Investment Judgement and Deal Experience

Interview preparation summary · RE track

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INT.EJ.1.a · Is it a good property investment

State the handful of beliefs a property acquisition depends on, test each against market evidence and the business plan, and find the break-even for the one with least cushion.

A property investor does not ask whether a building is good but what must be true for this price to earn the target return. List the three to five beliefs the return rests on: the rent the space will achieve, how long and at what incentive it will let, the capex needed, the cost and availability of debt, and the yield at which it can be sold. Turn each into a number, test it against evidence such as recent lettings, the supply pipeline, vacancy and the cost plan, and then find the break-even: the exit yield or net operating income (NOI) at which value falls to total cost. Compare the break-even with a realistic range. Beliefs that depend on you (letting, cost control) deserve more weight than beliefs about the market, which every bidder shares. The usual mistake is a long list of risks with no ranking, or a base case that is a single set of hopeful numbers. Interviewers listen for specific beliefs, evidence and a stated margin of safety.

WORKED EXAMPLE: WHAT MUST BE TRUE AT KESTREL COURT

Kestrel Court is a multi-let regional office offered at 40.0m. Purchaser's costs are 6.8% of price. Current NOI is 2.4m. The plan spends 5.0m refurbishing and relets vacant floors, lifting NOI to 3.6m by year three, then sells in year five at a 6.25% exit yield. An interviewer asks: what must be true, and how much room is there? Convention: ignore income during the hold, financing and tax; one sale in year five.

Answer: The return needs the vacant floors relet to lift NOI from 2.4m to about 3.6m, a 5.0m budget and a 6.25% exit yield. On a total cost of 47.72m the plan makes 9.88m. Value only falls to cost if the exit yield widens by about 129 basis points or NOI comes in 17% short, so letting is the belief to test hardest.

> **Interview tip:** Say the beliefs first, then one break-even number, then which belief has the least cushion and how you would test it. Do not read out a risk list.

INT.EJ.1.b · Is it a good property investment

Compare an asking price with value from income, comparable sales and replacement cost, and say how much of the upside the seller is already charging for.

A good building is not the same as a good investment, because the price decides the return. Test the asking price three ways. Income: divide current NOI by price plus purchaser's costs to get the net initial yield, and compare it with yields on recent comparable sales with similar lease length and covenant. Reversion: if passing rent is below market rent, value the uplift and then ask what share of its discounted value the seller is already charging, since time and letting cost reduce it. Replacement cost: land, build, fees, finance and developer margin give a cross-check, but it is a ceiling only where rents justify new development. A property can be well below replacement cost and still be dear if rents are too low to build at all. The usual mistake is to pay the seller for the whole of the business plan, leaving no margin for execution risk.

WORKED EXAMPLE: IS THE MARLOW GATE ASKING PRICE FAIR

Marlow Gate is a 240,000 sq ft logistics park offered at 36.0m. Purchaser's costs are 6.8%. Passing rent is 6.50 per sq ft, market rent is 8.00, and leases roll to market over about three years. Comparable sales show a 4.75% net initial yield. Replacement cost is about 140 per sq ft plus a 15% developer margin. Is the price fair? Convention: net initial yield is NOI over price plus costs; discount rate for the reversion is 8%.

Answer: On passing income the park is worth about 30.8m. The asking price of 36.0m pays the seller about 93% of the discounted rent reversion, so it leaves almost no margin for execution risk. I would bid about 33.6m and pass at 36.0m.

> **Interview tip:** Give the yield on price first, then value on passing income, then the share of the reversion the seller is charging for. Mention replacement cost last as a cross-check, never as the reason to buy.

INT.EJ.1.c · Is it a good property investment

Set pass criteria before pricing, run a pre-mortem on the deal, and test the exit and the lender's covenants against a downside before recommending.

Judgement shows in what you would refuse to do. Fix pass criteria before the deal has momentum: a minimum return in the downside case, a minimum cushion before a loan covenant is breached, a limit on income from one tenant, and a refusal to rely on yield compression for the return. Then run a pre-mortem: assume the deal has lost money three years on and write down why. Typical stories are an anchor tenant break, a yield that widened with rates, capex overrunning, and a loan maturing into a weak market. Quantify the one that kills the deal, such as how far value can fall before the loan-to-value (LTV) covenant is breached. Finally test the exit: who buys at the sale date, at what lot size and lease length, and with what debt. The usual mistake is to treat a breached criterion as something to argue away rather than to fix.

WORKED EXAMPLE: PASS CRITERIA AND PRE-MORTEM FOR ASHGROVE TRADE PARK

Ashgrove Trade Park earns NOI of 3.0m and is valued at a 6.0% yield, so 50.0m. The fund would borrow 55% of that, 27.5m, with an LTV covenant of 65%. The fund's pass criterion is at least 100 basis points of yield cushion before the covenant is breached. Does the deal pass, and what would the pre-mortem look at? Convention: NOI held constant, interest ignored.

Answer: The loan breaks the covenant if value falls 15.4% to 42.3m, which is a yield of 7.09%, 109 basis points wider than entry. That just passes a 100 basis point test, so the deal is acceptable only if the tenant breaks are diligenced and the exit has more than one type of buyer.

> **Interview tip:** Name your kill criteria before the numbers, then give one number, such as the yield at which the covenant breaks, and say what you would do if it were 60 basis points instead of 109.

