

FIABCI Young Members Conference

REITs, Mortgage Insurance and Mortgage Backed Securities (MBS)

REAL ESTATE RATING AND VALUATION



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Agenda

- Real Estate Rating
- Real Estate Valuation



Agenda

- Real Estate Rating:
 - Definition;
 - Role and Functions;
 - Operating Procedure;
 - Rating scale;
 - Real estate properties' groups;
 - Criteria Classes;
 - Weights and measures;
 - Data and examples.
- Real Estate Valuation



Property and Market Rating

=

standardised procedure aiming to display the sustainable quality of a property in its relevant market

Project Rating

=

standardised procedure aiming to display the quality of a project in its relevant market taking into account the sustainable quality of a fictitiously completed property and the development risks and chances



Property and Market Rating



the quality of a property is judged by the medium-term sales prospects at a then adequate price between professionals who have access to all property and market information

Project Rating



the quality of a project is judged by the sales prospects of the project on the rating date at an adequate price between professionals who have access to all property and market information



Real Estate Rating: role and functions

Support:

- loan analysis in granting property loans;
- risk analysis of portfolios in connection with securitisation;
- Internal Ratings Advanced Approach according to Basel II;
- property analysis in connection with investment and disinvestment decisions;
- analysis and controlling of property portfolios.



Real Estate Rating: operating procedure

- Value each item of the different criteria classes (slides 10 - 11) on the basis of the rating scale (slide 8)
- Average, in accordance with the different weights and measures assigned to single items and criteria classes (slide 12 -16)



Real Estate Rating: rating scale

The real estate rating uses a scale following the pattern used by rating agencies and typical internal bank scales

Aaa to AA3	A1 to A3	Baa1 to Baa2	Baa3 to Ba1	Ba2 to Ba3	B1	B2	B3 to Caa			Moody's
AAA to AA-	A+ to A-	BBB+ to BBB	BBB- to BB+	BB to BB-	B+	B	B- to C			S & P's

excellent	very good	good	above average	average	below average	poor / special mentioned	very poor / substandard	doubtful	loss	Internal bank rating
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1	2	3	4	5	6	7	8	9	10	PaM
excellent	very good	good	slightly above average	average	slightly below average	mediocre	poor	very poor	disastrous	

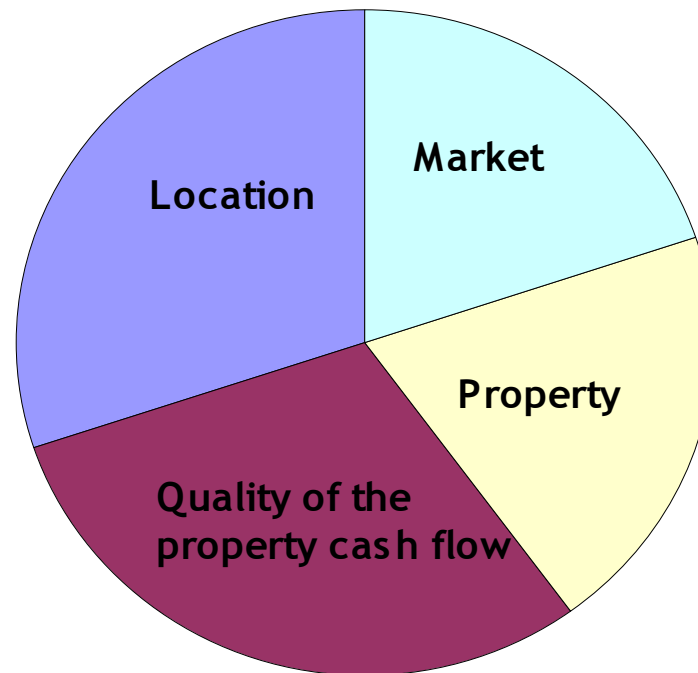


Real Estate Rating: real estate properties' groups

- Residential properties;
- Retail properties (stores);
- Warehouses and logistic and production properties;
- Offices;
- Others.



