NPV / NTV / IRR & DFS Sofa's!

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The Winsper Group

NPV / NTV / IRR & DFS Sofa's

The worth of calculating Net Present Value, Net Terminal Value, Interest Rate of Return and thus 'Yield' is akin to guessing prices of DFS Sofa's at any given point in time and as such justifies nothing, save for misguided market confidence and is not the answer to 'Future Proofing'.

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Is there any relevance, for Investors / Developers in determining Net Present Value (NPV), Net Terminal Value (NTV) and Interest Rate of Return (IRR) or 'Yield'? Whilst agreed, there is always a risk to the investor / mortgagor / guarantor, this is normally mitigated by a maximum % Loan To Value (LTV), on the investment / unit and hence if the built asset is defaulted on and repossessed for disposal, the initial investment is recouped by the investor / mortgagor / guarantor, with specific clauses built into contracts. It is the Property Developer (Lendee) or Development Team that accepts the true risk, with the loss of deposit capital. Obviously, if the development is self-funded, then this becomes a mute point, but is seldom the case. Further, the built asset infrequently depreciates (Wear and Tear / Obsoletion), as the Land it encompasses, increases historically over time, hence Land Banking.

The predictability of Inflation (RPI / CPI) and Interest Rates over time, is not guaranteed and is fluid. Who would have successfully predicted the world economic downturn, at the latter end of 2008 (Less BRICs), whilst all knew the 10 – 15 year property boom and bust cycle, through recent history, the late PM (Great Britain – Gordon Brown), reassured all, as chancellor and then PM that 'Boom and Bust' had ended, hence, Property Developers that had convinced investors over the viability of 'Docklands' style developments in Liverpool and Manchester soon became unstuck. It seems, Inflation and Interest Rates are very fluid variables and hard to predict. Projecting this current stagnation forward again may be folly, as the 0.25% enjoyed now, will only increase once the economy gains momentum. How do we predict exponential growth, if any, a la 1991 (Historically 1970's / 1930's etc) onwards?

The present and future value of capital is not as clear cut as projecting forward and back. Yes £1000 pounds today may be worth more in the future and hence investment capital in real terms has a less Net Present Value, but there is a correlation to products. In 2008 £1000 would have bought you one DFS sofa, however in today's economic climate it will buy you three. A flippant example, but true. Therefore, whilst Capital Values in property stagnate or increase, other sectors experience differential economic conditions and thus what really is the true capital value of £1000 in any space or time and is it sector specific?

Thus as a mathematical exercise, calculating; NPV, NTV and IRR justifies nothing, save for misguided market confidence and is not the answer to 'Future Proofing'.

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