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Practice your Excel skills by building a capitalisation model worksheet, bringing together your knowledge of the capitalisation of net rentals method of valuation and your Excel spreadsheet skills.

Scenario

You are asked to value an industrial property that consists of three tenancies, all of which are rented to strong tenants. You determine that the most suitable method of valuation for this situation is the capitalisation method.

The details of each factory are:

Outgoings for the past financial year for the property were:

In addition:

the agent's fees are 3.5% of rental income received

the current vacancy rate is 2% pa

sales evidence shows that recent sales of similar properties have provided their purchasers with a 10% net return on purchase price.

Worked answer

The first task is to determine the gross income.

1. Open a new workbook and save the file giving it an appropriate name.
2. Select (double-click) on the tab named Sheet 1 and rename it to Cap Value.
3. Give the worksheet a suitable title.
4. Build a table of information that identifies each unit and its size and income. Then calculate the gross income for the property.

Your table might look something like the one below.

Worksheet showing income calculation

Now let's continue with the next steps of the process:

1. Deduct outgoings for the property.
2. Calculate the net income.
3. Insert the capitalisation rate.
4. Determine the capitalised value for the property.
5. Round the total to the nearest $1000.

Your worksheet should now look something like this:

Cell reference: G4

	A	B	C	D	E	F
1			Case Study 1 - Capitalisation rate valuation			
2						
3	Income					
4			Factory	Size m2	Rent m2	Gross rent p.a.	
5			1	150	380	=C5*D5	
6			2	120	340	=C6*D6	
7			3	120	360	=C7*D7	
8							
9			TOTAL	=SUM(C5:C8)		=SUM(E5:E8)	
10							
11	Gross annual ren					=E9
12							
13	Outgoings					
14			Council rates		3866		
15			Water rates		1501		
16			Land tax		6387		
17			Insurance		2513		
18			Cleaning		520		
19			R&M		2506		
20			Electricity		455		
21			Agents comm.	0.035	=F11*C21		
22			Vacancy factor	0.02	=F11*C22		
23	Total Outgoings				=SUM(D14:D22)	
24							
25	Net Income					=F11-E23
26							
27	Capitalisation Ra		0.1			=F25/C27
28							
29	**But say**					=ROUND(F27,-3)
30							

	A	B	C	D	E	F
1		Case Study 1 - Capitalisation rate valuation				
2						
3	Income					
4			Factory	Size m2	Rent m2	Gross rent p.a.	
5			1	150	$380.00	$57,000	
6			2	120	$340.00	$40,800	
7			3	120	$360.00	$43,200	
8							
9			TOTAL	390		$141,000	
10							
11	Gross annual rental					$141,000
12							

Comments on worked example

- Income calculation: Ensure there is only one piece of information in each cell. Labels such as m2 are not entered into the cells. This allows the cell to be used in calculations.
- Outgoings: Sufficient columns have been used so that the layout is understood by clients who want to see the information presented in a logical and easy-to-follow order. There are columns for labels, variable factors (i.e. capitalisation rate, agent's percentage fee, etc), individual item amounts, total for group of items (e.g. outgoings) and major totals (i.e. gross income, net income, value).
- The 'But say' figure uses the ROUNDDOWN function with a –3 rounding meaning that it rounds to the nearest thousand.

Remember; valuers are generally conservative so the ROUNDDOWN function is more generally used than the simple ROUND or ROUNDUP.

Now let's look at the same worksheet showing the formulas used.

The worksheet above shows the formulas used in the worksheet. Each calculation field contains only references from another field and does not contain any variables.

Look at cells C21, C22 and C27 in Figures 2 and 3. You will notice that in Figure 3 they are decimal numbers. This is because those cells were formatted as percentage cells. You should always format cells for the purpose they are to be used (i.e. currency, date, percentage, etc). This is done by selecting Format - Cells - Number.