Property and Market Rating: criteria classes

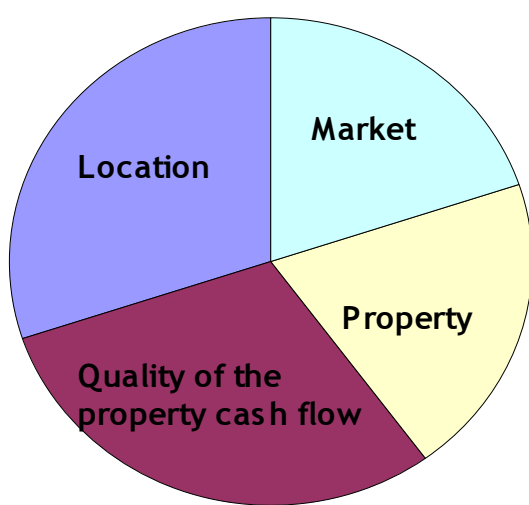


Each class of criteria consists of several sub-criteria:

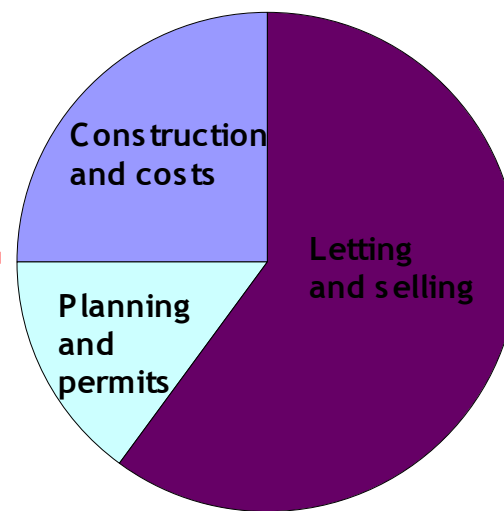
- Measurable sub-criteria (i.e. purchasing power figures, space efficiency);
- Subjective sub-criteria (i.e. political stability, location features).



Project Rating: criteria classes



Rating for a fictitious, completed property



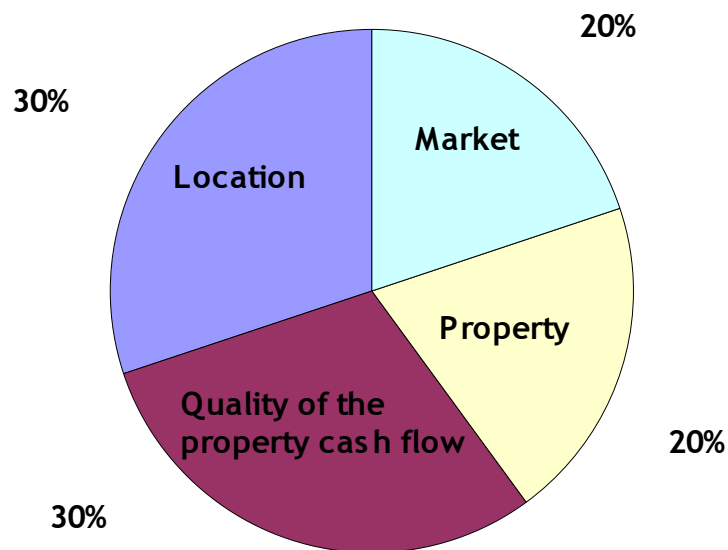
Rating of development risks and chances



Rating result for the project



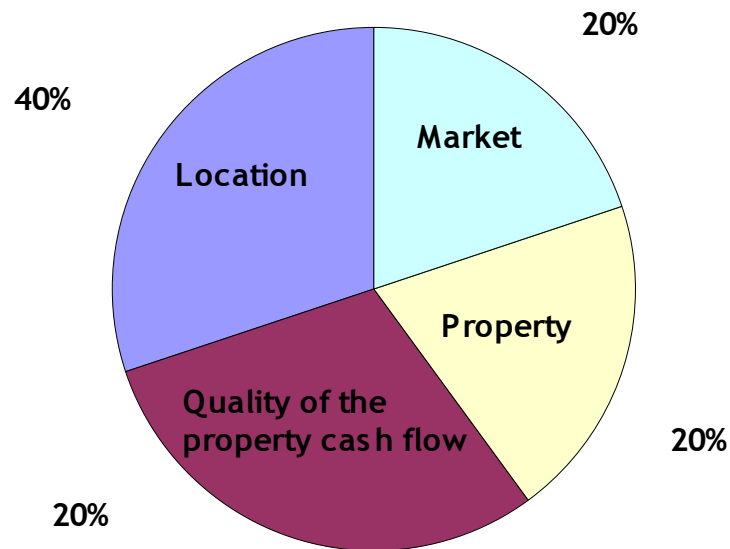
Property and market rating: weights and measures



