Property Investment Strategy
Estates

Coxbridge Enterprise Centre
Acquired March 2017

Owned by:	*Anne Cains*
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1. Introduction

1.1. Waverley Borough Council's (The Council) Medium-Term Financial Plan has identified a significant funding shortfall over the next three years 2018-2021, mainly due to reductions in Government grant funding. It is foreseeable that such funding will become negative in future. It is therefore necessary that the Council should take steps to protect its medium and long-term financial position by:

a) reviewing existing services, levels of service provided and their associated budgets; and
b) exploring and developing alternative sources of income.

1.2. Accordingly, in 2016, the Council decided that it should seek to add to its General Fund Property Portfolio ("GFPP") both to increase its income and, where possible, to support the local Borough economy by ensuring the availability of suitable office and other commercial space. Investment decisions are taken by the Council's Executive on advice provided by the Investment Advisory Board ("IAB") which comprises elected Members advised by relevant officers and external professional advisers. (see Appendix 1)

1.3. The Council has held and managed a range of commercial property for many years but the proposed expansion of the GFPP makes it appropriate to publish this document as the update of its formal Property Investment Strategy ("the Strategy") as originally approved by the Council in October 2016. This will set out the basis on which and the process by which the Council intends to:

a) make property investments;
b) provide on-going management of the properties acquired; and
c) report portfolio performance to officers and elected members.

1.4. All Council owned land and property in the GFPP is held as a corporate resource for a clearly defined purpose, whether to support and sustain services, provide revenue or to enhance the Council's strategic role including the development and support of the local economy. The GFPP is managed in accordance with the Strategic Asset Plan for General Fund Properties 2015 ("SAP"). This includes a list of GFPP assets held at that time.

1.5. The Council's intention is that new property acquisitions will usually be undertaken by the Council in its own name. However, in July 2017 the Council agreed to establish a Property Investment Company ("PIC") as a wholly-owned subsidiary of the Council to provide an alternative vehicle for property investments for use in certain circumstances. The business case for this Company will be examined by the Value for Money O & S working Group in 2018.

1.6. The Strategy has been prepared by officers in the Customer and Corporate Services team and scrutinised by a working group established by the Customer Services and Value for Money O&S Committee and containing members from that committee and the

Audit Committee.

2. Structure of the investment strategy

The following framework was agreed by the Working Group and has been used as the structure of this Strategy:

2.1. Legal and funding considerations (section 3)
This section describes the legal basis on which the Council is able to invest in commercial properties, what funds it may employ including borrowed funds and the purpose of establishing the PIC.

2.2. Investment principles (section 4)
This section sets out the principles which will govern investment decisions.

2.3. The acquisition process (sections 5-9)
These sections describe how opportunities are sourced, the investment criteria used and the steps taken by the Estates Team, IAB and the Executive to move from identifying a suitable investment opportunity to completing the transaction. The flow chart in Appendix 2 outlines the process for investment acquisition.

2.4. Post-acquisition activities (section 10-12)
These sections describe the performance reporting and governance functions carried out during the holding period of each property investment. Management of the GFPP is in accordance with the SAP.

3. Legal and funding considerations

3.1. Competence

3.1.1. The Council is entitled to make property investments by virtue of the “general power of competence” granted to local authorities by Section 1 of the Localism Act 2011. This enables local authorities to do anything that a private individual is entitled to do, subject to certain statutory limitations.

3.1.2. The power is designed to give local authorities considerable breadth of operation and includes the power to make commercial property investments for the purpose of generating net income.

3.1.3. The Council may rely on other powers to make property investments, such as section 120 of the Local Government Act 1972, which allows the Council to acquire land for the benefit, improvement or development of its area. The Council will also consider property investments which support the Council’s other strategies, such as the Waverley Economic Strategy 2015-2020.

3.2. Funding

3.2.1. Subject to 3.5 below, the Council is permitted to fund property investments made in its own name by using its General Fund reserves, capital receipts and borrowed funds and, in the short term, treasury cash balances.

3.2.2. To this end, the Council has agreed to establish a Property Investment Fund ("PIF") which will be funded annually by capital receipts and any New Homes Bonus receipts. As at March 2018, the PIF stood at zero following the investment in four properties in 2017.

3.2.3. The Council envisages spending a further £30 million by the end of the 2020/21finacial year of which approximately 20% is expected to be funded by the PIF. This indicates that the great majority of further investments will be funded or part-funded by borrowed funds.

