Pricing in Africa

How to Value in Africa

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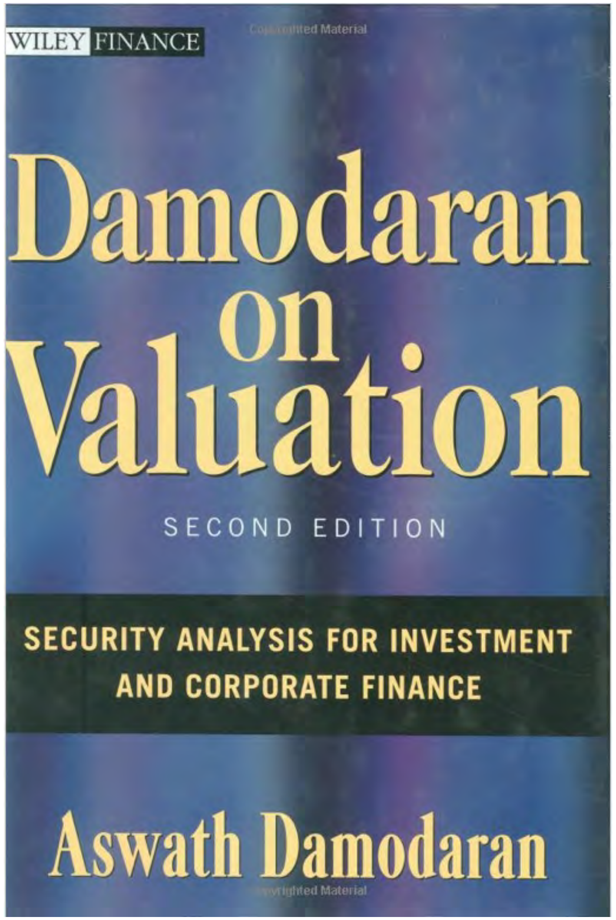
MY Background

- *Valued in UK, Germany, Turkey, across Russia and CIS, Ukraine, Kazakhstan, Georgia, Mongolia, Armenia*
- *Recently Director in London valuing with Specialist Retail National Team: SC & R Parks for likes of M&G, The Crown Estate and Battersea Power Station Consortium.*
- *Head of Valuation for DTZ Russia & Director in Vals at Cushman in Russia*
- *Licensed MLV valuer by German Pfandbriefbanks (Covered Bonds)*

Emerging Markets: Variations on a Theme

- *Highly volatile markets;*
- *Lack of transparency;*
- *Little transactional evidence;*
- *Economic/Real Estate performance highly correlated to commodity cycles;*
- *Political risk hugely affects FDI and Property Market Sentiment;*
- *Irrational purchasers;*
- *Theoretical approach to valuation by many valuers where few comparables.*



Pricing & Valuation

- *Disjunction between two;*
- *Driven by assumptions about future;*
- *Not Marking to Market;*
- *Not reflecting buyers in the market and what they will actually pay;*
- *Responsibility of valuers to reflect market as it is – not how it ought to be.*

On Cap Rates

- *Valuers do not believe this is an Initial Yield*
- *Capital Markets and Investment Agents believe it is*
- *Some sort of All Risks Yield which theoretical purchaser would pay for asset if Current Rent = Market Rent*
- *May be an Equivalent Yield*
- *Only evidence is Initial Yield evidence*

Valuation Summary

Adopted Value	**$93,000,000**
Rate/sqm of NLA	$5,297/sqm
Equivalent Yield	7.97%
Initial Yield (Passing)	6.93%
Initial Yield (Fully Leased)	9.70%
IRR (10 yr)	9.48%

Yield Types

All Risks Yield

Yield prevalent on prime rack rented properties just let on new lease at market terms

Implicit / Explicit

Yield which does / does not reflect rental growth

Initial Yield

Relationship between current contracted net rent and gross capital value (i.e. including acquisition costs)

Reversionary Yield

Relationship between Market Rent and gross capital value

Equivalent Yield

Time-weighted average yield to be expected from the current income and future changes to this income.

