



Altus Group

2024 ARGUS
University Challenge

presents

*Kings
Courts*

Bridging Legacy and Innovation
for a Sustainable Global Landmark

a fictional location for purposes of the 2024 ARGUS University Challenge



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Kings Courts

The royal family of the little-known kingdom of Minutania has turned to you as an investment advisor with a special request. The family's castle with its extensive parkland on the Gulf of Pekunia was surprisingly and unambiguously named the main winner in 2024 in the latest "Most Desirable Properties of the World" competition held by Supranational Traveller Magazine, ahead of the likes of Buckingham Palace and Neuschwanstein Castle. This is all the more remarkable given that the kingdom had only been visited by 11,324 guests in 2023. The viral spread of immaculate images of the picturesque castle, which is only somewhat in need of modernization from the outside, has delighted millions of people worldwide.

The King of Minutania wants to capitalize on this favor and redevelop the area with an innovative mix of uses. *Kings Courts*, a car-free research and technology campus, is to be built on 9.6 hectares of the site between parks, adjacent forests and the Minutania golf course, comprising living, working and leisure facilities for global companies and their demanding workforce. Transportation access via Minutania's international airport is already excellent with private aircraft and will be further expanded. Several international metropolises can be reached within a 3-hour flight. Restaurants, local supply, and other amenities are also nearby in the capital city of Minutania.

The building rights were created immediately by decree of the King. The development plan and a design statute were completed by the court in record time with AI support. The historic facilities and sightlines would indeed all be preserved. Underground facilities and tunnels would be constructed without trenches, and high-rise buildings would blend in with their surroundings using natural materials. Only the princes' extensive kitchen garden would be completely built over in return for attractive public leisure zones, denominated *Mini-Minutania*, next to the children's wing of the palace.

Having been among the 11,324 guests in 2023 for a stay of several weeks yourself, you are very familiar with the genius loci. Because the King recognized you, you were asked to submit a proposal to prepare a summary investment recommendation for the King and the Investment Committee of the Royal State Fund, which was to finance the project. In the selection process, you were chosen for this task.

To your amazement, the royal secretary has done a great job and has already secured a substantial number of prospective international buyers and tenants with binding offers. The Royal State Fund would like to keep certain parcels and all units that are not pre-sold in its portfolio. The LTV should preferably not exceed **20%** and the DSCR be at least **1.5**.

Subject Property & Ground Lease

The castle was built in the Minutian style from 1717 to 1721 and has been continuously expanded since then. The royal family resides in a floor area of 6,000 sqm. The building presents itself in very good condition. Only the elaborate exterior facade and the roof would have to be renewed for optical reasons. The roof renovation is to use plain tile roofing in conformity with the preservation order, with integrated photovoltaic panels to supply the royal families with their own electricity. The King has stated that the improvement of the visual appearance mainly serves the adjacent project development and therefore 80% of the remuneration for the Portuguese general contractor, equivalent to **€4.0 million**, is to be borne by the Royal State Fund as part of the development costs. The castle and the adjacent private park remain the property of the royal family.

The site, like all the land of the Kingdom, is the property of the King. The King intends to grant the Royal State Fund a 999-year ground lease for Parcels 1 to 10, with interest of **1.0 million PC** (Pecunian Thalers, **1 PC = €0.98**) per year. The ground rent is indexed annually at the rate of inflation. The ground lease is allocated proportionately to the individual parcels according to lot size, irrespective of the actual use.

The buildings will be equipped with the latest intelligent building technology. Construction is to be carried out by Minutian construction companies and craftsmen at the highest standards, primarily with local materials in accordance with the Minutian building code. To keep traffic out of the landscape, an underground car park is planned at the edge of the site. The extensive parkland for public use (Parcel X) that is part of the property will require some improvements and restoration when the underground car park is built, as stated by the Royal Treasurer.

