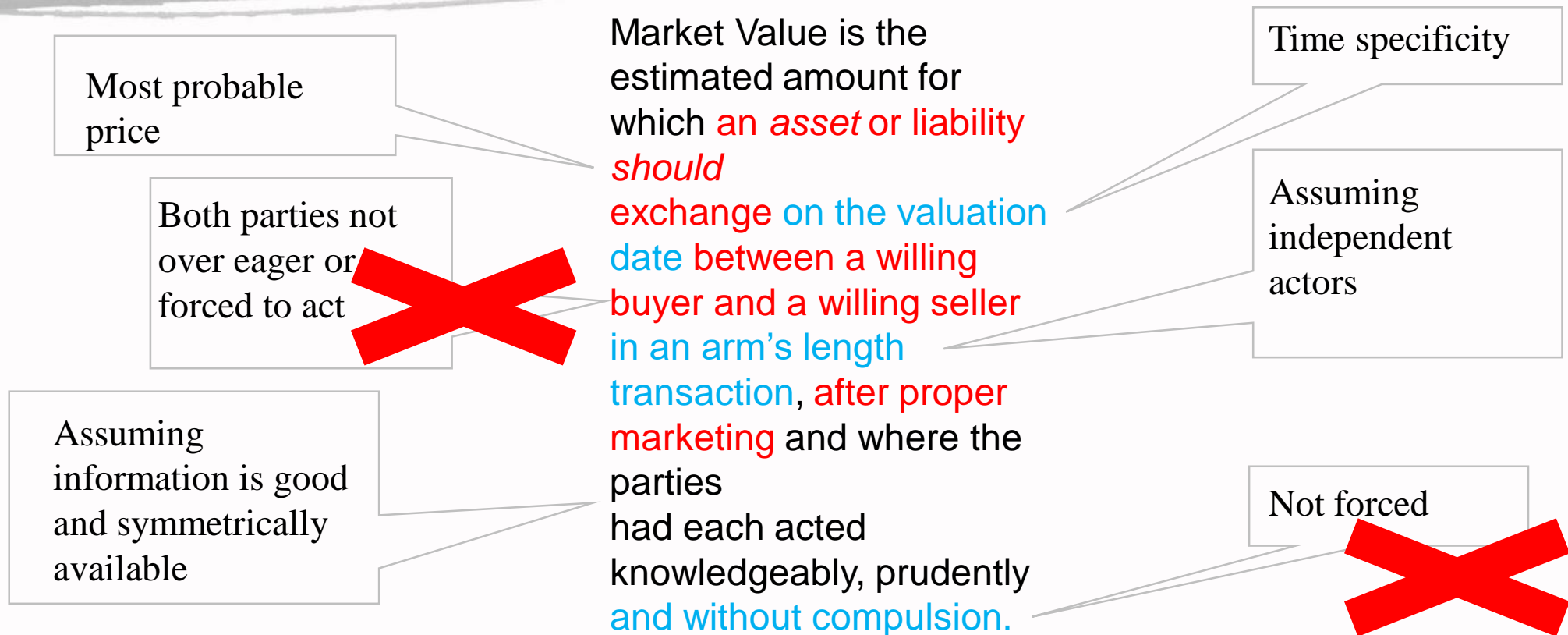
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Helsingin yliopiston ylioppilaskunnan omistama HYY Yhtymä on ostanut Helsingin ydinkeskustassa sijaitsevan Seurahuoneen talon Spondalta.

Kaivopihan kortteli palaa suurelta osin alkuperäiseen käyttötarkoitukseensa, sillä HYY Yhtymä aikoo laajentaa hotellitoiminnan myös Uuden ylioppilastalon puolelle.



# Liquidation value



- Sometimes the funding party wants to know the liquidation value in order to have an idea of how the numbers look in the bad scenario and this is used for determining collateral value.
- In general rarely asked by clients.
- More commonly used formal LTV-percentages to model liquidation value.
- IVS recognises liquidation in pieces



# Replacement value



- Cost to construct an entire building of equal quality and utility, using prices of the valuation moment.
- Does not assume similar materials and structures.
- Takes into account wear and tear
- Cost approach method is adopted
- Used often for valuations made for insurance purposes, otherwise normally not relevant basis for valuation

# Job opportunities at JLL



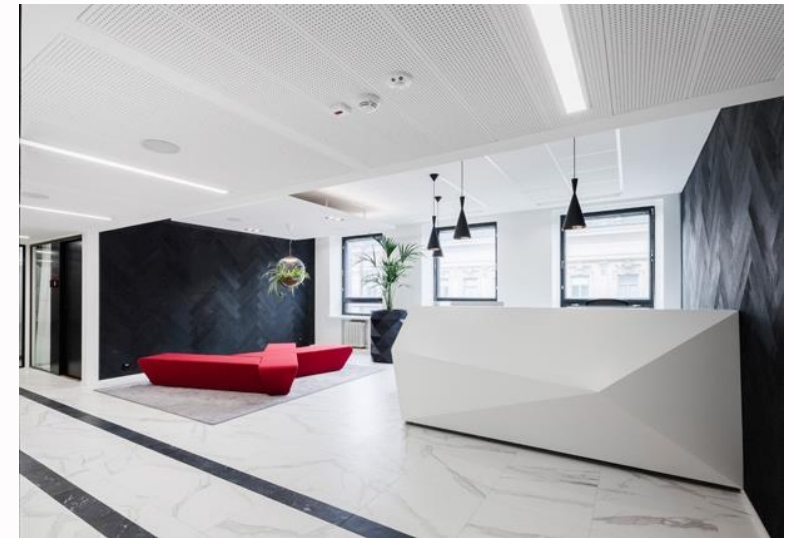
Currently we have no open positions, but have recruited almost 10 new employees during the past year. Real estate business has been enjoying the ongoing business cycle with also our firm expanding. We employ both students and graduates from applicable fields of study. Currently JLL employs 13 people from the The Guild of Surveying Engineers.

For open positions, please check:

<http://www.jll.fi/finland/fi-fi/ty%C3%B6paikat>

<https://www.linkedin.com/company/jll-finland/>

or google "JLL avoimet työpaikat" / "JLL open positions Finland"



- Comments from our part time junior analyst:
- + flexible hours (summer & school year)
  - + central office location
  - + possibility to grow into bigger challenges
  - + gain relevant experience and €€€