

The six entry yields, and the one that compares

Chapters 1 and 7. An exit yield is a stabilised income over a gross value. Build all six entry yields from the paper, then set only the sixth against the exit.

Asset		Prepared by	
Paper / fund		Date	

Yield	Income above the line	Capital below the line	Value, %	Comparable with an exit yield?
1. Passing rent over price				
2. Passing rent over total cost				
3. Net of costs, over total cost				
4. Net of costs, over all-in capital				
5. Rental value over price (reversionary)				
6. Stabilised net income over all-in capital				

The comparison	Value
Stabilised net income: whole estate let at TODAY's rental value, net of non-recoverables and management	
All-in capital: price + acquisition costs + business-plan capital	
Like-for-like entry yield (6)	
Exit yield in the paper	
Movement the paper relies on, points (entry less exit: positive = compression)	
Movement a reader would infer from yield 1, and from yield 5	
Which of the six does the paper print on its front page?	

If the stabilised entry yield is below the exit yield, the deal must overcome a yield movement and should say so. If it is above, the deal is helped by one: state how much of the return that help is worth.

Bracken Wharf: 5.9693, 5.5892, 5.4551, 4.8681, 8.6515 and 7.0555 per cent, against an exit at 6.65. The comparable movement is 0.4055 points in the investor's favour; the headline gives 0.6807 against, the reversionary 2.0015 for. No entry yield is ever an input: it is derived.

Reading the rent roll

Chapter 2. Divide rent by area before reading anything else: it surfaces the valuer's opinions, the only lines that are not facts. Then write the expiries out as a calendar, not an average.

Asset		Prepared by	
Paper / fund		Date	

Unit / tenant	m2	Passing rent	Per m2	Rental value	Per m2	Reversion, %	Share of passing, %	Expires end of year	Rent falls in year

Vital sign	Value	Reading
Reversion, whole estate (rental value over passing)		
... of which in empty units (immediate, needs capital, void and fees)		
... of which on let units (contractual, only at expiry)		
Largest single exposure: share of passing rent, and its expiry year		
WAULT, weighted by passing rent (and what it averages away)		
Share of rental value passing through a re-letting during the hold		
Years inside the hold with NO re-letting (the letting fee line shows them)		
Leases expiring just OUTSIDE the hold, and whether the exit year is one they protect		

Bracken Wharf: every let unit valued at 160 per m2 except empty unit 12 at 168, the largest single piece of the reversion and untested by any lease. Reversion 44.9331 per cent, of which 67.6741 per cent in the two empty units; the let units carry 14.5250. WAULT 6.2403 years across seven expiries in eight years. Years with no re-letting: two and seven inside the hold, eleven just after it.

The cheque at completion, and year one in full

Chapter 3. Every line is knowable on the day of signing. State year one after capital expenditure as well as before it, and the cash out before the first distribution.

Asset		Prepared by	
Paper / fund		Date	

At completion	Amount	Note
Price		
Acquisition costs (% of price)		
Total cost: the base of the asset management fee?		
Debt: % of PRICE or of COST? (write both)		
Arrangement fee (falls on the equity)		
Equity at completion		

Year one	Amount	Note
Rent collected (partial rent on units let during the year)		
Non-recoverable costs		
Management		
Letting fees (full year's fee in the year of letting)		
Net operating income before capital: describes the PROPERTY		
Capital programme, year one		
Net income after capital: describes the INVESTMENT		
Asset management fee (charged on capital, not in the income account)		
Interest		
Year-one call on the investor		

Year	0	1	2	3	4	5	6	7	8	9	10
Equity flow											
Cumulative											

Summary	Value
Total cash out before the first distribution	
... against the equity the term sheet describes (difference, %)	
Low point of the cumulative line, and its year	
Distributions before the sale as a share of the equity	

Bracken Wharf: equity 13,834,920 at completion and a further 1,108,947 twelve months later, 14,943,867 out before a single distribution. Year one: 1,584,137 before capital, minus 265,863 after it. Eight years of distributions return 56.7572 per cent of the equity; everything else arrives in the sale.

