

Calculating enterprise value for real estate companies

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Introduction

The described method for calculating the value for real estate joint-stock companies is one of many methods.

The purpose behind the method is that you are able to easily put a value on a company based on a year-end report. It assumes that the company's only activity is owning and administrating its real estate portfolio.

The method

To calculate the value of the stocks you have to examine the value of the real estate portfolio and the equity. Subtract the book value and deferred tax amount from the value of these. This will give you the value for all the stocks in the company.

The market value of the portfolio

The basis for the valuation is the market value of the portfolio. You can calculate the market value using the surplus in the year-end report. The surplus is the company result – excluding financial costs and depreciations.

Otherwise you can normally find an up-to-date portfolio valuation in the year-end report.

If you would like to be more exact, you should calculate your own surplus. Start with income from rents and make deductions for maintenance, running costs and the administration costs that you need to run the business.

Then use the yield appropriate to that type of real estate and location.

An example:

The surplus will be 200 million (m) Swedish kronor (SEK) and the yield is set to 6 percent.

This will result in a market value of: 3.333 billion SEK.
($200/(6/100)$)

Total equity

Total equity is found in the balance sheet. Total equity means: share capital, fixed capital and the profit for the year.

The book value

When buying a joint-stock company you also take over the book value of the portfolio. When you calculate the value for the stocks, you have to subtract the book value from the value of the portfolio. The balance sheet will tell you what the book value is.

The deferred tax

In a future real estate sale, you will have to pay tax for the profit you make. The profit is calculated using the book value that you got from the company you purchased from. Normally, the book value is lower than the market value. Therefore you have to lower the value of the stocks by the amount of deferred tax. A very common way of doing so is to simply lower the price by 10% of the profit value.

An example:

The market value of the portfolio is 100 m SEK and the book value of the portfolio is 60 m SEK.

You will have to pay tax for the profit which will be 40 m SEK (100-60).

Therefore you have to adjust the value of the stocks by 4m SEK as this represents 10% of the profit.

Example

The real estate market value for a real estate company is 100m SEK and the book value is 60m SEK. The balance sheet shows total equity, including profit for the year at 1.5m SEK.

+ The value of the portfolio
+ Total equity including profit for the year
- Book value
- Reduction for deferred tax
= Stock value

+ 100.0
+ 1.5
- 60.0
- 4.0
= 37.5m SEK

The value for all the stocks in the company will be 37.5m SEK.