Everyone Loses When There Is a Misallocation of Stakeholders' Capital in the Retail Property Sector, by Don E Gilbert Part II

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Don Gilbert is a Specialist Retail Valuer ("SRV"), a 3D Economist and an arbitrator.
He provides independent, impartial advice to landlords, prospective investors and tenants.
He is also the inventor of the GEM Method of evaluating current market rent.

Background

Our first article covered common areas where industry practitioners and professionals obtain "evidence" from different sources, commonly analysed back to a rental rate per square metre. The "evidence" is substituted into the lease being valued, often without regard for the business economics or responsibility for specific performance under the lease or requirements under tenancy laws and definitions, etc.

This evidence can be wrong for many reasons (see Part I of this paper). They might include: importing non-arms-length evidence (site or location/type of centre); using derived data from different business model[1] being estimated/evaluated/appraised/assessed (Hansard, pg. 777); site/shop/premises too large/too small; high/low productivity levels; site/shop/premises has other areas used in association with given premises not considered; leases not reasonably comparable; embedded lease incentives not valued or quantified into *effective rent (Macrae, M 1996)*; landlord property expenses (outgoings) included/excluded; premises have *hidden income charged/paid* via loaded utility fees and charges; failure to acquire, measure, apportion, charge and account for property expenses of tenant's monies collected and held in trust by landlord which may distort gross rents; and

The FACTS behind this article relate to reliance on monthly or annual rent expressed on a $/M2 basis: to estimate, evaluate, appraise/assess current market rent and/or negotiate rents.

As Part II of this article will demonstrate, "transporting" or imputing a rent from another site might cause the outcome to be several hundred percent above "current market rent" as defined or the "reasonable" rent called for in State Tenancy Laws (Australia).

In an egregious retail-leasing environment, where the culture is extremely aggressive, this has led to portfolios of leases being overvalued.

The multiplier of the underlying asset could be 6.0 to 17.3 times + overvalued, for each lease that is overpriced or overvalued.

Naturally the risk of all the leases and rents must be evaluated.

Depending on each highly specific business model, the multiple to cover the disproportionate component of rent is around 6.0 to 50.0 times

[1] Refers to a Jebb Holland Dimasi paper … *"why different tenants pay different rents in different shopping centres …"*

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combinations of the above.

Part of my presentation material states that if the valuation industry was conducting a 360 degree performance evaluation on itself, it does 270 degrees of that extremely well but, in regard to analysis of retail leases and retail rents and capitalising those incomes, it flounders. Top Ryde Shopping Centre in Sydney is just one valuation that stands out, with the selling price just 40.0% of a valuation carried out four years previously (Schlesinger, L, 2012), with losses of half a billion. The Myer Centre Adelaide is another centre where the Government of South Australia became the owners by default in the 1990's. The centre was sold for 25.0%of the development cost. The losses were a similar amount in dollar terms as Top Ryde City was.

Having referred to actual evidence and having conducted some "real-life" modelling, I have formed some poignant and useful conclusions. I am sure many readers will find the outcomes astonishing. I did!

We have all seen rental determinations that appear from nowhere, ref. Asher Cumari v Jim Gao [2008] RSLT (Qld) 19. Chairman A. Forbes referred to a decision by Sir Frank Keto, former Justice of the High Court, wherein he made a comment about "detailed reasons" *for rental determination. He said that such a task involves more than: "... [recitation of] the facts in a degree of pedestrian detail that scorns to [indicate] those that really bear on the problem ... and then, without carefully worked out steps of reasons but with a 'blinding flash of light' ... produces the answer with all the assurance of a divine revelation.*"[2] [3].

This article covers:

1. How the incorrect use of a rental rate per square metre basis from one or several of the above scenarios can significantly multiply through one lease or a "bundle of leases" and devalue the "value" of a lease/leases, i.e. quality of income streams resulting in Business Capital being appropriated to Property Capital; and
2. How different stakeholders can and are affected by aggressive industry behaviour, the most obvious one being a 6.0 to 17.3 times multiplier whereby overpriced or overvalued lease/s cause the underlying asset, i.e. the property to be overvalued[4].