The re-letting calendar, costed in cash

Chapters 4 and 16. A void stated in months is a convention. The same void written per lease, in cash, is a decision somebody has to defend.

Asset		Prepared by	
Paper / fund		Date	

Lease	Expires end of year	Re-let rent (greater of passing and indexed rental value)	Void: months x rent / 12	Letting fee	Holding costs in the void (rates, service charge, insurance, security)	Cost of the re-letting	Inside the hold?

Totals	Value
Rent never billed, all re-lettings inside the hold	
Letting fees inside the hold	
Holding costs in voids (the model may have no line for them)	
The calendar, total	
Rent collected over the hold	
The calendar as a share of the rent collected	
Capital programme plus the calendar, as a share of the price	
Years in which the rent line falls: do the holding costs land in the same years?	

Bracken Wharf: nine re-lettings cost 1,788,485 of rent never billed and 357,697 of fees, 2,146,182 in all, 10.3393 per cent of the 20,757,576 collected; Ardgour alone 530,049. The book's model has no holding costs in the void, and says so: case two of the companion files prices them.

The exit assumption, interrogated

Chapter 5 and Chapter 16, section 3. The exit yield and the income it is applied to are one assumption, not two.

Asset		Prepared by	
Paper / fund		Date	

Question	Answer
Exit yield, and what it was calibrated against (transactions of ordinary calendars, or a valuer's view of THIS rent roll?)	
Which year's income is capitalised (normally the year after the hold)	
What happens in that year: a re-letting, a partial rent, a fee, capital expenditure, or nothing?	
Net operating income of that year: rent less non-recoverables and management, BEFORE any one-off letting fee	
Net operating income of the final year of the hold, on the same basis	
Gross value and net proceeds on each; difference	
The same difference as an exit-yield movement, points	
What the buyer inherits in the twelve months after completion (expiry, break, review, capital obligation), priced	
Buyer's own acquisition costs, and the yield on the money that leaves the buyer's account	
Is the base-year difference larger than the promote? Than the capital programme?	

One sentence for the paper: the exit is computed on the income of year ____, which contains ____; priced on the final year of the hold it would be ____ lower.

Bracken Wharf (corrected): year eleven's 2,453,319 at 6.65 per cent against year ten's 2,218,656, which carries the Tannoch re-letting: 3,484,658 of net proceeds, 1.99 times the promote. The first edition capitalised year ten after its 48,087 letting fee and printed 4,198,723; a one-off fee is never capitalised. The buyer inherits Corrou's expiry: 111,424 of rent and fee in year twelve.

Four returns, and what stands between each and your account

Chapter 6. Ask which one you have been given before reading anything else in the paper.

Asset		Prepared by	
Paper / fund		Date	

Measure	Figure	Measured on	Before / after the asset fee	Before / after the promote	Between it and your bank account
Property return					
Equity return					
Equity multiple, on completion equity					
Equity multiple, on all cash called					
Investor return					

The number underneath	Value
Equity return with every driver off: no growth, no plan, no yield movement, no debt	
Points there are to explain (headline less the line above)	
Preferred return (hurdle)	
Investor return less the hurdle	
Investor cash received less capital called less preferred return accrued: the profit above the hurdle	
Manager: asset fees plus promote	

The test that fits in one question: what is between this number and my bank account? Only the investor return has the answer "nothing".

Bracken Wharf: 6.8205, 8.6647, 2.1671 (2.0805 on all cash called) and 8.0000 per cent. Do-nothing estate 3.4661; 5.1986 points to explain. Investor profit above the hurdle: nil. Manager: 2,114,640 of fees and 1,748,716 of promote.

Attribution: all the orders, and the average

Chapters 8 to 10. Switch the drivers on one at a time and record each step. With four drivers there are twenty-four orders and sixteen distinct runs of the model.