The %-figures represent the weight of each criteria class for residential and retail properties and offices



Property and market rating: weights and measures

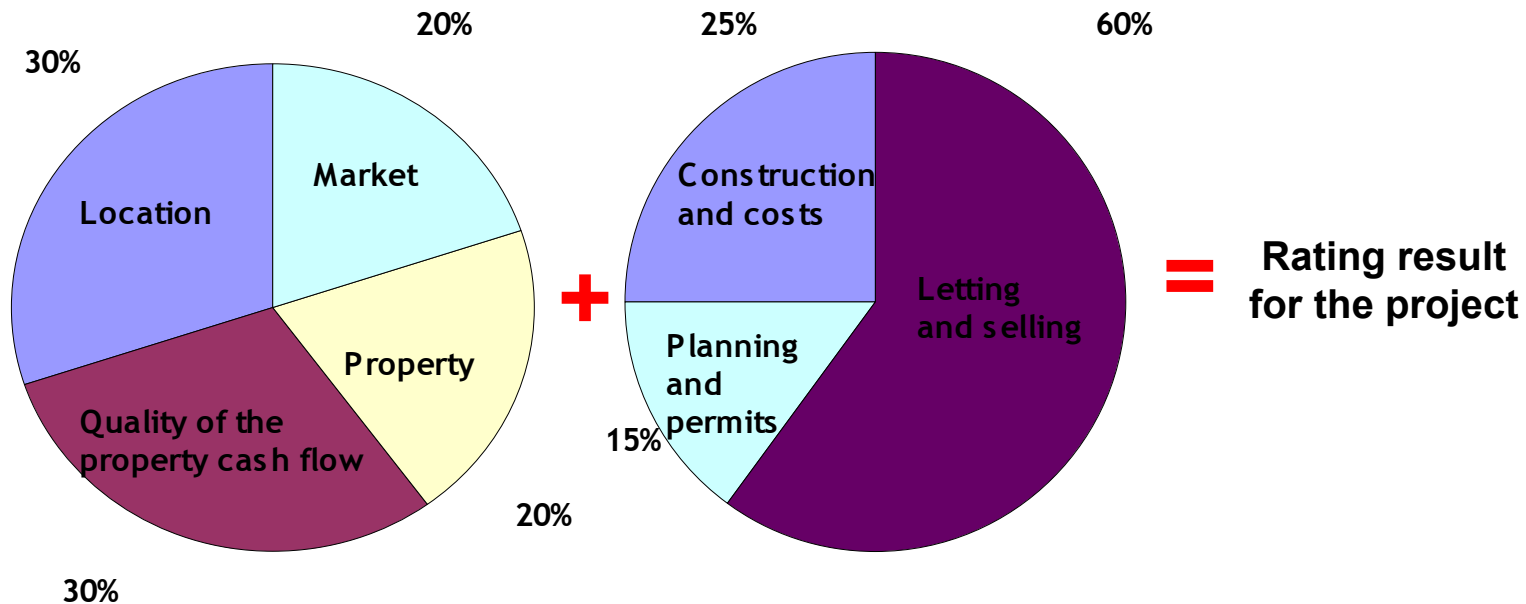


The %-figures represent the weight of each criteria class for warehouses and distribution and production properties



Project Rating: weights and measures

The %-figures represent the weight of each criteria class for residential and retail properties and offices