Contrary to popular belief, it is not winner takes all. There is a significant downside to this belief and it does impact on other stakeholders. Ultimately, all parties are losers.

How the Comparison Method ($/M2), use and application of incorrect evidence from one or several sources can and does multiply into an incorrect estimation/evaluation/appraisal/ assessment of a lease via price earnings multipliers

The study will consider the multipliers of "over-rented" or "over-priced" leases using the Comparison Method, but the alternative can and does occur, when an incorrectly tested and applied rental rate is used from one or several leases and applied to the lease being estimated/evaluated/appraised or determined by an Expert.

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[2] (1992) 66 ALJ 787 at 797 Para 7.1 of the Valuation

[3] See Walkerston Newsagency v Walkerston Properties RSL 133 – 1 (Qld)1 Chairman White, J. Judge, N. McBryde, D.

[4] Engineered rent results in engineered valuations – IVSC Standards.

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Data source of lease rental evidence	Equivalent $/M2	Lease being valued/appraised	Equivalent $/M2 industry benchmark[5]	Impact on lease being valued/appraised
Sitting tenant lease renewal of A-REIT[6] total category – actual evidence	$1495[7] or 22.6% occ. cost($179,400 pa)	Footwear 1998 achieved sales of $794,000 in 120 M2 shops ref. JHD Retail Averages 1997/98	$485 or 7.33% occ. cost in 120 M2 equivalent to $58,200 pa.	Leases "Footwear Average" are 200.0% "overvalued"/overpriced. Individual leases paying 22.6% or $1495 /M2 could be 300.0% higher as part of this "range" of data. [From experience I suggest that 10.0% to 12.0% might be the upper limit]
As above	As above	Assume "averaged" evidence is "transplanted" into 150 M2 site[8]	$224,250 pa or $1495 or 28.25% occ. cost	Supplanting or transplanting "inflated" averaged rent of $1495 /M2 into 150 shop (also trading at $794 K pa) causes occupancy cost to significantly spike up or "leverage" or ratchet rent up
As above	As above	As above but site in poor location, trades at 80.0% of the "average" turnover of $794 K	$224,250 or $1495 or 35.3% occ. cost	As above. The supplanted or transplanted data ignoring site turnover ratchets up even more. This scenario is highly probable in a super-aggressive industry[9]
As above	As above	5th competitor introduced into similar/better location. Trade is diluted by further 20.0%; or $127,040 to $508,160. After two years rent increments of CPI +2.0% increase by say 7.0%	As above. Rent increases say +7.0% to $240,000 becomes 47.3% of sales	Excluded in above: Assumes business continuity at impossible occupancy costs [for illustrative purposes].
Footwear category ATO average	According to Australian Taxation office, stores trading at over $600,000 per annum pay a rent to turnover ratio of 8.0% to 12.0%. Adopt say 10.0%[10]. Equates to $661.66 annual gross rent of $79,400.00 per annum in average shop of 120.0 square metres. Business could also trade out of 90.0 to 150.0 square metres also paying 10.0% of $794,000 or $79,400.00 per annum. What should that rental rate be?			

Of course, ignored in this analysis are the consequences to all parties of business and investment failure: the tax office does not get paid; stakeholder investment capital gets written off;

[5] Willington, P. 1987 – see BOMA (now Property Council of Australia) table outlining indicative percentage of turnover payable as rent – Footwear rent 7.0% to 8.0% of turnover
[6] Australian Real Estate Investment Trust
[7] Actual product of data derived from A-REIT rental data and 1997/98 JHD Retail Averages
[8] Quite a realistic assumption as are those that follow
[9] The data reference points being used serve to illustrate how overpriced or overvalued the leases become and outcomes become further and further from reality.
[10] Australian Government – Australian Taxation Office – Footwear Retailing issued 2012

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companies seek additional investment capital; shareholder funds might get "diluted" via debt funding and many victims seek assistance, placing a burden on Public Monies, i.e. health and welfare,

Commencing with the sitting tenant/non-arm's-length scenario from the Table above, here is how using the Comparison Method could cause a lease to be overvalued:

