Valuation from a conversion perspective:
A method to determine the determine the value of a structural vacant office building

Main Research Question:
Is it possible to create a method to determine the value of structural vacant office buildings, which gives an objective market value from a conversion potential perspective of the property and what are the consequences of this approach for the buildings value?

Problem analyses
The lack of a widely accepted objective method to assess the value of a structurally vacant office building is the main problem of this research. In this research, the value of empty office buildings from a conversion potential has been investigated. A start will be made of the creation of a method from this perspective.

There exist some difficulties in the valuation of empty office buildings. There are different methods to determine the value of an office building. Some of those methods are based on potential revenues. The valuation of empty office buildings from an income perspective is difficult, because the office buildings do not generate income. It is unrealistic to use "fictive cash flows" when valuating empty office buildings on locations where there is no market demand for office buildings. Furthermore, there is one principle that is based on comparing transactions and values. This method is hard to use and illogical, since there are not enough reference transactions.

Research
A literature study is done to investigate to existing valuation methods. Also interviews are done to create an image of the current practice of valuation of empty office buildings. There is looked at the residual value of 14 buildings (ex post) which have a transformation plan. Also there are made analyses of empty office buildings (ex ante) and there residual value from a conversion perspective. There is looked at a variety of potential uses are like; healthcare property, residential buildings, hotels and student housing. These uses are selected by their capacity to contribute to the reduction of the vacancy issue of office buildings.

Results
In the graphs below the results of the different case studies are shown and compared with each other. The transformation costs and residual values are case specific.

Conclusion
It is possible to determine the value of a structural vacant office building using the conversion potential. A problem in this approach is the amount of unknown variables. The costs could be determined more easily when a large database containing reference projects would be available. The HBU-expected (value tree) has proven to be a wrong principle in determining the value of an empty office building. It's different per function whether the residual value is higher than the finance value. Market conditions must be determined and can be interpreted differently. A valuation from a conversion perspective is not possible for every empty office building, but for the objects were it is a possibility it is a good alternative, especially when it is compared to the valuation of an income perspective with fictive cashflows in an office function. The method has bottlenecks like the determination of the market demand and the total transformation costs.

Summary of the roadmap
1. Check the veto criteria:
   a. The building is located in a city in which the existing building is not possible to create a new building.
   b. The building has a function that is not possible to create a new building.
   c. The building is located in a city in which a new building is not possible to create.

2. The market demand: Determine with a market analyses for which functions there is a market demand.

3. Determine the potential income with the help of a general lay out of the building drawings. And the existing valuation methods.

4. Determine the transformation costs with a reference project or the calculation model for residential.

5. Determine the residual value by subtracting outcome 4 from 3.

6. Present the different values of the different functions separately.

7. Make a comparison with demolition new-build and choose the best scenario.

Name student: B. (Bram) Djiajdiningrat
Department: Real Estate and Housing
Graduation Lab: Real Estate Management
In affiliation with: FGHBank; drs. M. Donkers, drs. W. Doldersum
Supervisors: dr. H.T. Remay MSc, drs. P.W. Koppels