



Introduction

In the property world, valuation is known as an art rather than a science.

In this book I show examples of valuation calculations that are carried out on a daily basis. Valuation invariably requires skill, judgment and experience, but it is hoped that this book will provide students, practitioners and the consumers of valuations, with an insight and starting point into how this art is practised.

There is no prescriptive way in which to value any property; the approach is entirely down to the valuer, but this book will show some of the ways in which valuers approach their number crunching.

This book is a starting point – I have deliberately kept the examples relatively simple so that the principles and approaches can be easily understood. However, part of the valuer's skill is to 'stand back and look' at the overall answer rather than rely upon the output of a computer programme which tells them what the answer must be – perhaps this is why valuation is an art and not a science.

I begin by showing the more traditional approaches to valuation. I then move on to the valuation of leasehold interests and then show how valuers calculate synergistic value.

Next, I show the several ways in which to value over-rented property – valuers have been dusting off their notes from the last recession!

Valuation calculations: 101 worked examples

Traditional valuation tends to look at implicit yields and I have included some examples of discounted cashflows with explicit assumptions, which help to show the true internal rate of return calculations.

I then touch briefly on ground rents and profit rents (which could both be the subject of entirely separate books!), before jumping into development appraisals and land valuations.

Moving on to the fascinating world of trading valuations, I show different approaches to different property types, before finishing the book by showing some examples of depreciated replacement cost (including componentisation).

I do hope that this book helps to demystify valuation and provides you with some fresh ideas. I could have included an almost infinite number of examples, but I trust 101 is a good number to start with.

Ollie Saunders

Drivers Jonas Deloitte

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How to use this book

This book is written for those with an understanding of the theory and basic concepts of valuation. I have, therefore, assumed that the reader has a working knowledge of the concepts of discounting and compounding, and is familiar with years purchase (YP).

Each of the 101 worked examples carries a description of the property, along with the key facts relevant to the valuation. The approach to the valuation is then set out giving the valuer's decision and the reasons behind it. In some cases, an explanatory diagram is included.

Where YP is used, I have worked to three significant figures in all examples. Each valuation is rounded to the nearest sensible number – usually this is to the nearest £10,000 for valuations under £1m.

Figures in cashflows are rounded to the nearest £1 for presentation purposes. However, when they are totalled, the spreadsheet uses the complete number to the nearest 1p. The result is rounded to the nearest £1 again, which may result in small variations but does not affect the overall answer.

Purchaser's costs have been taken to be a consistent 1.8% above the relevant rate of Stamp Duty. The rates in effect at the date of publication are set out in the valuer's crib sheet.

All of the workings can be followed with a simple financial calculator or by using a spreadsheet.