3.3. Prudential Borrowing Code

3.3.1. Borrowing to fund or part-fund a property investment must comply with the conditions of the statutory Prudential Code. This requires borrowing to be affordable, sustainable and provide adequate value for money as reasonably determined by the Council. New rules also require councils to consider total property income as a proportion of their overall net budget and also to have a clear policy justifying any borrowing ahead of need.

3.3.2. The Council's approved Treasury Management Strategy includes property investment within its scope. All local authority investments are required to display adequate security, liquidity and yield in that order of priority. However, revised guidance refers to the inherent lack of liquidity of property investments.

3.4. Borrowed funds

3.4.1. The only source of borrowed funds currently under consideration is the Public Works Loan Board ("PWLB"). All loans from the PWLB will be for at a fixed rate of interest and for a fixed term of between 20 and 40 years.

3.4.2. The Council must make provision for the repayment of such loans by establishing a Sinking Fund Reserve which will be credited with the statutory annual Minimum Revenue Provision ("MRP") in respect of each unfunded capital decision. Each MRP will be an annual revenue charge to the General Fund and form part of the annual funding cost used to calculate the net return on each investment funded or part-funded by borrowed funds.

3.5. Location and type of investments

3.5.1. The Council has received legal advice that property investments located inside the Borough may be wholly or partly-funded by borrowed funds.

3.5.2. The Council will consider property investment opportunities both inside and outside the Borough. (See Section 6.3 for further detail) If a company structure is required this will be considered on a case by case basis.

4. Investment Principles

Investments in new acquisitions for the General Fund property portfolio will be based on the investment principles set out below.

4.1. Investment quality

Investments will be low-risk in nature and therefore limited to:

4.1.1. good quality properties;
4.1.2. located in prime or near-prime locations;
4.1.3. let or lettable to financially-secure tenants;
4.1.4. subject to leases with full repairing and insuring obligations for the tenant; and
4.1.5. generally subject to leases with at least five years unexpired.

4.2. Required Rate of Return

4.2.1. Subject to 4.2.2, a property investment will only be acceptable if it will:

a) provide a **rental income** which is commensurate with the risk undertaken by making the investment given the sector, location, physical condition and occupancy situation of the property; and
b) generate an immediate **net rate of return** after borrowing costs which is not less than the Council's Required Rate of Return ("RRR"). As at March 2018, the RRR is 2% per annum.

4.2.2. Exceptionally, a property investment will be considered which meets all other criteria but does not generate an adequate immediate gross rental income or net rate of return provided that it is reasonably expected to generate an adequate average gross rental income and average net rate of return over the first five years of ownership.

4.3. Sector diversification

At March 2017, extracts from the Annual asset register show the investment or non-operational section of the GFPP may be illustrated as follows:

Sector	Units	Value £000	Rent £000	Gross yield	% of whole
Office	5	3,451	180	5.2%	18%
Supermarket	1	7,205	305	4.2%	38%
Industrial	29	5,088	263	5.2%	27%
Retail	6	957	64	6.7%	5%
Enterprise	1	2,400	50		12%
Total	42	19,101	862		

Nb Enterprise rent is all inclusive so yields not comparable
Excludes: December 2017 office acquisitions value £7,781,000 rent £509,000 yield:6.5%

New investments will be approximately diversified across the industrial, office retail distribution sectors to provide protection against underperformance in any one sector.

5. Sourcing acquisitions

5.1. The Council may either approach a vendor directly or third party agents to notify its interest in making property investments and invite proposals. It will also accept unsolicited introductions from agents on a ‘first come, first served’ basis in respect of individual properties. It is also possible that an opportunity may arise for the Council to enter into a joint venture with another local authority, developer or investor. The Council’s main point of contact for all these purposes will be the Estates & Valuation Manager.

5.2. Introductory fee

5.2.1. If the Council receives an initial introduction from an agent and wishes to pursue the opportunity further, it will expect to pay an introductory fee if the purchase is completed and to enter into a written agreement with the agent to set out the basis of engagement and the fee payable. The agent undertakes to represent no other purchaser in respect of the property.

5.2.2. Introductory fees are usually 1% of the agreed purchase price. The services for which the fee is paid include:

(a) the preparation of a report on and valuation of the property;
(b) the conduct of all negotiations with the vendor; and
(c) co-ordination of all parties involved (vendor, lawyers, surveyors and the Council as purchaser).