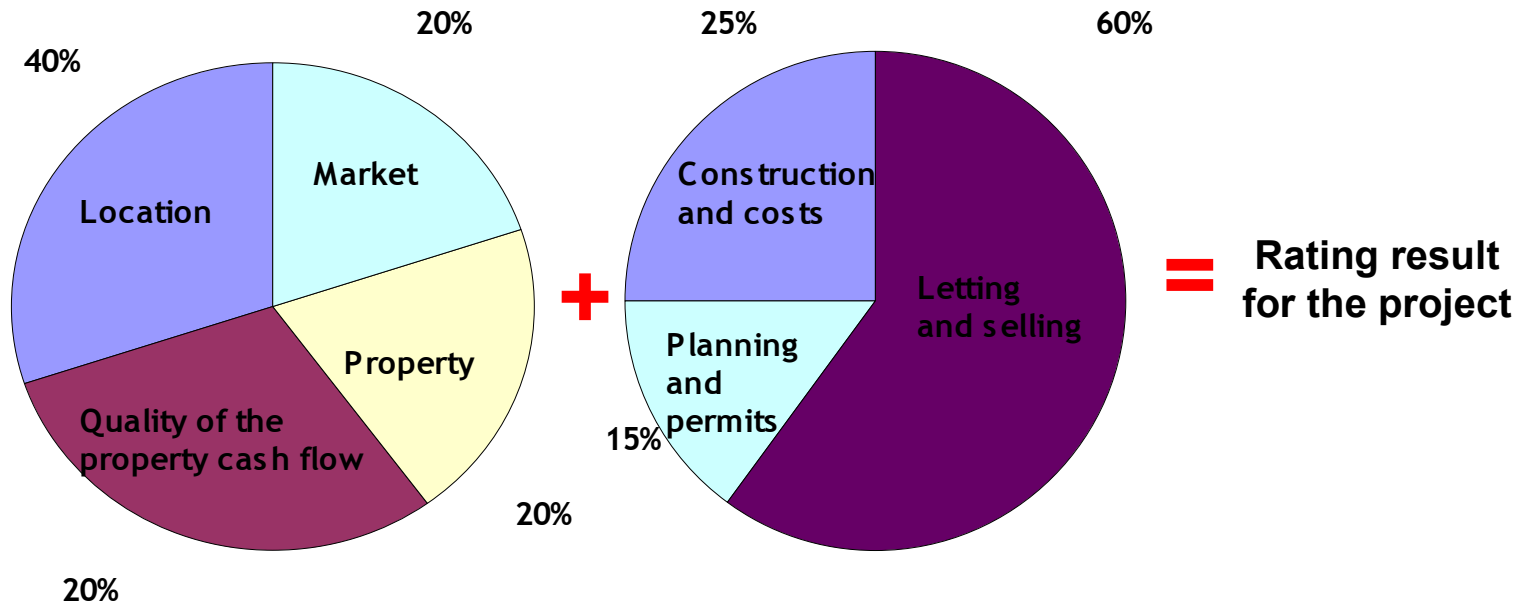


The weighted development risks and chances together with the rating for the fictitious completed property result in the rating for the entire project



Property And Market Rating

The %-figures represent the weight of each criteria class for warehouses and distribution and production properties



The weighted development risks and chances together with the rating for the fictitious completed property result in the rating for the entire project



Project Rating

Rating of completed property
Rating of the completed property

10	10	10	10	10	10	10	10	10	10	10	10
9	9	9	9	9	10	10	10	10	10	10	10
8	8	8	8	8	9	9	10	10	10	10	10
7	7	7	7	7	8	8	8	9	10	10	10
6	5	5	5	6	6	7	7	8	9	10	10
5	4	4	4	5	5	6	7	8	9	10	10
4	3	3	3	4	4	5	6	7	9	10	10
3	3	3	3	3	4	5	6	7	8	10	10
2	2	2	2	3	3	4	5	6	8	10	10
1	1	1	2	2	3	4	5	6	8	10	10
	1	2	3	4	5	6	7	8	9	10	10

