

The ten-minute rent check

Chapters 1 to 3. Before yield, before covenant: the rent is a claim, not an input. One line per building, a market rent from someone with no role in the transaction.

Transaction		Analyst	
Tenant / guarantor		Date	

Building	Type	Area m ²	Passing €/m ²	Market €/m ² (source, date)	Over-re nt %	Over-rent €/yr	Capitalised at the deal yield

Price twice	Value
Passing rent ÷ deal yield (the asking price)	
Market rent ÷ the same yield	
The difference: an unsecured advance to the tenant, to be underwritten on its own terms	
Price per euro of rent (1 ÷ yield)	

Item	Answer	Evidence / note
No market rent given? Four substitutes, most reliable first		
The lender's sizing rent: what rent did the bank use for interest cover?		
The tenant's internal rent: what was the site charged before the transaction?		
Rent per unit of output (tonnes, units) against the group's other sites		
The last third-party letting in the same submarket (hard for specialised buildings: that difficulty is the finding)		
Over-rent is often confused with		
A premium for lease length: belongs in the yield, not the rent		
A premium for covenant strength: same answer, or you pay for it twice		
Fit-out reimbursement: ask for the schedule; if none, it is not that		

The test that settles it: at expiry, a rent about the building reverts to near the passing rent; a rent about financing reverts to market. On the book's tape: 26.1 per cent above market, €37.1 million of price, 20.7 per cent of income that disappears at expiry.

Reading the covenant, and the perimeter

Chapter 4 and Appendix D. Cover is meaningful only on the entity that signs the lease. Make its audited accounts a condition of bidding.

Transaction		Analyst	
Tenant / guarantor		Date	

Step	Finding
1. The signatory: the entity on the signature page, not the group in the logo	
2. Its profit before rent, from its own audited accounts (not a segment note)	
3. Divide by the rent. Below 2.0x on twenty years is a conversation; below 1.5x a different transaction	
4. The guarantee: caps, time limits, conditions precedent, substitution rights	
5. What stops the perimeter shrinking (usually nothing: price it)	

Perimeter	Profit before rent	Cover, passing	Cover, market	Claim?
Group, as presented				
Guarantor (the one that binds)				
Profit outside recourse, € and %				

Guarantee structure (best first)	Present here?
Listed parent, without cap or condition	
Intermediate holding company (what sits between it and the cash?)	
Operating subsidiary alone (the perimeter can shrink without consent)	
Special-purpose tenant with a comfort letter: a photograph of a covenant	

Cover required	Rent it supports	Price at the deal yield	vs asking price	Cover in year 10, profit flat	Cover on the last rent, profit flat

On the book's tape: 4.79x at group, 1.61x at the guarantor, 66.4 per cent of the headline profit out of reach; flat profit takes cover to 1.32x by year ten and 1.06x on the last rent. 2.00x on the guarantor supports €144.4 million, 19.5 per cent below the asking price.

Vacant possession value, underwritten

Chapter 5. What the buildings are worth to you empty: the market rent, less the irrecoverable share, at the re-letting yield, less everything spent to get a new occupier in.

Transaction		Analyst	
Tenant / guarantor		Date	

Building	Market rent €/yr	Gross at re-let yield	Void (months × rent)	Capex (€/m ² × m ²)	Letting fees	Net value	Net €/m ²	Valuer's VP

Item	Answer	Evidence / note
Defend each deduction as a market observation, not a stress		
Void: agent's quote for a second-hand unit of this type; for a plant, ask "who else takes this building?"		
Capex: stripping process installation, floor, services, to what a new tenant accepts (surveyor, small fee)		
Letting fees: agency terms; legal fees, marketing and your own time are excluded and push the value down		
The floor beneath the floor (specialised buildings)		
Site area, permitted use, land value per hectare from a local agent		
Demolition and remediation estimate		
Run the model again with the site value: the only sensitivity that tests whether the building has a second life		

Use both numbers: the valuer's VP is what an orderly sale might fetch; the underwritten net value is what you are covered for if the covenant fails. On the tape: €111.9 million gross, €83.2 million net, €94.0 million from the valuer.

The decomposition: five things, two questions

Chapter 6. Split the price into what survives a default and what is an advance. Price allocated by passing rent, as the deal is structured; run it by market rent as well.