The fee does not include a building survey, which should be carried out either by a separate department of the introducing agent or another party to avoid a conflict of interest.

5.3. Council role

5.3.1. The Estates and Valuation Manager will undertake the initial consideration of an investment opportunity, including internal and external inspection, appraisal and initial recommendation.

5.3.2. Suitable investment opportunities will undergo qualitative and quantitative appraisal as set out in section 6 (Investment criteria) and 7 (Financial modelling) in order to establish its acceptability as an investment.

5.3.3. All opportunities considered to be suitable and to conform with the Strategy will be referred by the Estates and Valuation Manager to the IAB for consideration in accordance with section 8 (Decision-making).

6. Investment Criteria

6.1. Yield requirement

6.1.1. An investment should offer an **initial yield** that is appropriate for the risk characteristics of the property under consideration, namely its sector, location, physical condition and occupancy situation.

6.1.2. As at end 2017, typical property transaction yields were reported as shown below.

Source: LSH UKIT Q4 2017

Sector	National	South-East excluding London	Prime
Retail (traditional)	6.1%	n/a	4%
Offices	4.9%	6.3%	5%
Industrial	5.5%	4.9%	4%
All property	5.6%		

6.1.3. It is proposed that the Council should seek properties with strong covenants and offer initial yields of at least 5-6 % in the office, industrial and retail distribution sectors.

6.1.4. Investments requiring initial capital expenditure for re-instatement or refurbishment may be considered if the equivalent yield on the resulting total investment meets the required level.

6.1.5. Each property and its tenant(s) must be fully appraised both physically and financially using industry standard techniques to ensure the initial or equivalent yield offered is acceptable for the level of overall risk undertaken. An example risk spreadsheet is shown at <u>Appendix 3</u>.

6.2. Lease considerations

6.2.1. Nature of occupancy

Single occupancy investments will be preferred in order to minimise management expense and risk. Multi-let properties or multi-unit schemes may be considered if all other criteria are met.

6.2.2. Covenant strength

Investments will only be considered if existing tenants are low-risk or medium-risk. The financial strength of existing tenants will be analysed using financial appraisal of their company accounts and the use of appropriate methods of risk assessment and credit scoring (e.g. Dun & Bradstreet reports).

6.2.3. Repair and insurance arrangements

Investments will only be considered if all costs relating to occupation and repairs are borne by the current occupier(s) during the lease term, namely either on full repairing and insuring (FRI) terms or on internal repairing and insuring (IRI) terms where such costs are recovered by way of a service charge, or if an all-inclusive rent is paid it produces sufficient net income after expenses and insurance costs are deducted.

6.2.4. Remaining lease length
The preference will be to achieve a minimum term of 5 years unexpired with a tenant in occupation. A vacant unit or a shorter term to expiry will not be discounted if the investment offers good potential for a new letting or another strategic benefit to the Council.

6.3. **Location**

6.3.1. Location will be dictated by the opportunity to acquire investments that are in accordance with the Strategy. It is proposed that the focus should generally be on the South-East but all areas in the UK will be considered. Proximity to the Borough will be a determining factor when all else is equal.

6.3.2. Market sectors and locations with good letting prospects and potential for rental growth will be actively sought. Properties should have a sound physical structure, be well-designed for their current use and enjoy good transport links and accessibility.

7. Business case and financial modelling

7.1. At the point of considering investment opportunity, officers will produce a business case, to support the valuer's technical assessment of the property, for the IAB.

7.2. The business case will be supported by financial modelling including, where appropriate:

- Yield calculations (Initial, equivalent and reversionary)
- Financing costs
- Life cycle costs to be borne by the Council
- Net rate of return calculation
- Discounted cash flow analysis
- Sensitivity analysis of cash flow
- Financial implications of any planned exit strategy.

8. Decision-making

8.1. The IAB will review promptly each proposal that is referred to it by the Estates Team in accordance with its Terms of Reference (see Appendix 1). At least two Members of the IAB will make a visit in person with an officer to inspect the location and external condition of the proposed acquisition, including its internal condition, if feasible.

8.2. The IAB will consider any further internal and external professional advice that it thinks necessary so that, if it thinks fit, it can decide to refer the proposal to the Executive with a recommendation to bid and proceed to completion subject to satisfactory final due diligence.