Rating of
Rating of development
risks and chances
Risks and
Opportunities



Criteria Class "Market" (national and regional) - Retail

	Sub-criteria	Weighting		
		Sub-criterion	national/ regional	Criteria class
1.1 national	1.1.1 Acts of God - Natural disasters (earthquakes, floods, volcanic eruptions, climatic changes, risk of forest fires, hurricanes, tornadoes) - Technical disasters - Emissions	20 %	40 %	Criteria class 1
	1.1.2 Socio-demographic development - Population - Population development - GDP per inhabitant (purchase power) - Unemployment	10 %		
	1.1.3 Overall economic development and international attractiveness - Economic growth - Price development - Exchange rate - Structure of economic sectors - Attractiveness of the infrastructure - Attractiveness for companies wishing to settle	25 %		
	1.1.4 Political, legal, taxation and monetary conditions - Political stability - Tax law / tax system - Ownership law / tenant law / transfer costs - Obligation to bear site contamination risks - Currency convertibility	15 %		
	1.1.5 General property market assessment - Price / rent level - Price / rent development, market phase - New construction activity - Vacancy rate - Transactions - Failed investment transactions (forced sale)	30 %		
1.2 regional	1.2.1 Acts of God - Natural disasters (earthquakes, floods, volcanic eruptions, climatic changes, risk of forest fires, hurricanes, tornadoes) - Technical disasters - Emissions	20 %	60 %	20 %
	1.2.2 Socio-demographic development - Population - Population development - Purchase power - Unemployment	25 %		
	1.2.3 Economic situation and attractiveness - Concentration of economic sectors - Attractiveness of the infrastructure - Attractiveness for companies wishing to settle	10 %		
	1.2.4 Property market assessment - Price / rent level - Price / rent development, market phase - New construction activity - Vacancy rate - Transactions (market liquidity) - Failed investment transactions (forced sale)	45 %		
	Result for the market rating			



Criteria Class "Location" - Retail

Sub-criteria	Weighting	
	Sub-criterion	Criteria class
2.1 Suitability of the micro location for the property type and target occupiers <ul style="list-style-type: none"> - Do the surrounding buildings correspond to the expectations / requirements by the target occupiers concerning the property? - How do the surrounding buildings influence the attractiveness of the property? - Does the property fit in harmoniously with the surrounding buildings (typical representative of the quarter)? 	30 %	Criteria class 2 30 %
2.2 Image of the quarter and the location <ul style="list-style-type: none"> - Does the image of the quarter correspond to the expectations / requirements by the target occupiers? - Have any companies or individuals with relevance to the target occupiers settled there? - What is the general market opinion concerning the image assessment for the quarter? 	20 %	
2.3 Quality of transportation infrastructure of the plot and quarter Quality of the transportation infrastructure of the location relevant to the occupiers: <ul style="list-style-type: none"> - Public transport facilities - Accessibility by car - Railway - Aircraft - Ship 	15 %	
2.4 Quality of local supply facilities of the plot and quarter for target occupiers Local supply facilities relevant to the occupiers concerning: <ul style="list-style-type: none"> - Retail facilities for basic necessities - Suppliers - Catering trade and cultural facilities - Social facilities (schools, kindergartens, etc.) - Services (banks, doctors, post office, etc.) - Recreation facilities - Local authorities etc. 	15 %	
2.5 Acts of God <ul style="list-style-type: none"> - Safety of the location and the immediate vicinity (degree of risk) against <ul style="list-style-type: none"> > Natural disasters (floods, coal mining subsidence, avalanches, landslides, forest fires, flashes of lightning, storm) > Ecological contamination (pollution of soil and ground water) > Risk potential regarding technical disasters (production sites, warehouses, energy suppliers) - Inexistence of emission impairment caused by <ul style="list-style-type: none"> > Noise (aircraft, road traffic, railway, industry) > Dust (production sites, road traffic, nature) > Odour (agriculture, disposal sites, road traffic) > Other emissions (radiation, gas, etc.) - Safety of the location against general acts of violence (e.g. criminal environment) and terrorist activities (property in direct vicinity to religious or political facilities or other points of interest) 	20 %	
Result for the location rating	100 %	