Asset		Prepared by	
Paper / fund		Date	

Order	Growth	Plan	Yield	Leverage	Row total
G P Y L					
G P L Y					
G Y P L					
G Y L P					
G L P Y					
G L Y P					
P G Y L					
P G L Y					
P Y G L					
P Y L G					
P L G Y					
P L Y G					
Y G P L					
Y G L P					
Y P G L					
Y P L G					
Y L G P					
Y L P G					
L G P Y					
L G Y P					
L P G Y					
L P Y G					
L Y G P					
L Y P G					
Minimum					
Maximum					
Average of 24					
Share of the total, %					

G growth, P plan, Y exit-yield movement, L leverage. Every row totals the same points; only the average is order-independent (each driver sits in each position six times: weight one quarter when first or last, one twelfth for each middle case). Bracken Wharf: plan 2.5923, growth 1.4816, yield 0.6711, leverage 0.4535, total 5.1986; leverage runs from -1.1977 to +1.8441.

The capital structure, priced for the promote it produces

Chapter 11 and Chapter 16, section 4. Every model that produced one gearing can produce the ladder in an afternoon.

Asset		Prepared by	
Paper / fund		Date	

Loan to value, on price	Equity at completion	Equity return	Multiple	Equity profit (pounds)	Promote	Promote over profit	Interest cover, a clean year	Equity flow, year one

Question	Answer
Is the return monotone in the gearing? Is the promote?	
Gearing at which the promote peaks, and why (a share of pounds, not a percentage)	
Promote at the chosen gearing and at one level either side	
Who recommended the gearing, and are they paid on the promote?	
Year one at the chosen gearing: is the first interest paid from rent or from subscribed equity?	
Is every call of capital credited to the capital account at every gearing?	

Bracken Wharf: promote nil at 0, 20 and 35 per cent, 415,486 at 45, 1,748,716 at 55, 2,993,873 at 65, 2,876,129 at 70, while the equity return rises all the way to 9.8268. Crediting only the closing subscription would pay 839,915 at 35 per cent, on a deal below its hurdle.

The hold period, read against the lease calendar

Chapter 12 and Chapter 16, section 5. A hold of n years is priced on year $n + 1$. The table is a reading of the expiry profile, not a market view.

Asset		Prepared by	
Paper / fund		Date	

Hold, years	Priced on year	Lease expiring at the end of the hold	Net operating income of that year	Letting fee in that year (not capitalised)	Equity return	Equity profit	Asset fees earned to date

Line-up	Answer
Fund wind-up window: earliest and latest permitted sale	
Expiries of large leases inside that window	
Cost of the mismatch: return at the forced date against the best adjacent date	
What an early renewal of the expiring lease would have to concede to close the gap	

Bracken Wharf: six years 7.5473, seven years 4.0160 (priced on year eight, Ardgour on three twelfths of its new rent), eight years 7.7415, ten years 8.6647. Holding from six to seven costs 4,714,128 of net proceeds (corrected: the first edition deducted the year-eight letting fee and printed 6,025,963).

The capital account, year by year

Chapter 13. Ask for the schedule, not the one-line description. Three sentences of a fund document move the promote from nothing to seven figures.

Asset		Prepared by	
Paper / fund		Date	

Year	0	1	2	3	4	5	6	7	8	9	10
Distribution / call											
Opening base (capital + arrears)											
Accrual at the pref rate											
Call credited to the account											
Preferred return paid											
Arrears carried forward											
Capital returned											
Cash above capital and pref											
Catch-up to the manager											
Split: manager / investor											

Question	Answer	Source / note
The terms that decide the number		
Does the preferred return run on drawn capital or on commitments?		
Does EVERY drawing enter the account from its date, including calls after completion?		
Do unpaid arrears compound?		
Catch-up: full, partial, or none; and its target (a fifth of ALL profit distributed?)		
Hurdle against the return the paper itself forecasts: within a point of it?		
The two results to print		
Promote under the terms as written, at the forecast return		
Promote under a hard hurdle with no catch-up: the difference is one pool fought over		
Investor profit above the preferred return, in cash		

Bracken Wharf: arrears of 4,953,947 at the end of year nine; the investor receives capital plus 14,398,091 of preferred return and nothing else. Full catch-up 1,748,716 to the manager; hard hurdle 349,743, the investor keeping 1,398,973.