8.3. If the Executive approves the proposed investment in principle, the relevant officers will be instructed to bid for the property and, if successful, to complete due diligence. Subject to a satisfactory outcome to the due diligence and after liaison with the Portfolio Holder for Property and Finance, the Council's solicitors can proceed to completion.

9. Due Diligence

9.1. Due diligence involves:

- Land Registry title checks;
- a formal building survey;
- a formal estimate of any re-instatement costs;
- any necessary environmental and flood risk investigations.

9.2. The Council will instruct a recognised firm of chartered surveyors to carry out an independent valuation and provide a building survey.

9.3. The Council will instruct a suitable firm of solicitors to deal with the legal process leading to completion.

9.4. The appointments made under 9.2 and 9.3 will comply with the Council's procurement rules and regulations and ensure no conflict of interest.

10. Portfolio management

10.1. General
All acquisitions will be managed as part of the GFPP in accordance with the SAP.

10.2. Property management

10.2.1. The Council will normally manage single-let FRI assets in-house if the necessary skills and capacity are available. It will utilise the services of a retained agent only if necessary during the course of the lease.

10.2.2. In the case of multi-let units any management costs can be recharged through the service charge. Therefore, if a managing agent is in place at the time of purchase, the Council may decide to continue the arrangement if it represents best value.

10.2.3. If an agent is retained or appointed, they may be called upon to ensure that repair obligations and statutory matters are complied with.

10.3. Voids and rent arrears
The Council is exposed to the risk of void periods or tenants defaulting on payment of rent. Loss of income is an immediate cost but voids also create holding and re-letting costs. Such costs can be substantial if a property is vacant for a prolonged period of time.
Voids and rent arrears will be managed in accordance with the current procedure for the GFPP. Regular meetings are held between the Estates and Finance Teams to examine any arrears and institute recovery proceedings if required. The Council set up a provision in 2017 to help mitigate the impact on the revenue budget.

10.4. Any requests from Heads of Service for reduced or subsidised rents must be met from a separate budget identified by that Head of Service and it will need to be specifically approved by the Executive.

11. Performance reporting

11.1. Quarterly individual property reporting
The Estates Team will produce a quarterly Performance Report for each property acquired under this Strategy by the end of January, April, July and October (one month after the usual rent quarter days). The Report will set out all charges and receipts and indicate any arrears. These Reports will be available to (but not be limited to) the Executive, the IAB and the Value for Money Overview & Scrutiny Committee ("the VFM Committee")

11.2. GFPP performance reporting
The Estates/Finance Team will also prepare a quarterly report to show GFPP net income performance against budget, both quarterly and cumulatively. It will show the aggregate amounts for each income and costs for all GFPP properties and also show the central costs such as costs of abortive transactions (typically professional fees).

11.3. General Fund Property Portfolio asset report
An asset valuation report is prepared annually which sets out the current valuations of all properties in the GFPP. It is prepared in accordance with guidelines published by the Royal Institute of Chartered Surveyors and the Chartered Institute of Public Finance.

12. Long-term governance

12.1. The Strategy will be reviewed after six months by the VFM Committee with input from the IAB and, in relation to the matters covered in paragraphs 6 to 11 above, the Audit Committee.

12.2. If the VFM Committee considers that any material changes to the Strategy are necessary, it will make an appropriate recommendation to the Executive. Any revisions will be subject to Council approval.

Author and feedback

The Council welcomes comments and feedback on its policies and procedures. Please contact: *Anne Cains, Estates and Valuation Manager,* *anne.cains@waverley.gov.uk or 01483 523315* if you have any comments.

Related Information

Strategic Asset Plan for General Fund Properties 2015

Appendix 1

Investment Advisory Board

Terms of Reference

Membership: (Current agreed 2016)

- Leader of the Council
- Deputy Leader of the Council
- Portfolio Holder for Finance
- Portfolio Holder for Economic Development
- Non-Executive Councillor

Membership: (Proposed 2018)

- Portfolio Holder for Finance and Property (Chairman)
- One other Executive Member
- Non-Executive Councillor
- Non-Executive Councillor
- Non-Executive Councillor
- Non-Executive Councillor

The Investment Advisory Board ("IAB") will be supported and advised by the following officers of the council:

- Strategic Director
- Head of Customer and Corporate Services
- Democratic Services Manager
- Borough Solicitor or Deputy Solicitor
- Estates and Valuation Manager

The IAB will be supported as required by external professional advisors commissioned by the IAB when deemed necessary in relation to specific investment proposals.