INT.EJ.2.a · Telling your deal story

Tell the story of a property acquisition in a clear order, with the numbers you owned and an honest account of your own contribution.

An interviewer uses your deal story to see what you actually did. Use a fixed order: the asset and the situation, why it was attractive at that price, your role, the numbers you owned, the main risk and how it was handled, the outcome against plan, and what you learned. Give figures that a property investor expects: price, net initial yield, yield on cost, loan to value, interest cover, and the exit yield. Use I for work you did, such as building the lease schedule or the capex budget, and we for decisions the team took, such as the price. Say what you would do differently. The usual mistakes are describing the building rather than the decision, claiming the team's result as your own, and giving numbers that do not reconcile, such as an exit price and exit NOI that imply a yield far from the one you quoted. A smaller deal you can discuss in depth beats a large one you only watched.

WORKED EXAMPLE: REBUILDING A DEAL STORY FOR PENHALLOW WORKS

A candidate says: we bought a mixed workshop estate, added value, and sold it at a good profit. Rebuild this into a two-minute answer using these illustrative facts. Price 28.0m, purchaser's costs 6.8%, debt 60% of price at 5.0% interest-only, NOI 1.75m rising to 2.30m over five years (1.75, 1.90, 2.10, 2.20, 2.30), sale in year five at a 6.25% yield less 1% costs. The candidate built the lease-up schedule. Convention: year-end flows, ignore tax.

Answer: We bought a workshop estate for 28.0m at a 5.85% initial yield, 60% financed, and the plan took NOI from 1.75m to 2.30m. It returned 1.96x and a 16.1% IRR; without the plan it would have been 1.18x. I built the lease-up schedule and found two year-three breaks, and the lesson was to cost breaks earlier.

> **Interview tip:** Quote the entry yield, the outcome against plan and one number that was yours. Use I for what you did and we for the price decision.

INT.EJ.2.b · Telling your deal story

Defend your own acquisition under challenge, critique an acquisition someone else describes, and change your view only when the evidence does.

Interviewers push back on purpose, to see whether you hold a view for reasons. When your own price or exit yield is challenged, restate the basis (comparable sales, cost, lease length), show the break-even and the sensitivity, and say what evidence would change your mind. Do not defend by authority (investment committee approved it) and do not collapse under the first objection. When critiquing someone else's deal, check the same things in the same order: the entry yield against the cost of debt, whether leverage is positive or negative, interest cover and debt yield, the lease profile and tenant covenant, the

exit yield against entry on a building that is older, the rent growth assumed against the market, and the downside. A deal with an exit yield equal to the entry yield, three per cent rent growth and 65% leverage has a thin margin of safety however it is described. Say which point matters most, not all of them.

WORKED EXAMPLE: CRITIQUING A DESCRIBED CITY-CENTRE OFFICE DEAL

An interviewer describes a deal: a fund bought a city-centre office for 60.0m at a 5.0% yield, so NOI is 3.0m. It borrowed 65% at 5.5% interest-only, assumed NOI grows 3% a year, and sells in year five at the 5.0% entry yield, calling the deal safe core. What is wrong with it? Convention: purchaser's costs 6.8% of price, sale costs 1%, year-end flows, no tax.

Answer: Debt costs 5.5% against a 5.0% yield, so cover is only 1.40x and leverage is negative. The base case is 1.42x and 7.7% IRR, but a mild downside of 1% rent growth and a 5.75% exit gives 0.80x. It is a thin return with a real chance of loss, not safe core.

> **Interview tip:** Check leverage and cover first, rebuild the return, then pick the one flaw that matters most. Say what extra fact would change your view.

INT.EJ.2.c · Telling your deal story

Explain honestly a deal that went wrong, separating market from decisions, and build a credible numerate view of a property you only followed when your own deal experience is limited.

Two situations test honesty. First, a deal that lost money. Give the plan and the outcome in numbers, split the shortfall into what the market did (yield moves, rates) and what the team controlled (letting, capex, the exit assumption), own the assumption you made even where the market moved, and state a concrete change in practice. Credibility comes from the split, not from blaming luck or taking all the blame. Second, limited experience. Do not invent a deal. Choose a property, a listed property company or a published transaction you have followed, say clearly that it is an analysis, and work it as if you had been on it: the income and yield, the lease profile, the comparables, what must be true, the exit, and what you would diligence. The usual mistakes are vague lessons such as being more careful, and claiming an analysis as an experience.

WORKED EXAMPLE: EXPLAINING A SHORTFALL ON A TRADE PARK DEAL

A candidate describes this illustrative deal. Bought for 30.0m, costs 6.8%, 60% debt of 18.0m. The plan assumed exit NOI of 2.40m at a 5.5% yield. Entry NOI was 1.80m. At sale NOI was 2.20m and the market yield 6.5%. The interviewer asks: was this your fault? Convention: equity multiple is exit equity over equity invested, ignoring income and sale costs.

Answer: The deal planned a 43.6m exit and achieved 33.8m. About 63% of the 9.8m gap was the yield moving from 5.5% to 6.5% and 37% was NOI coming in at 2.2m instead of 2.4m. The 5.5% exit yield was my assumption on an older building, so I own it, and I now test a yield 100 basis points wider.

> **Interview tip:** Separate what the market did from what you chose, own the assumption you set, and give one change in how you work. Never call it bad luck alone.

Summary of the Charta interview-preparation topic. Companies and figures in the examples are invented. Draft content, not yet expert reviewed.