Transaction		Analyst	
Tenant / guarantor		Date	

Component	How it is computed	€	% of price	Survives a default?	An advance?
Bricks	Net vacant possession value			Yes	No
Costs avoided	Gross re-let value less net value			No	No
Signature premium	Market rent (net) at the deal yield less at the re-let yield			No	Price of the covenant
Irrecoverable, capitalised	Passing rent × irrecoverable share ÷ deal yield			No	No: an operating cost
Over-rent	(Passing – market) × (1 – irrecoverable) ÷ deal yield			No	Yes

Subtotal	€	% of price
Property: bricks plus costs avoided		
Exposure to one company: signature plus over-rent		
Secured if the tenant fails: bricks only		

Building	Price (by passing rent)	Bricks	Bricks % of price	Price (by market rent)	Bricks % of that

Two errors in opposite directions: two columns (bricks and "credit") overstate the advance and break the spread calculation; three columns hide the signature premium on the property side. On the tape: 46.3, 16.0, 16.2, 1.0 and 20.5 per cent; property 62.3, exposure 36.7. Only the 46.3 is secured.

Criticality against recovery, and the hand-back test

Chapters 7 and 11, Appendix B. Criticality is set by one question to the operations director: "if this building burned down tonight, how long before you were producing the same volume elsewhere?"

Transaction		Analyst	
Tenant / guarantor		Date	

Building	Answer (months)	Criticality	Rank	Recovery % of outlay	Rank	Gap

Appendix B's formula, time to replicate = $0.25 + 3.5 c^2$, rounded to a quarter: six months is c of about 0.20 to 0.32, nine months 0.33 to 0.42, three years about 0.89, three and a half years 0.94 and above. Spearman on the tape: -0.70.

Building	Over-rent escaped (PV)	Yearsto replicate	Profit through site €/yr	Margin lost	Moving cost	Cost of leaving	Keep / hand back	Margin %

Without cross-default a tenant hands back where leaving costs less than the over-rent it escapes. On the tape: Zeebrugge, Hamburg and Bristol, the three that re-let best; the master lease is worth at most €25.3 million (€40.4 million with the cost of leaving 10 per cent lower). Quote the range; flag any building within 2 per cent of the flip.

The credit slice, and the ladder

Chapters 8 and 9. Convert a property question into a credit question your firm answers every week, then say what the price leaves once credit is paid for.

Transaction		Analyst	
Tenant / guarantor		Date	

The over-rent as a bond	Property buyer	Bondholder
Amount advanced		
Repayment stream (indexed over-rent, net)		
Rate at which it repays the advance (all-in)		
Spread over the risk-free rate (state the curve point)		
Term		
Recovery on this slice / on the whole position		
Tradable?		

Rung of the ladder	Rent-leg rate	Property-leg rate	Value	vs price	Break-even default
Risk-free on both legs: the bond's own measure					
Plus illiquidity on the rent leg					
Plus a modest property premium					
Plus the full property premium (base case)					

The comparison that matters	Value
Risk premium the price leaves, once credit is paid at the bond's rate (uniform, over risk-free)	
Risk premium your own base case requires (the same measure)	
Shortfall	
Check: the same calculation on the bond itself leaves about zero	

Never set the premium the price leaves against the bond spread: one is a residual, the other the gross credit compensation. On the tape: 269 bp on the slice against 385 bp on the bonds; 36 bp left against 241 bp required; break-even default 3.23 per cent at the base case, 7.03 per cent on the bond's own measure.

Indexation, the residual and the reversion

Chapters 12 and 13. The cap is the clause that matters; price it with the discount rate moving with inflation, and weighted by the chance the tenant is still paying.

Transaction		Analyst	
Tenant / guarantor		Date	

Inflation every year	Last contractual rent	Cost of the cap (promised rent)	Cost of the cap (expected)	Value of the floor
-1.0%				
0.0% to 3.0%				
4.0%				
4.5%				
5.0%				
6.0%				

Item	Answer	Evidence / note
Read the clause		
Is the cap applied to the annual increase or to a compounded index?		
Floor: level, and does it apply to the index or to the rent?		
Index, publication lag, rebasing		
Any open market review? Upward-only?		
The residual		
Orderly ending at expiry: share renewed at market (not passing) rent, the rest re-let		
Default before expiry: void, capex, fees at that date		
What a surviving tenant is worth at the end (the difference)		
Reinstatement: price it at zero; it binds only a solvent tenant		

The reversion	Value
Income lost at expiry whatever happens (over-rent ÷ passing rent)	
Orderly ending discounted to today at the property rate, % of total outlay	

Revised: at 4.5 per cent inflation, with the discount rate moving with it, the cap costs €23.7 million on the rent as promised and €10.5 million as expected at the bond-implied default rate. The first edition discounted at 3.85 per cent whatever the inflation and printed €31.8 million.