1. **Scope**

The Investment Advisory Board ("IAB") has been established to consider all significant Council investment activity including, but not limited to:

1.1 the acquisition and development of General Fund property and land; and

1.2 the identification of opportunities to maximise the return or value of existing Council owned assets including disposal.

2. **Strategic approach**

The Council's strategic approach to investment is based on:

- allocation of the Council's cash reserves and balances to create a Property Investment Fund ("PIF");
- use of the PIF and, when necessary and desirable, borrowed funds to fund property investments to increase the General Fund Property Portfolio ("GFPP") and generate additional income for the Council for the delivery of functions and services;
- investment in high-quality properties to strong covenants that maintain an adequately diversified GFPP so that the additional income generated is achieved in return for an acceptable level of risk;
- investment in property investments that have the potential to support economic growth in the Borough and the Council's corporate priorities;
- investment, where appropriate, to improve existing or newly-acquired GFPP assets to enhance future income generation; and
- disposal, when appropriate, of existing GFPP assets to generate funds for re-investment.

3. **Responsibility**

The IAB is responsible for recommending to the Executive that an investment proposal should be approved. The Executive is solely responsible for deciding whether to approve the proposal and to authorise officers to conduct due diligence and, if satisfactory, proceed to completion.

4. **Function**

4.1 The IAB will consider all acquisition proposals submitted by the Estates Team that comply with the investment principles set out in paragraph 4 of the Strategy and meet the investment criteria set out in paragraph 6 of the Strategy. The IAB will review each proposal in respect of each of the investment criteria to decide if the business case in favour of investment is sufficiently strong.

4.2 The IAB will also consider proposals submitted by the Estates Team for the disposal of GFPP assets.

5. **Tests**

Before deciding to recommend to the Executive that an investment proposal or disposal should be approved, the IAB must satisfy itself that:

- it has properly considered advice from its professional advisors, whether internal or external;

- the business case is sufficiently strong;
- the investment or disposal is within the Council’s legal powers;
- the investment or disposal is reasonable;
- proper consideration has been to the balance between risk and reward;
- making the investment or disposal would not be a breach of the Council’s fiduciary duty;
- making the investment or disposal will represent value for money; and
- the proposed funding method provides the best value for money after taking into account all relevant financial considerations, including taxation.

6. **Use of funds**

The IAB is entitled to recommend the use of the PIF and the Infrastructure Fund to meet:

6.1 initial revenue costs of appropriate initiatives that deliver income in the longer term.

6.2 the cost of external professional advice including property, legal, financial, and taxation advice.

7. Meetings and reports

7.1 The IAB will have scheduled meetings on a quarterly basis with further meetings arranged as required to consider investment proposals promptly or when required for other purposes. Meetings may be cancelled if there are no items to be discussed.

7.2 The quorum for a meeting of the IAB is three members of which one must be the Portfolio Holder for Finance and Property or their appointed deputy.

7.3 The Chairman will approve the agenda for each meeting. The agenda and papers for consideration must be circulated at least two working days before the meeting. After each meeting, the Chairman will approve the meeting notes and the actions agreed