1. Non-arms-length evidence used for a major Australian Shopping Centre Group's footwear category which, "on average", was paying an occupancy cost[11] of 22.6% of turnover. It was imputed into the then JHD Retail Averages for Regional Shopping Centres in around 1997/98. The equivalent outcome is that the "average rent" would have been $179,400 in a 120.0 square metre store vs 10.0% of turnover or $79,400 which is the Australian Taxation Office "average". This is an actual scenario. There is an industry benchmark suggesting footwear should pay 7.33% of turnover. In effect the difference between 22.6% and 10.0% is a highly probable scenario whereby footwear leases are 126.0% overvalued, e.g. sitting tenant, no *in good faith* dealings, managements fail to manage tenancy mixes, (Crosby, N., Murdoch, S., Webb, E. 2007);
2. The second scenario supposes the same square metre rate for a 120 square metre shop is applied to a 150 square metre shop in a typical lease renewal, whereby business capital has not yet written off set-up costs. The tenant acquiesces and the gross rent is leveraged up to $224,250 (Crosby, N., Murdoch, S., Webb, E. 2007)[12]. This lease is now 182.5% above the ATO benchmark of 10.0%, equating to $79,400, simply because a square metre rate has been applied to a 150.0 square metre shop, ignoring sound business principles;
3. Scenario three supposes site and location is poorer and, at best, the retail chain, franchisee or business proprietor can only achieve 80.0% of the "average" that the other three retailers in footwear category achieve. Rather than trading at $794,000 at best, the footwear shop (A) can achieve $635,200 per annum leaving the balance (B, C and D) to trade at $847,000 each. All these trends are monitored on a continuous basis by owners and management. The $224,250 occupancy cost is leveraged up to an impossible 35.3% of turnover. Again, this highly probable scenario results in the annual gross rent being 253.0% above the ATO benchmark average. It is unlikely that the business could operate much longer; it is most likely trading as an insolvent entity, honouring its lease via other sources, e.g. savings, etc.;
4. A few years pass and the lease (and outgoings) escalate by CPI + 2.0%. The overall "market" for footwear segment in quasi-monopoly cannot be grown in a saturated catchment. A fifth competitor is introduced who takes 20.0% of the "market share", cannibalising sales. The loss of market share to the other three stores, each trading at $847,000, is greater than for tenancy A, trading at $635,200, assuming equal "market share" is taken from all four outlets (Lonie, M. 1996). Sales are reduced by $158,800 from the four original stores (this could happen any number of ways; disproportionate by location, product mix, etc.). On the supposition that the rent escalates by 7.0% over two years, Tenancy A's sales fall by $127,040 to $508,160. The multiplier effect of all these things, based on ignorance, flawed methodology, lack of lease rent dispute resolution mechanisms, customary practice and an

[11] Also known as rent to turnover ratio

[12] *"The UK has not generally seen the same problems over positively poor landlord behaviour as occur in Australia."*

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aggressive leasing culture, would cause the rent to escalate to say $240,000 and be equivalent to 47.3% of turnover;

5. In effect the outcome is a lease overvalued by 401.0% using the ATO Footwear benchmark as a guide;
6. Catchments could be changing, sending strong signals to the development fraternity to increase supply (which further dilute existing trade). A falling or increasing exchange rate might result in higher cost of goods sold and put pressure on margins, higher or lower fuel prices may increase or reduce discretionary spending, etc. etc. suggesting that *"valuers have to be practicing economists."* (Millington, A 1996).

This analysis considers *one lease alone*. It has used actual flawed data, i.e. non-arms-length evidence. Three further highly probable scenarios have been run through our modelling. What if industry practice is causing large "bundles" of leases to be operating under the same or similar conditions? (Duncan, W.D. & Christensen, S. 1999).

Industry "culture" has a reputation of calling the operators of Business Capital *"poor operators"*. It certainly is not difficult to see how easily Business Capital can, either knowingly or unknowingly, fall victim to this kind of adversarial landlord behaviour. It justifies the questions and queries raised by several of the authorities listed in References and Bibliography below.

Having known about the possibility of such distortions, but always having checks and balances in my work which uses several methods to reference and cross-reference against, I had not quantified how an outcome could move further and further from reality, as shown in our model which multiplies out to being a possible, if not probable, 400.0% above the "reasonable rent" and perceived property value.