The fee schedule, four terms priced

Chapters 14 and 15. The rates are rarely what produce the total. The base, the catch-up and the position of the hurdle do.

Asset		Prepared by	
Paper / fund		Date	

Term	As written	Priced on the paper's base case	Alternative, priced
Fee base (cost, value, called equity?) and its amount a year			
Catch-up (full or none)			
Hurdle, against the forecast return			
What the promote is measured on (total return, or the manager's own driver?)			

Test	Value
Promote at the exit yield in the paper	
Promote at two exit yields either side (which tier of the waterfall is the deal in?)	
Exit yield at which the promote is nil, against the like-for-like entry yield	
Promote at the like-for-like entry yield: if positive, the manager is paid for buying	
Manager's total take as a share of the profit before fees	
Share of the manager's take never at risk (fees paid whatever happens)	
Investor profit above the preferred return, base case	

Bracken Wharf: 211,464 a year on cost, 2,114,640 in all, 54.7358 per cent of the manager's take. Promote nil above 6.9853 per cent, 0.0702 points inside the 7.0555 entry. Between 6.65 and 6.50 every extra pound (840,712) goes to the manager; the catch-up is complete only at 6.3285. Manager 21.1558 per cent of the profit before fees.

The report a manager should publish

Chapter 17. Four sections and one prohibition. Each row: the forecast published at acquisition, the current forecast, and the movement.

Asset		Prepared by	
Paper / fund		Date	

Section 1: the return, attributed	Average of all orders	Lowest order	Highest order	Share, %
Business plan				
Rental growth				
Exit yield				
Leverage				
Base with all drivers off / arrival / points to explain				

Section 2: the exit yield	Value
Stabilised entry yield, same basis as the exit	
Exit yield in the forecast; movement forecast, points	
Exit yield at which the promote is nil / equity return falls to the hurdle	
Band: promote and investor return at three yields either side	

Section 3: fees against what the investor keeps	To date	At exit
Asset management fee received		
Promote received		
Capital called / distributions / of which preferred return		
Preferred return in arrears		
INVESTOR PROFIT ABOVE THE PREFERRED RETURN (print it even when nil)		

Section 4: the hold test	Priced on year	Re-letting in that year	Net operating income	Equity return
Planned exit less two				
Planned exit less one				
Planned exit				
Planned exit plus one				

The prohibition: no attribution ladder may be published alone. Publish the average of all orders with the range beside it.

Ask for the four sections in the side letter, before signing, next to the valuation policy. The numbers already exist in the model that priced the deal.

Re-underwriting a deal from its own numbers

Chapter 18. The paper lands on Tuesday; the committee sits on Thursday. Seven questions, all answerable from figures the paper already contains.

Asset		Prepared by	
Paper / fund		Date	

Question	Answer on this paper	Where it comes from	Bracken Wharf
1. Exit yield, and the like-for-like entry yield: movement relied on			
2. Income in the year after the hold against the final year (both before one-off fees)			
3. The attribution in a second order, and the average of all orders			
4. The fee base, as a share of capital called and of all-in capital			
5. The promote at the actual exit yield, and at the entry yield			
6. Equity return and promote at plus 100 basis points on exit			
7. Share of the return the manager controls (plan and gearing)			

Committee minute: returns ___ on a forecast of ___ points of yield movement, priced on year ___, pays the manager ___ whatever happens and ___ more if the movement arrives, and leaves the investor with ___ above the preferred return.

Bracken Wharf answers: 0.4055 points; 234,663 of NOI (3,484,658 of net proceeds); plan 3.6925 against 1.7645; 14.1506 and 6.6929 per cent; 1,748,716 and nil; 6.7520 per cent and nil (a model run: the book interpolates 6.7534); 58.5889 per cent.