The new construction includes the following sections, lot sizes, floor areas (International Property Measurement Standards, IPMS 1), and budgeted construction costs (in PC):

Parcel	Denomination	Use	Lot Size [sqm]	Floor Area [sqm] IPMS 1	Floor Area [sqm] IPMS 3.2 [% IPMS 1]	Budgeted Construction Costs [PC]
1	The Tower	Office	3,000	9,000	80%	PC 53,250,000
2	The Depots	Office	5,000	10,000	80%	PC 40,250,000
3	The Brain	Office	4,000	8,000	85%	PC 38,250,000
4	Grand Views	Apartments	4,000	8,000	85%	PC 48,000,000
5	High Views	Apartments	3,000	6,250	80%	PC 33,000,000
6	Wide Views	Apartments	4,000	8,000	85%	PC 40,000,000
7	Peak Views	Apartments	3,000	7,500	80%	PC 40,500,000
8	Mini-Minutania	Leisure	4,000	5,000	-	PC 15,000,000
9	The Traditionals	Restaurant	1,000	1,500	-	PC 6,000,000
10	The Veggies	Restaurant	800	1,000	-	PC 5,200,000
X	The UGrounds	Parking	64,200	12,000	-	PC 30,000,000
	Publix	Park		-	-	PC 10,000,000
Total			96,000			PC 359,450,000

Prospective Buyers & Tenants

A considerable number of renowned institutional investors have submitted binding offers for parts of the project development, which already have a high level of pre-letting. The Royal Secretary asks you to determine minimum prices for Parcels 4 and 5, which should in any case be achieved in the event of a sale.

By standard in Minutania, the floor area is measured according to IPMS 3.2. The rents of the pre-lettings are agreed in Euros since the prospective tenants from abroad all want to avoid the exchange rate risk against the Pecunian Thaler.

Tenant improvements, if agreed, will be a one-time payment from the landlord. The market rent estimate for the space not yet pre-let yet should be in line with the pre-leases.

Commercial Uses

US blue chip company Maximax has shown interest in acquiring Parcel 1 (*The Tower*) outright for their own use, and Indian company Potpourri is looking to acquire Parcel 3 (*The Brain*). Maximax is offering a net purchase price of **€61.3 million** for *The Tower*, and Potpourri a net purchase price of **€55.5 million** for *The Brain*. *The Tower* is the most prestigious building of the development and would command a 15% premium in rent over the average for *The Depots* and *The Brain*.

The office properties all have flexible layouts that allow units to vary.

The pre-lettings are as follows:

Parcel	Tenant	Floor Area [sqm] (IPMS 3.2)	Credit Rating	Monthly Gross Rent [€]	Lease Term	Rent Adjustment	Incentives
2	WeStillWork	8,000	C	320,000	5 years + 5 years Tenant Option	Indexed	Tenant Improvements €1,500,000
3	Dymler Automotive	1,600	B+	57,600	10 years	Rent Review after 5 years (upwards only)	Tenant Improvements €500,000
3	Telemax	1,800	A	81,000	5 years	-	-
3	MultiEnergy	2,000	A-	80,000	5 years + 5 years Tenant Option	44€/sqm from year 4 onwards	-
8	Minutania Children Foundation	4,250	A+	21,250	20 years		-
9	McQuality	1,350	A	81,000	3 years + 5 years Tenant Option	Indexed	Initial Rent-Free Period (6 months)
11	ParkPax	Entire parking premise	A-	50,000	10 years	Indexed	-

WeStillWork is looking to set up a co-working space and also wants to sublet part of the space in Parcel 2.

Apartments

The apartment buildings are divided into units of 100 sqm (Type S, small), 250 sqm (Type M, medium) and 500 sqm (Type L, large) (IPMS 3.2). Although there is a very strong demand from foreigners to buy apartments, the Minutarian land regulation would prohibit cross-border sales of residential property. Nonetheless, a significant portion of the *Kings Courts* apartments have already been pre-let with the following terms and conditions:

Parcel	Unit Type	Number of Units	Pre-Letting Share	Avg. Credit Rating	Monthly Gross Rent [€/sqm] (IPMS 3.2)	Rent Adjustments
4	S	18	50%	A	35.00	Indexed
4	M	10	20%	A	31.00	Indexed
4	L	5	100%	A+	28.00	Indexed
5	M	10	90%	B	31.00	Indexed
5	L	5	20%	A	28.00	Indexed
6	S	18	50%	A	30.00	Indexed
6	M	20	40%	A	25.00	Indexed
7	S	10	60%	A	38.00	Indexed
7	M	20	40%	A	34.00	Indexed

The leases for the apartments have a term of **5 years**, after which they are automatically renewed and can be terminated by the tenants on a monthly basis.