In Part I in regard to how this behaviour has played out, namely loss on the sale of Top Ryde City of half a billion dollars, this does not auger well on consequences of when leases are overvalued (Schlesinger, L. 2012; Martin, R.S. 1973; Willington, P. 1987; Millington, A. 1996).

Obviously there are many ways in which "untested" rental evidence can be imported from one to another lease which has no bearing at all on the lease in question.

How about "averaged" data (averaged data is not absolute data; it is not "evidence" nor can it be given significant weight unless the sample is reasonably comparable from one category to another. "Patisserie" at $1,600 a square metre, trading on average out of 85.0 square metres ($136,000 per annum) and transplanted into "Cafes/restaurants" (Macrae, M. 1996; Willington, P. 1987; Millington, A. 1996) trading out of 140 square metres on "average" from the same JHD Retail Averages source mentioned above provides a good example:

The "café/restaurant" tenant who usually pays $106,960 per annum or $765.00 per square metre (or 16.3% of turnover) would then pay $224,000 per annum or 34.25% of sales because the "café/restaurant" was compared to the "patisserie" category. Just how is that evidence relevant? Is it relevant? The comparisons are inappropriate and possibly ruinous to all stakeholders.

It seems quite obvious that transporting or importing a rental rate into another lease, from a different source, ignores any sound fundamentals that willing informed parties ought to consider

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for Business Capital to merge with Property Capital in the making of a lease. In effect, it crudely dumps data into a completely different business model. How is it relevant?

Professor Millington is certainly justified in questioning and querying the validity of the Comparison Method, when it is used as the primary method of valuing a lease *in isolation* from other methods, checks and balances rather than relative business profitability; the sole purpose of leases. From my experience, it is used either because valuers do not know much about retail Key Performance Indicators (KPI's), or to "engineer" their determinations.

Profits method of estimation/evaluation/appraisal/assessment of a lease

The Profits Method (Millington, A. 1996) of valuing a retail lease has been used in Britain for many years. It is suggested that the Profits Method, if used by a well-informed valuer, can produce the best estimates of rental values for retail and that it provides "*certainly more reliable estimates than those obtainable from the use of comparable evidence*".

It is submitted that *"the ability of any retailer to pay rent will be directly related to the ability to make profits from a specific retail outlet, and to the expected level of the anticipated profits. The higher the profit potential in any location, the higher will be the rent a trader can afford to pay." (*Millington, A.1996).

This concept of goodwill and cash-flow was teased out thoroughly on representations by landlord representatives to the Committee at the Fair Trading inquiry (Hansard, 1997 pg. 788). On the question of buying or selling a business, Committee Member Mr Allan Morris raised the question of when one bought or sold, *"the right to run a two-year lease, but you (Mr Allan Briggs) are saying that that is only a right to a cash-flow"*. Mr Briggs responded *"On the presumption there is a certain cash flow. I am perhaps getting to the meat of the argument. What are you buying? You certainly are not buying a lovely little shop in a lovely centre. You are buying the cash flow, the business."*

I suggest that Professor Millington does not consider that super-profit from an exceptional business model/individual retailer should be converted into rent, nor that the landlord should be penalised by an under-trading retailer. (Super-profit, otherwise known as goodwill, must be excluded by valuers in determining "current market rent").

I should mention at this juncture that, as part of my commerce and economics degree, an advanced segment in marketing has been extremely useful in assisting me to tease out reasonable trading levels from under and over-trading businesses. This data can be made available when sales data is collected by or provided to trustworthy independent Specialist Retail Valuers.

Referring to (Hansard, pg. 786), the concept of goodwill was discussed in the context of security of tenure. The Chairman of the Standing Committee asked Mr Briggs whether a business in a major shopping centre had "goodwill" (sic), particularly at the end of the lease. His response was, *"The value of the goodwill decreases, depending on the term available to the merchant... There is no goodwill attached to a lease, with the exception if a merchant has a five-year lease, let us say, then it has some value. ……… One year into the lease it has four years; two years in it is three years, and so on as it gradually diminishes, but at the end of the lease there is no goodwill."*

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Chair – *"At the end of the term?"*

Mr Briggs – *"There is no goodwill."*

Chair – *"No goodwill."*

Further on (Hansard, pg. 794) Mr Briggs said to the Committee, *"The value of any business is driven by the income that you earn and by the bottom line profit that you can make. Our industry is no different from any other. … If there is a suspicion that the rentals will not be maintained, then the valuer is duty bound to base his valuation on that instinct or knowledge or premise."* S. Boydell, 2001, whose well-researched paper included what critical information was withheld from valuers about income, expenditure, etc. found out that if a valuer did not provide a satisfactory valuation figure, the report was ignored and another valuation procured.