Running Yield

Yield of investment at any point in time. Yield changes with events e.g. break, rent reviews etc

Equated Yield

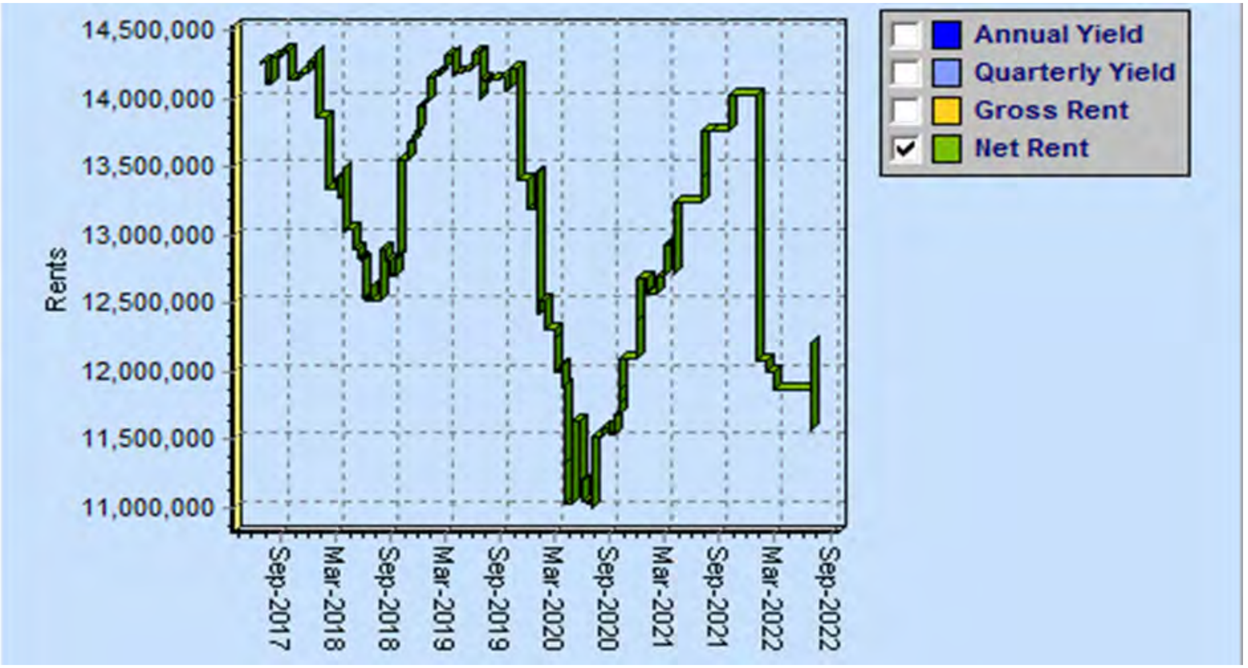
DCF - Growth explicit. IRR. Rate applied to the projected income so that all the income flows discounted at this rate equals the capital outlay. Gilt + risk premium.

Exit Yield

DCF - Yield applied to the income at the point of exit

(DCFs) and the Financial Crisis

- *Use of DCFs severely criticized by landlords across Europe, Asia, Americas, Middle East during crisis.*
- *Forecasting tool abused too often – the longer the DCF the worse the abuse.*
- *Dangerous in Emerging and Volatile Markets or those subject to Economic Uncertainty.*
- *Use Direct Cap with Running and Return Yield profiles with no growth or exit assumptions.*
- *At best use alongside Direct Cap. If/then type calculations of worth*



DCFs: Problems

- *The time horizon period should reflect the anticipated investment holding period (usually 5,10 or 15 years)*
- *Forecasts should either be based on current data or market sentiment (demonstrable)*
- *Growth rates and discount rates often don't align with reality*
- *Exit yields should be based on current expectations/yields but think about: dilapidations, demolition, obsolescence, competition, repairs (sinking fund)*

Calculating the Discount Rate

Is a 3rd Party/ Market Minimum/Target Hurdle Rate of Return:

- *Weighted Average Cost of Capital (WACC) – return required to meet debt repayments and to meet return expectations of equity stakeholders in the business. Is an equation. Company specific – more use in an Investment Value Calculation*
- *Cumulative Method: composed by using the Capital Asset Pricing Model (CAPM): add risk premiums to the risk free rate (gross redemption yield on government bond) for systemic risk (market risk) and specific risk (relating to each asset/project)*
- *The Market: from knowledge of returns required by real investors/developers*

Final Thoughts

- *Market Pricing and Valuations must converge;*
- *Valuation is about understanding buyers;*
- *Modelling must be responsible - less forecasting;*
- *Valuers must talk to agents/brokers;*
- *Valuers are investigators and reporters, not fortune tellers or econometricians.*