Financing

As a former colony of a European seafaring nation, Minutania is expected to join the European Union in 2025 and the Euro (€) currency in 2030. In the course of the accession negotiations, it has already been announced that the *Kings Courts* development will be supported by the EU Structural Fund for Regional Development in the form of a direct grant of **€20 million** and a low-interest loan of **€60 million** (see table).

Loan Amount EU Structural Fund	€60 million
Interest Rate	3.00% All in
Amortisation Period	20 years
Loan Term	10 years
Arrangement Fee	-
Direct Grant (EU Structural Fund)	€20 million

The Bank of Minutania has offered a less favorable loan on the following terms, which could serve for additional financing. The King has ordered that any additional debt must be financed by the Bank of Minutania:

Loan Amount EU Structural Fund	Up to €100 million
Interest Rate	6.99% All in
Amortisation Period	20 years
Loan Term	10 years
Arrangement Fee	1.00%

The Royal State Fund will provide **up to €200 million** in equity. The fund's cost of equity is currently **3.5%**. The average risk premium is set at **250 basis points** for commercial properties and **150 basis points** for residential properties. Depending on the creditworthiness of the tenants, the risk premium could vary by **±50 basis points**.

Since the project is a priority, the construction period is estimated to take only 2 years.

Development Costs

The Service Developer who is to develop the project seems a little shady to you, but he does have an impressive track record of trophy properties and even guarantees a fixed price for the construction costs. The following development costs are agreed:

Land (Parcels 1-11, X)	Ground Lease
Construction Costs	PC 349,450,000
Castle Exterior Improvements	€4 million
Servicing	5.00%
Legal Advice	1.00%
Commissions	2.00%
Hard Contingency	2.00%
Soft Contingency	2.00%
Miscellaneous	2.00%
Other	1.00%

The percentage fees apply to the building costs including the exterior improvements to the castle.

Market Data

Your Head of Research has consulted with local agents and come up with the following market estimates on operating expenses, capital expenses and vacancy allowances for Minutania:

Use (New Building)	Non-Recoverable Operating Expenses (monthly) [€/sqm] (IPMS 3.2)	Capital Expenses (monthly) [€/sqm] (IPMS 3.2)	Vacancy Allowance [% of Gross Rent]
Commercial	1.00	2.00	3.0%
Residential	0.50	1.00	1.0%
Leisure	0.50	0.80	5.0%
Parking	0.50	0.50	5.0%

Note: The cost of the public parkland (Parcel X), once restored upon completion of the underground garage, is exempt from *Kings Courts* and will continue to be paid by the State Treasury.

The VAT rate in Minutania is **0%**. The annual inflation rate in Minutania is estimated to be **1.5%** until 2030 and beyond.

With Minutania joining the European Union in 2025, market rents for commercial and residential properties are expected to increase by 5-10% and then by 2.5% a year.

The Challenge

You will be required to present to the King and the Investment Committee of the Royal State Fund a summary investment recommendation on *Kings Courts*. The report will include an analysis of the property's performance over the next ten years based on the above building, pre-letting, financing, development, and market data, as well as other own assumptions.

Specific attention should be given to the possible sale of *The Tower* or *The Brain*. The Royal State Fund would like to sell *either The Tower* (Parcel 1) or *The Brain* (Parcel 3) outright for partial refinancing and asks you to make a reasoned recommendation on the two bids. There is also the (unlikely) possibility that Maximax and Potpourri will fail to meet their bid commitments for Parcel 1 or Parcel 3 and the properties will have to remain in the ownership of the Royal State Fund. This should also be addressed in your report.

Also consider alternative ways of raising equity in excess of the projected €200 million if you see fit.

The Investment Committee requires quarterly analyses over the next ten years using Altus Analytics' ARGUS Enterprise software. All of your assumptions as well as your ARGUS model runs will be rigorously examined and challenged to ensure a sensible investment decision is reached. Text files shall be submitted in PDF format and ARGUS Enterprise files in AVUX format.