There are two very important concepts here:

1. Both a pre-eminent academic and a major representative from landlord interests recognise that the *raison d'être* for Business Capital to work with Property Capital via a lease agreement is cash-flow - obviously net cash-flow (profit) - and a value element called "goodwill"[13] in this instance which, in effect, is "surplus" necessary to service costs and capital; and
2. To add value to leases, for both Business Capital and Property Capital, both parties need security of tenure and future income flows, the risk of which must be measured, or adjustments made (Millington, A 2006, pg. 322[14] and 327[15]; Martin, R. S. 1973; Willington, P. 1987; Whipple, R. T. M. 1991; Boydell, S. 2001).

The calculation of rent using the Profits Method of Valuation, therefore, is *and must be* derived from the residual or surplus after meeting those essential expenses (Millington, A). Explanation by Macrae, M. 1996 is as follows which is further explained by me:

Adjustment	Item in Profit and Loss	Considerations
Sales/turnover. **Given the lease period is the period ahead; a good valuer needs to be**	**Anticipated gross takings (net commission basis newsagency; excluding GST; excluding PBS for pharmacy by legislation [16])**	**Determined by many things: margins, site, location, frontage/depth, permitted use, product mix, stock availability, advertising and promotion (direct, via third party, e.g. Shopping centre), brand, competition (in centre; wider market), consumer confidence, business model, changing tastes, changing technology, management, new taxes, catchment, demographics, etc.**

[13] The correct terminology for "Goodwill" is super-profit attributed to above average profits, normally associated with a really exceptional business model, an above average business-person, etc.

[14] *"Although investors may be influenced by the past performance of an investment, the major factors determining the bids they are likely to make should be the current performance and their expectations of future performance. Their bids will be determined by their predictions of the rental flows likely to be produced by a property, and their judgment of the future investment risks likely to be associated with that property."*

[15] *At the same time specialty occupiers are regularly responsible for the payment of 75% or more of the total rent roll, and there is, therefore, a situation in which 75% or more of the current rental value of many centres is in fact secured for less than five years. In reality this is a very insecure state of affairs. … It is therefore difficult to see how any valuer can capitalize such income situations at rates as low as 6, 7, 8% as often appears to have happened to date."*

[16] Pharmaceutical Benefits Scheme income, Australia i.e. extremely low margins, service to the community.

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able to anticipate likely changes		
Less	**Cost of acquiring stock**	**Sourcing, margins, exchange rates, labour cost of local manufacture.**
Equals	**Gross profit from business**	**A product of above inputs; the effective gross profit may be reduced via franchise fees (sometimes shown as an expense item in Profit and Loss).**
Less	**Trading expenses including depreciation but excluding: interest, rent, working proprietor's wage.**	**Generally, unless acquired via a third party, e.g. Utilities, outgoings (part of rent) all business related expenses are subject to "open market competition". Head Office operating expenses may need apportioning for multiple store operations.**
Equals	**Adjusted net profit as some deductions still have to be made**	**Cost of occupation; debt/interest; labour including owners wage/return is excluded but deducted below.**
Using this methodology enables a rental valuer to split the "residual" between a working proprietor wage or head office administration management expenses; a genuine risk reward; and the landlord's share. Without these three one does not have a working Free Enterprise system.		
Less	**Allowance for say managers wage for working proprietor**	**Staff are required: in Australia (and overseas) labour market wages are regulated; a working proprietor requires competitive remuneration (both actually and notionally for purpose of exercise) to justify taking on business risk.**
Less	**Allowance for the risk attached to the business, eg. appropriate allowance for capital invested at business return is substituted for actual interest that may have been deducted**	**Without apportionment of risk/reward appropriate for type of entity are determined by market forces, Business Capital would not seek leases (Hyam, A. A. 2004, Attachment G being Market referenced profit multiples, with a Return on Investment converter, Copyrighted to BCI Pty Ltd).**
Equals	**Balance available to pay the costs of Property Occupation (rent plus outgoings)**	**A residual sum is an amount attributed to Property Capital in form of rent and outgoings. High or non-competitive outgoings, management fees, etc. reduces the residual available for rent.**