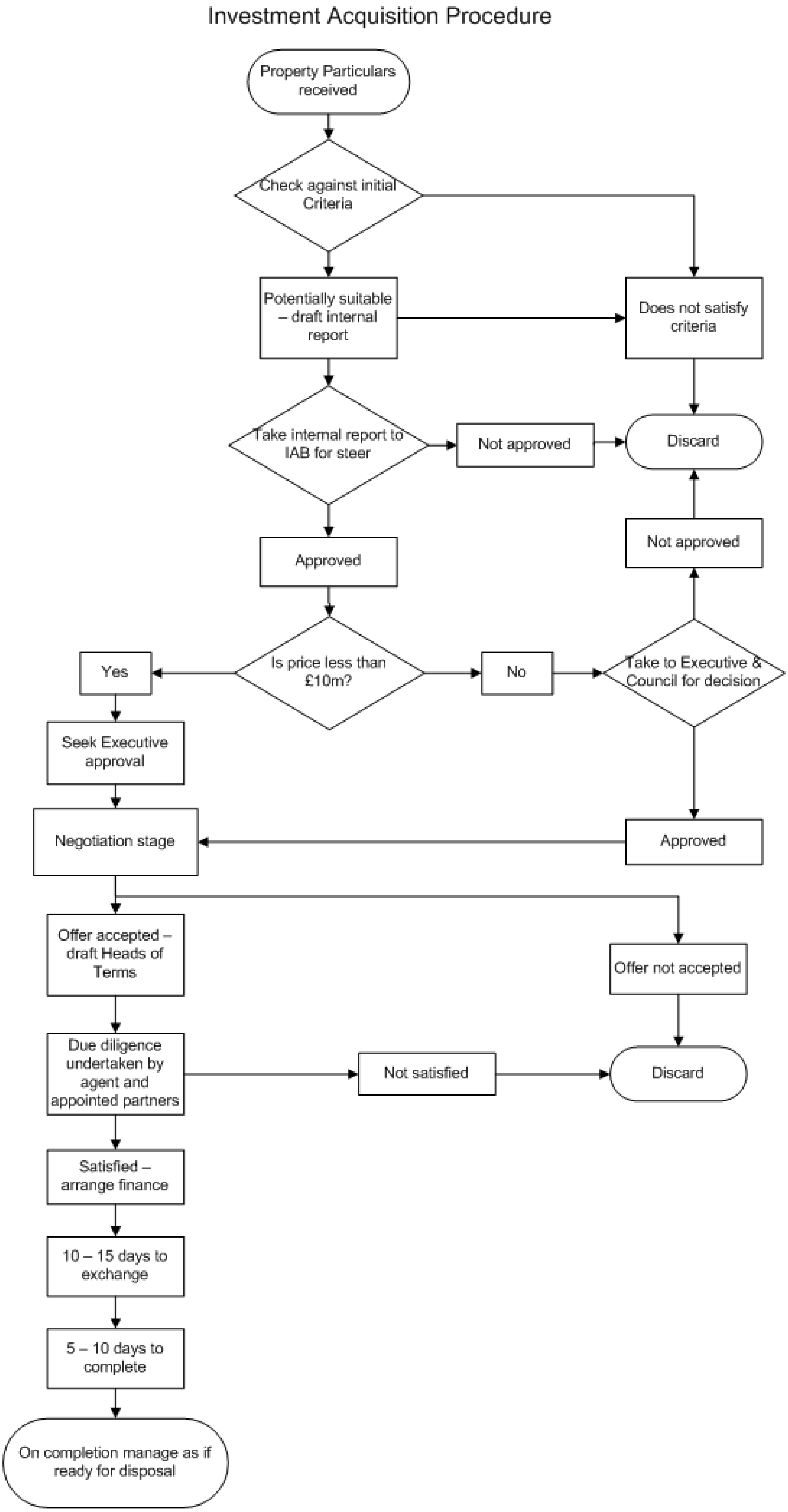
7.4 The IAB will receive quarterly Performance Reports in respect of recently acquired properties and the GFPP as a whole in accordance with section 11 of the Strategy.

7.5 The IAB will receive reports twice a year regarding the status of the PIF.

8. **Review of Terms of Reference**

The IAB will review its Terms of Reference annually.

Appendix 2


Investment Acquisition Procedure
Property Particulars received
Check against initial Criteria
Potentially suitable – draft internal report
Does not satisfy criteria
Take internal report to IAB for steer
Not approved
Discard
Approved
Not approved
Is price less than £10m?
Yes
No
Take to Executive & Council for decision
Seek Executive approval
Negotiation stage
Approved
Offer accepted – draft Heads of Terms
Offer not accepted
Due diligence undertaken by agent and appointed partners
Not satisfied
Discard
Satisfied – arrange finance
10 – 15 days to exchange
5 – 10 days to complete
On completion manage as if ready for disposal

Appendix 3

Example Risk Analysis Spreadsheet

Source		**Perry Hill**				
Property type		Office				
Address		Catteshall Lane				
Location		Godalming				
Built		1980s				
Condition		Good				
Area		3,214	sqft			
Tenure		Freehold				
Unexpired term						
Tenant(s) inc underlettings		Reality Finance Ltd				
Use/alienation		Office				
Repair		FRI				
Occupancy rate		100%				
Rent		£36,000				
OMV		£50,000			3%	% management costs
Term		9	Years		£48,500	Net income omv
Rent reviews		2018				
Lease renewal		2024				
Break option		2018				
Asking price		£731,000		£227	CV/sqft	
Yield	Net initial	4.92%		4.78%	Less man costs	
	net equivalent	4.68%		4.54%	Less man costs	
	True equivalent					
	Net reversionary	6.84%		6.63%	Less man costs	

Strength	**Weakness**
In borough	Tenants break 2018
Fully let	Six years remain
FRI	
Parking	
Location	
Modern	

Opportunities	**Threats**
Rental growth	Tenant may exercise break

Restructure of lease
WBC could
utilise

Conclusion
Pursue as potential acquisition subject to restructure
lease.