Criteria Class "Property" - Retail

Sub-criteria	Weighting	
	Sub-criterion	Criteria class
3.1 Architecture / type of construction <ul style="list-style-type: none"> - Is the property design acceptable under sustainable aspects? - Do property structure and design correspond to occupier requirements and urban environment? - Does the construction type correspond to occupier requirements and sub-market conditions? - Do the building materials correspond to occupier requirements and sub-market conditions? 	20 %	Criteria class 3 20 %
3.2 Fitout Are <ul style="list-style-type: none"> - structural fitout and - technical fitout appropriate for the use type, location, and market?	10 %	
3.3 Structural condition Assessment of <ul style="list-style-type: none"> - condition of the built structure, relating to the macro market - fitout condition, relating to the macro market - fitout condition, relating to the location - condition of the outside facilities, relating to the location 	15 %	
3.4 Plot situation <ul style="list-style-type: none"> - Quality of the plot in terms of usability (fitout, accessibility, shape) - Adequacy of number of car parks on, at or near the plot 	25 %	
3.5 Ecological sustainability Assessment of <ul style="list-style-type: none"> - ecological sustainability in construction / disposal of the property - inexistence of harmful substances within the property caused by use type - inexistence of emissions within the property (noise, odour) 	10 %	
3.6 Profitability of the building concept Assessment of <ul style="list-style-type: none"> - the quality of the ground plan structure - space efficiency compared with nationally typical representatives of the property type in the market <ul style="list-style-type: none"> - Adaptability of the building concept to changes in occupier behaviour 	20 %	
Result for the property rating	100 %	

Criteria Class "Quality of the Property Cash Flow" - Retail



Sub-criteria	Weighting	
	Sub-criterion	Criteria class
4.1 Tenant / occupier situation Assessment of <ul style="list-style-type: none"> - the quality of the tenant / occupier structure (tenant / occupier mix, number of tenants / occupiers) - the structure of lease agreements (terms, rent indexations) - legal ownership safety compared with typical representatives of the property type in the market	20 %	Criteria class 4 30 %
4.2 Rental growth potential / value growth potential <ul style="list-style-type: none"> - Does the relation between actually paid rent and average market rent indicate a realistic growth potential? - Can a growth in value be expected for the property in the medium term? 	30 %	
4.3 Letting prospects / selling prospects <ul style="list-style-type: none"> - Does the useable space sufficiently correspond to the occupiers' requirements in order to guarantee medium-term letting or sale? - How do competing properties influence the medium-term letting and selling prospects? 	20 %	
4.4 Vacancy <ul style="list-style-type: none"> - How does the present vacancy situation influence the medium-term cash flow development? 	10 %	
4.5 Recoverable and non-recoverable operating expenses Relation of <ul style="list-style-type: none"> - non-recoverable operating expenses (landlord expenses) - recoverable operating and maintenance expenses (tenant expenses) or <ul style="list-style-type: none"> - running expenses (occupier expenses) compared with typical representatives of the property type in the market	10 %	
4.6 Usability by third parties <ul style="list-style-type: none"> - Can the property be used in an alternative way? - Is the size of the market sufficient to maintain the use type? 	10 %	
Result for the rating of the quality of the property cash flow	100 %	



Agenda

- Real Estate Rating
- Real Estate Valuation:
 - Definition, functions and role;
 - Market value;
 - Methods of valuation:
 - The cost approach;
 - The market approach;
 - The income approach;
 - Fair value



Real Estate Valuation: definition, functions and role

Real estate appraisal is the practice of developing, in a fixed date, an opinion of the value of a real estate property according to its use, technical and structural features, quality and expected profitability and to the characteristics of its market and location.



Real Estate Valuation: definition, functions and role

Real Estate valuations must be:

- Independent;
- Professional;
- Truthful, clear and accurate;
- Transparent;
- Comparable.



Real estate valuation: the market value

Market value is the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's - length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The market value is different from the price of a real estate property.



There are three main approaches to value:

- The cost approach;
- The market approach;
- The income approach.



Real estate Valuation: the cost approach

The cost approach is based on an estimate of the current gross replacement cost off all the buildings, plants and other site – works, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation plus the current market value of the land for its existing use.



Real estate Valuation: the market approach

The market or sales comparison approach examines the prices for sales or lettings of similar properties and adjusts them in accordance with the differences in the comparables with the object of valuation.



Real estate Valuation: the Income approach

The income approach is based on a property's capacity to generate benefits and to their conversion into a present value.

There are two main methods to calculate the income approach:

- Direct capitalisation based on the capitalisation, on the basis of a market rate, of the expected net income of the property;
- Discount cash flow based on the sum of the present value of the net operating incomes over the calculation period with the present value of the residual value at the end of the calculation period.



Fair value is an accounting concept encapsulated in International Accounting Standard 16 and referring to the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's – length transaction

Thanks for your attention



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