Rather than having an in-depth discussion or analysis on items that make up a Profit and Loss Statement, it makes sense to consider what the motivators in a Free Market System are for Business Capital to commit risk capital to any business venture?

The sole reason is profit (unless one is referring to not-for-profit organisations. None-the-less, they still operate to make a surplus, albeit for their stated cause). Typically, any depreciation allowance is for the term of the lease. Business capital *does not commit funds or deploy resources* (intellectual property, branding, labour, time, effort, actual investment in fixtures, fittings, plant, equipment, stock, business systems, etc.) for a major retail operation at below 16.0% per annum.

Typically moving up (or down) the hierarchy, pharmacy capital expects a 25.0% return. Prior to the downturn in their industry, the newsagent would expect a risk reward of 25.0% to 33.0%,

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however that would be lower today with its new business model (pressure on margins and revenue), internet sales of news, i.e. technology. Even a small accountancy practice seeks a 40.0% return.

Smaller retail operations such as bakers, restaurants, butchers, fruit and veg which become higher risk ventures, expect returns on capital deployed and working practitioner's remuneration.

As an observation, these KPIs do not change much unless there is a seismic shift by way of outside influences, such as Government, a significant shift in consumer taste, technology, on-line shopping or within a particular business model itself. Big shifts have occurred in pharmacy (Government), video (technology), many durables (whitegoods), electronic goods, clothing and footwear and print media overtaken by electronic media.

It should be noted that net profit can be expressed as a percentage of sales/gross takings/turnover refer ATO Business Benchmarks.

When a valuer is ill-informed, untrained or simply sees his role (or is it embedded in the "culture"?) as being an advocate and is repeatedly engineering valuations/determinations and sees opportunities to convert business profit into rent, the problem comes when he unwittingly forgets about the other side of the equation – refer to Table below and impact on stakeholders.

A separate paper is required to extrapolate the methodology and importance of the Profits Method of valuing or appraising leases.

What is patently clear of course, is that, while Business Capital has a clear and logical path on which businesses are reported, how product is sourced, etc. when the Comparison Method superimposes or transposes or transports a figure in on a dollar per square metre basis ($/M2), from whatever source, it *can and does defy all commercial logic*.

If one ignores reasonable comparison with the business or precinct or catchment productivity and or the size efficiency of the business itself, it can be disastrous to both Business Capital and Landlord Capital.

The process either by valuing the lease by a professional or via negotiation fails.

Then, of course, one must make adjustments for the leases, i.e. security of tenure, lease rent flexibility, perceived growth or lack thereof and the local catchment, etc. (Millington, A. 1996; Macrae, M. 1996). A report must bring the reader from "…. *the basis of the valuation, the relevant facts and the reasoning derived from those facts which leads to the final value estimate. He or she should be able to follow and audit each step in the valuer's thought process.*" (Hyam, A. 2000, referring to Whipple, R. T. M., 1984).

We will now examine stakeholder interests and how they might be negatively impacted on by overvalued or overpriced leases.

Brief analysis of stakeholder interests in regard to overvalued leases

Each stakeholder identified below has been listed in the table and includes the possible impact, the consequence and what possible solutions might be.