Costs

Agents Intro fee	£0	
Condition Report	£2,700	min
Due Diligence	£1,700	min
Legal	£7,380	External solicitor fees
SDLT	£ 26,590	
Management	£ -	
Refurb costs	£ -	
Total	£38,370	

Glossary of property terms

Current rent: The rent agreed by the landlord at tenant at the last review date.

Due diligence: A post bid process to ensure correct documents and searches are complete and that the proposed purchase is sound.

Freehold: The ownership of a property in perpetuity

FRI: Full repair and insurance; Usually a tenant's obligation under the terms of a lease.

GF: General Fund (as opposed to the Housing Fund)

GFPP: General Fund property Portfolio

IAB: Investment Advisory Board

IRI: Internal Repair & Insuring

Landlord & Tenant Act (part 2) 1954: The overriding legislation for commercial leases

Lease: Type of tenure, whereby rights to a property are granted for a fixed term.

Management Costs: Costs incurred to ensure both parties comply with their obligations, if done internally the costs will be absorbed by the council, or if externally the charges will be deducted from the total income.

Minimum Return Provision (MRP): Councils are legally required to set aside annual payments to cover repayment of any external loans principal over the period of borrowing.

Non-operational Asset: An asset held by the authority but not directly occupied or used or consumed in the delivery of services.

Open Market value: (OMV) is the most relevant recent price achieved for a similar site.

Operational Asset: An asset held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either statutory or discretionary responsibility.

Passing rent: As per current rent**:** The rent agreed by the landlord at tenant at the last review date.

PIC: Property Investment Company

PIF: Property Investment Fund

PWLB: Public Works loans Board

Rent free period: An incentive offered to a tenant in lieu of works or to attract a suitable tenant.

Rent Review: The period after which the annual rent for a property can be reviewed in accordance with the terms of the lease, allows for growth on the investment.

RICS: Royal Institute of Chartered Surveyors.

SAP: Strategic Asset Plan for General Fund Properties 2015

SQFT: Square Foot. Measurements should be used in accordance with the RICS international measurement standards.

Yields: (Extract from RICS June 2016 & The Glossary of Property Terms: Parsons 2004)

In general terms, yield is a measurement of future income on an investment. It is generally calculated annually as a percentage based on the asset's or investment's cost or market value. A return on an investment is usually seen in the form of rent.

The yield on a property is regarded as the percentage an annual return an investor is likely to receive on the value of an investment usually rent. The yield varies over the life-cycle of an investment property because rental income will change and there will be periodic revaluations of the capital value.

The yield from an investment in real estate is primarily a function of:

- comparative return on alternative forms of investment
- type of property
- security and regularity of the income
- risk of loss of capital
- liquidity of the investment and costs of transfer
- cost of management and upkeep
- political and taxation risks
- specific risks associated with an investment, such as earthquakes

All risks yield

Implies that the investor had considered all the risks and potential reward in arriving at a purchase price which is then reflected in the yield.

Capital value

The value of an asset or an investment.

Capitalisation

This is the process of converting an income stream from an investment into a capital value. For investment purposes, this would normally involve the conversion of the annual rental income into a capital value by using a multiplier called the 'Years Purchase (YP) in perpetuity. The YP in perpetuity is the reciprocal of the yield.

Equated yield

Describes the yield on a property investment, which takes into account growth in future income. (Initial and reversionary)

(Net) Equivalent yield

The weighted average income a property produces after allowing for voids and costs associated with buying the property.

Initial yield

The annualised rent of a property expressed as a percentage of the property value at the date of purchase.

Prime yield

Describes the remunerative rate of interest appropriate at the date of a valuation if the property is to be let at its full market rental value. Considered as a benchmark to compare against other properties.

Required Rate of Return

The minimum required rent expressed as a percentage after the cost of borrowing has been accounted for. To include annual interest and minimum return payments

Reversionary yield

Is the anticipated yield to which the initial yield will rise and fall.