The full cash flow in eight lines, and where the value comes from

Chapters 14 and 15. One cash flow with two branches, not a base case and a downside. Put the default rate in one cell and the two premia in two more.

Transaction		Analyst	
Tenant / guarantor		Date	

Column (80 quarterly rows)	Formula	Built?
Survival	previous $\times$ (1 – quarterly default probability)	
Rent	indexed annually in steps, net of the irrecoverable share, $\times$ survival	
Default probability	survival at start $\times$ quarterly probability	
Recovery	dated vacant value of the portfolio, net of disposal costs, $\times$ default probability	
Residual (last row)	value at expiry $\times$ surviving probability	
Discount factor, rent leg	risk-free plus illiquidity only: the hazard carries the default	
Discount factor, property legs	risk-free plus a property premium	
Value	sum, $\div$ (1 + acquisition costs), against the asking price	

Source of value	Present value	Share
Rent while the tenant survives		
Recovery if the tenant fails		
Residual at expiry, if the tenant is still there		
Total before acquisition costs		

Item	Answer	Evidence / note
What the model assumes, all four generous to the seller		
Recovery is instant: keys and void priced as a cash deduction, not a delay		
The re-letting yield is constant: no widening when nine buildings arrive together		
Default is a constant hazard: no clustering with the economy		
No arrears before failure		

On the tape at the bond-implied 6.42 per cent: €153.0 million, of which rent 73.6 per cent, recovery 22.7, residual 3.7; survival to expiry 26.5 per cent. Spend the diligence on the buildings: a quarter of the value is recovery.

The lender, the seller and the balance sheet

Chapters 16 to 18. Two free second opinions: the bank that would finance it, and the seller's own accounts.

Transaction		Analyst	
Tenant / guarantor		Date	

Lender test	Basis	Maximum loan	% of price
Loan to value	Vacant possession value		
Loan to value	Price paid		
Interest cover	Market rent		
Interest cover	Passing rent		

Item	Answer	Evidence / note
Ask every lender, early		
What will you lend, and on which test?		
What rent did you size it on? (a market-tested market rent)		
Allocation building by building (a market-tested Chapter 7)		
Do you want a corporate guarantee as well? (the buildings alone do not support it)		

Seller's alternatives	Cost (IRR on the actual flows)	Secured on	Term
Bank debt			
Senior unsecured bonds			
Sale and leaseback, whole portfolio			
Sale and leaseback at a market rent			
The over-rent slice alone			

IFRS 16	Before	After
Net financial debt		
Lease liability (contractual rent at the incremental borrowing rate)		
Total obligations		
Leverage, same basis		
Leverage as presented (financial debt ÷ profit after rent)		
Share of consideration recorded as financing (ask the auditors)		
Did the transfer qualify as a sale? On which assets?		

On the tape: the lender stops at €45.7 million, 25.5 per cent of the price; the seller pays 6.83 per cent (7.14 at a market rent, 5.29 on the slice alone); total obligations fall €23.3 million on €177.7 million of proceeds.

When the tenant restructures

Chapter 19. The sequence is consistent across jurisdictions. The landlord's leverage is what he extracts in exchange for a concession he was always going to make.

Transaction		Analyst	
Tenant / guarantor		Date	

Stage	Signal	Seen on	Action
1. Covenant waiver or amend-and-extend			
2. Rent deferral request (often with an extension offer)			
3. Rent reduction request: "re-basing to market"			
4. Formal process: disclaimer, rejection, administration			

The three prices, computed beforehand	Annual rent	What the landlord holds	Basis (state it)
Lease continues as written			
Rent re-based to market			
Buildings returned (year ____)			

Item	Answer	Evidence / note
Protections, most useful first		
A guarantee from an entity with assets		
Cross-default across all buildings (the master lease)		
Rent deposit or letter of credit: months ____ × one month of rent		
Restrictions on disposals out of the guarantor		
Negotiated at the outset or not at all (no cash cost to the seller)		
Guarantor accounts within ninety days of year end		
Notice of any covenant waiver or amendment within thirty days		
Notice of any disposal of assets or contracts out of the guaranteeing entity		

On the tape: re-based, a let portfolio worth €142.3 million at the deal yield; repossessed in year five, €80.1 million of empty buildings in year-five euros. The two are not on one basis: say so on the page.