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Table showing negative impact on all stakeholders and consequences of industry and professions contributing to asset bubbles (Duncan, W.D. and Christensen, S. 1999):

Stakeholder		Impact		Consequence		Solution/perceived solution/ongoing problem
Landlord capital (Schlesinger, L. 2012)	>	Often seek growth when rent already too high having acquired property at "face value" without having carried out proper due diligence	>	Causes business capital to fail; artificially inflates value of property; results in vacancies; causes distortion of market	>	Australian developers/"investors" dump property on to "international" markets (together with income streams; has further significant negative impact on stakeholders including nation's wellbeing).
Potential investor (property asset)	>	May buy asset at inflated income stream, e.g. 8.0% return on leases is say only a true 5.0% return (or much worse)	>	As above; may seek to maintain growth	>	Better informed lease negotiations; end of lease dispute resolutions in legislation; all leases should *be at current market rent to* avoid market distortions and an overinvestment.
Finance Capital	>	Lend money at inflated values/ valuations/appraisals	>	Often write off loans; seek additional collateral security; may charge higher interest; forced to go to market for more capital	>	A small regional Bank in Queensland Australia incurred $328 million in impairment costs and sought almost half a billion in additional capital from shareholders due to over-zealous lending (Becker, C. 2012)[17].
Business capital	>	Buy leases (business opportunities) at inflated prices or are forced to take up leases when their "embedded" capital is used to strongarm tenant at lease end	>	Landlord capital, particularly A-REITs, are knowingly offering leases at "overpriced" rentals. They collect sales and rental data and have records of business failures.	>	*From 2014, under International Accounting Standards ('IAS') 38,* Business capital must price/value/appraise the value if leases on to their balance sheets. Overpriced leases might be significant long-term liability.
Franchise capital	>	As above	>	As above	>	As above
Shareholder/ pension fund/ super annuation funds	>	One might acquire shares or "super" at inflated share price/value	>	Inflated leases lead to inflated property prices and share prices, e.g. Centro etc.	>	Many many Australian leases are inflated to up to 200% and hence so is the long-term asset
ATO	>	Loss of revenue	>	Unable to	>	

[17] *"Loan repayments overdue by 90 days have continued to increase in 2011 H2 … and are 50.0% greater than 12 months ago … "* - these were total loans.

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('Australian Taxation Office')		income		provide services to community		

Conclusion

The overvaluing or overpricing of leases in Australia is an enormous problem. It affects all stakeholders.

Parts I and II illustrate a number of things:

1. These issues are not new. They were identified in the mid-1990s or even earlier;
2. Typically here in Australia, whilst identified, workable and working solutions were found, little has been done to effect change;
3. Many of the consequences of doing nothing were considered;
4. The stakeholders mentioned above *are all losers* in a market where there is incompatibility between Business Capital and Property Capital;
5. Asset bubbles grew and deflated. In effect the underlying issues remain;
6. The most widely used way to estimate/evaluate/appraise/assess and or negotiate leases is by using the Comparison Method;
7. Transposing or transporting a rental rate, multiplied by the floor area by way of our quite realistic models could result in gross rent inflation, ending up being 126.0% to 400.0%; and
8. The Profits Method (Millington, A. 1996; Macrae, M. 1996), used quite widely overseas, largely eliminates significantly variances from what might be considered as current market rent AND it can be used to check back on rental evidence collected.

Professor Millington does not disregard the Comparison Method but states, "*Comparables are not to be ignored as, if they are available they are evidence which should be considered, but comparables have to be used extremely carefully.*"

I personally use both methods if reliable trading figures are available, including several check-methods. My accounting qualifications and knowledge (analyses historical figures), plus my marketing/economics knowledge skills allows one to forecast project Annual Financial Statements and or sales data ahead. The Specialist Retail Valuer is valuing the lease *looking forwards*. I *always stress test* my opinions/conclusions/determinations for reasonableness from the landlord and tenants points of view in accordance with legislation, definitions; the principles of willing informed parties to contract.

A professional's role is not to come up with an answer based on chance. To estimate/evaluate/appraise/assess and negotiate leases at "current market rent" is about both parties being fully informed and *in good faith* dealings. And a Professional's role is to deliver what is required of him or her.

In Robinson Brothers (Brewers) Ltd v Houghton and Cheser-Le-Street Assessment Committee [1937] 2 KB 445 at 468 – 471, Scott LJ stated *"This kind of estimating is a skilled business and it is here, especially, that the role of the skilled valuer comes in"*. Wise words considering they were used in 1937.

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B Com/B Econ; Dip Prop Val; Cert Med & Arbit; CPV; MRICS; SRV & Arbitrator; Val Reg No 2652 Qld; VAL025994 NSW; 44582 WA

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