



POLIT CASE  
COMPETITION



jeudan

# PCC RISE 2022

## Valuation, Risk and Strategy of Bredgade 40-42

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# We recommend Jeudan to lease out Bredgade 40-42 **as an office**

## **Background**

Jeudan is currently evaluating its property on Bredgade 40-42 to evaluate whether it should be leased out as an Event Center or as an Office Building. The evaluation should be based upon both financial and strategic measures

## **Valuation of the property**

When renting out the property as an Office Building the net operating income (NOI) falls short of the NOI of an Event Center. However, when accounting for the required rate of return the Office Building proves to be the most valuable long term.

## **Strategic measures**

When calculating expected electricity water usage an Office Building does require more than an Event Center. However, these calculations are related to a high degree of uncertainty.

## **Risks**

Not only is the general vacancy of Office Buildings lower in Denmark than Event Centers but, the revenue stream of an Office Building is also less vulnerable to the expected changes in investment, inflation and interest rates in the years to come

## **Final verdict**

Our final verdict is that Jeudan should lease out as an Office Building. Though, this does not leave the smallest environmental footprint in regards to water and electricity consumption it is seen as the least susceptible option in regards to future uncertainty and proves to have the highest value. Thus, this gives Jeudan the best possibilities to further invest in environmental and cultural projects.

# Value of the building is **higher** when rented out as an office

## Office Building

### Revenue

Rental Revenue	DKK 26.161.028,00
Parking Revenue	DKK 4.500.000,00

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Operating Revenue	DKK 30.661.028,00
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### Expenses

Taxes & Insurance	DKK -2.000.000,00
Maintenance	DKK -991.950,00
Maintenance - Empty office	DKK -19.417,50

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Operating Expenses	DKK -3.011.367,50
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Net Operating Income (NOI)	DKK 27.698.001,50
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Value of Building	DKK 923.266.720,50
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## Event Center

### Revenue

Rental Revenue	DKK 31.017.615,00
Parking Revenue	DKK 25.048.0845,00

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Operating Revenue	DKK 56.066.460,00
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### Expenses

Taxes & Insurance	DKK -3.000.000
Maintenance	DKK -1.491.232,00
Maintenance - Empty office	DKK -24.303,00
Lost revenue from parking, Dronningens Tværgade	DKK -5.917.050

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Operating Expenses	DKK -10.432.584,00
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Net Operating Income (NOI)	DKK 45.633.876,00
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Value of Building	DKK 869.216.684,00
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# Jeudan should **reinvest with sustainable purpose** while **preserving historical buildings**

Office Building

Event Center

## Electricity

- 400 workers
- 225 workdays a year
- Consumption of 25-30 kwh/m<sup>2</sup>/year

**Est. annual consumption**  
**335.223 kWh**

## Water

- 400 workers
- 225 workdays a year
- Consumption of 30-35 l. water pr. employee pr. workday

**Est. annual consumption**  
**2.695.875 l. water**

## Pros & Cons

### Pros

- Possibility of reinvesting higher created income in sustainable projects
- Preserving the historical environment

### Cons

- Higher consumption of water and electricity
- Less contributing to cultural life

## STRATEGY

An Event Center would result in greater tear of the building while increasing noise pollution. Office Buildings do however results in higher consumption of water and electricity. We do still advice Jeudan in leasing out as offices, because of the greater preservation of the buildings, and the improved possibility in investing in other sustainable and environmental promoting projects. Jeudan will strengthen their image by being able to invest in concrete projects with the purpose of developing a greener future.

- Estimation based on 50/50 tenants for concerts/theater and art exhibitions
- 125 events
- Openings hours 09:00-18:00

**Est. annual consumption**  
**232.377 kWh**

- Estimation based on 50/50 tenants for concerts/theater and art exhibitions
- Open 312 days a year
- Consumption of 6-15 l. water pr. guest pr. event

**Est. annual consumption**  
**960.637 l. water**

### Pros

- Positive reflection on Jeudan as a culturally aware company
- More sustainable solution

### Cons

- Higher vacancy rates
- Wear and tear on the property
- Noise pollution due to concerts etc.

# An office rental is connected with a **lower risk** relative to an Event Center

## Office Building



## Event Center



## Risks

### Increased **demand of investments**

We use the data for hotels as proxy for the Event Center



The development in office transaction volume in CPH is unaffected in the years before covid-19 and we therefore suspect the total demand of investments to be unaffected going forward.



By using the transaction volume data for hotels we see little to no difference in the years before covid-19, which leads us to conclude the demand of investments to be unaffected.

### Increased **inflation and interest rates**



Increased inflation and interest rates can over time affect demand of goods and services and therefore the demand of workers and offices.



In the data we see a higher real interest rate is expected and therefore directly lower the demand of goods and services and pose a risk of lower demand on events.

### **Cultural changes** connected to Covid-19



Short term: The office leases are annually regulated and are often multi-year rentals and therefore pose no risk.



Short term: The Event Centers are 6-12 month rentals which pose a risk since a Covid outbreak can cause restrictions and therefore an empty building.



Long term: We see a rising demand in office spaces combined with larger offices and improved quality of the facilities to encourage employees to work on-site.



Long term: We assume Covid restrictions aren't gonna affect events and cultural happenings going forward and therefore pose no risk to Event Centers

# Final verdict: **Lease it out as an Office Building**

- 1** Leasing out Bredgade 40-42 as an Office Building will entail a valuation of the property DKK 27 mio. higher than if Jeudan where to lease it out as an Office Building
- 2** Though the Office Building is less sustainable with a 45% higher expected annual electricity consumption and a 280% higher expected water consumption than the alternative which entailed renting it out as a Event Building we recommend Jeudan to rent the building out as an Office Building. It is our assessment that the more sustainable alternative can not outweigh the loss in income it will inflict.
- 3** Leasing Bredgade 40-42 out as an Office Building poses a general low risk to the expected future changes in interest rates and inflation. Further, demand of office space at central locations is expected to increase after COVID-19 proving a potential upside
- 4** To counter the less sustainable option in the Office Building we recommend Jeudan to prioritize green and sustainable investment in Bredgade 40-42 itself and directing the revenue towards greener and more sustainable investments with a higher publicity. Thus, strengthening their image as a real estate investment company with focus on the ESG agenda.