Sizing the bid, and what would have to be true

Chapters 20 and 21. Three routes to a bid, sensitivities ranked by size, and the model inverted into a list of beliefs.

Transaction		Analyst	
Tenant / guarantor		Date	

Step	Value	Change
Asking price: passing rent at the deal yield		
Same buildings at market rent		
Rent cover of ____x on the guarantor		
Full cash flow at the bond-implied default rate		
Memo: net vacant possession value		
Memo: what a lender will advance		

Assumption moved (one at a time)	Value	Change	Rank
Default rate to zero			
Default rate doubled			
Re-letting yield +125 bp			
Both discount rates +50 bp			
Inflation +130 bp (rates move with it)			
Renewal at expiry to none			

For the asking price to work...	Assumed	Required	Reachable? Within experience?
Annual default rate			
Inflation every year (search both ways)			
Share renewed at expiry			
Re-letting yield			

Omitted	Direction	In whose favour
Distressed re-letting yields when all return at once		
Delay before the keys arrive		
Default correlated with weak occupier demand		
Arrears before failure		
No second occupier: site value only		
Currency on any non-euro asset		
Dilapidations and reinstatement at zero		
Portfolio premium or discount on exit		

On the tape: bid €153.0 million, 14.7 per cent below asking, 7.92 per cent gross initial. Revised: the inflation search must run both ways; twenty years of deflation at 2.62 per cent a year reaches the asking price, which is still no argument for it.

The levers, and the monitoring plan

Chapter 22. Ranked by value, not by custom. Then four things, every quarter, with a name against each.

Transaction		Analyst	
Tenant / guarantor		Date	

Lever	What it is worth	Difficulty	Asked? Outcome
Re-base the rent to market			
Guarantee from a parent with assets			
Remove the indexation cap			
Cross-default across all buildings (do not lose it)			
Rent deposit or letter of credit (months)			
Open market rent review at year ten			
Restrict disposals out of the guarantor			

Quarterly	Owner	Last value	This quarter	Trigger
Guarantor accounts and cover (not the group)				
Tenant bond spread and the implied default rate				
Break-even default rate, re-run on today's tape				
Market rent per building: the gap to passing rent				
Re-letting plan per building (written in year one)				

On the tape: bonds widening from 385 to 600 bp move the implied default rate from 6.42 to 10.00 per cent and the value from €153.0 to €133.2 million, with the rent paid on time throughout. The gap to market closes only where market rents outgrow indexation: at 4 per cent against 2.2, about 1.7 per cent a year.

The committee paper, and the one-page checklist

Chapter 24 and Appendix D. Ten minutes to read, twenty to argue with. Nine pages of substance and one of tables.

Transaction		Analyst	
Tenant / guarantor		Date	

Section	Content	Done
1. The two rents, sourced to a named independent agent		
2. The price decomposition: property, exposure to one company, secured		
3. Rent cover on the entity that signs, with profit outside recourse in euros		
4. The credit comparison: spread, recovery, term		
5. The premium the price leaves, against the one required, with the ladder beneath		
5b. Break-even default with its convention; survival to expiry		
6. What a lender will advance, with the quote		
7. The inversions		
8. The omissions, on the facing page		
9. The bid, and the offer to fund the over-rent as a loan		
10. The monitoring plan and who watches		

The two sentences at the top: (1) ___ per cent of this price, €___ million, is exposure to one company rather than to property. (2) After paying for that credit at the rate the tenant's own bonds command, the price leaves ___ bp over the risk-free rate, where our base case requires ___ bp.

Item	Answer	Evidence / note
Never in the paper		
"The rent is well covered by the tenant's EBITDAR." Which entity?		
"The assets are mission-critical, which underpins the income." And undermines the recovery.		
"The twenty-year lease provides long-term index-linked income." Capped, above market, resetting down at expiry.		
The portfolio yield as a headline; lease length as a virtue; group revenue; photographs		