

HIRC

The High-Risers Club

4.30.2024 Appraisal Part 3

Coach Jeff Wright

Welcome

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Does anyone have anything great to share personally or professionally?



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Podcast

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- **Last Week: Non-Ideal Conditions for a 1031 Exchange**
- **This Week: Similarities and Differences between Residential and Commercial Real Estate Valuation**

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Greatness is Within



You Can Do This

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Questions

1. Do you put more emphasis on Income or Sales Approach to Value?
2. In determining value for small MF, say 6 or 8 unit and there are 2 or 3 vacancies. How do you determine rental income for valuation purposes?
3. How to value a vacant property i.e. MF or Mixed-Use?
4. Same question for vacant office building, Church, etc. perhaps that will be re-purposed?
5. How do you value the property if the rental income is below market for the subject property?
6. What are some checklist items that are needed to be prepared prior to an appraisal review?
 - Rent roll and expenses
 - Recent capital improvements
 - Sales/Rent comps as available
 - Info from your OM (Offering memorandum)

Questions

7. How do you value the property if the rent roll and profit and loss statements are not available?
8. Do all Lenders have the same criteria for valuating properties and the instructions they provide an Appraiser?
9. Cap rate : How do you select a cap rate?
10. Cap rate : Is there a publication of cap rates that you reference?
11. Commercial New Construction : How do you value multi-tenant buildings that are not fully leased?
12. How do you quantify risk factors and deferred maintenance into the valuation of a property?
13. What are some overlooked areas that an untrained eye will not observe that an appraiser will pay attention to that will affect the value of the property?
14. Operating Expenses.
 - Rule of thumb (% of EGI, for example 35 or 40%)
 - Reserves – are they always included or does it depend upon the Lender?

Representative Appraisal Example

1. Summary of Important Facts
2. Property Photographs
3. Scope of Work
 - a. Overview
 - b. Report Option Description
 - c. Identification of Property
 - 1) Common Property Name
 - 2) Location
 - 3) Assessor's Parcel Number(s)
 - 4) Legal Description
 - d. Property Ownership and Recent History
 - 1) Current Ownership
 - 2) Sale History
 - 3) Current Disposition
 - e. Dates of Inspection and Valuation
 - 1) Effective Date(s) of Valuation as is:
 - 2) Date of Report
 - 3) Date of Inspection
 - 4) Property Inspected by
 - f. Client, intended use and users of the Appraisal
 - 1) Client
 - 2) Intended Use
 - 3) Intended User
 - g. Extraordinary Assumptions
 - h. Hypothetical Conditions
 - i. Regional Analysis
 - j. Fairfield Regional Analysis
 - 1) Introduction
 - 2) Demographic Trends
 - Demographic Characteristics
 - Population
 - k. Economics Trends
 - 1) Employment Distribution
 - 2) Employment Growth
 - l. Conclusion
 - m. Local Area Analysis
 - n. Location Overview
 - o. Access

Representative Appraisal Example

- p. Nearby and Adjacent Uses
- q. Local Area Characteristics
- r. Fairfield Office Market Analysis
- s. Overview
 - 1) Current Trends
 - 2) Market Characteristics
 - 3) Conclusion
 - 4) Competitive Property Statistics
- t. Property Analysis
 - 1) Site Description
 - Location
 - Shape
 - Land Area
 - Access
 - Visibility
 - Soil Conditions
 - Utilities
 - Site Improvements
 - Land Use Restrictions
 - Flood Zone Description
 - Wetlands
 - Hazardous Substances
 - Overall Site Utility
 - Location Rating
 - Survey
 - 2) Improvements Description
 - General Description
 - Construction Detail
 - Mechanical Detail
 - Interior Detail
 - Site Improvements
 - Personal Property
 - Summary
 - Physical Deterioration
 - Functional Obsolescence
 - External Obsolescence

Representative Appraisal Example

- Real Property Taxes and Assessments
- Current Property Taxes
- Property Assessment Information
- Assessed value
- Tax Liability

u. Zoning

- 1) General Information
- 2) Zoning Compliance
- 3) Complying Uses
- 4) Pre-Existing, Non-Complying Uses
- 5) Non-Complying Uses
- 6) Other Restrictions
- 7) Zoning Conclusions

v. Valuation

- 1) Highest and Best Use Definition
- 2) Highest and Best Use of Site as though Vacant
 - Legally Permissible
 - Physically Possible
 - Financially Feasible and Maximally Productive
 - Conclusion

3) Highest and Best Use of Property as Improved

- Legally Permissible
- Physically Possible
- Financially Feasible and Maximally Productive
- Conclusion

4) Most likely buyer

w. Valuation Process

1) Methodology

- Cost Approach
- Sales Comparison Approach
- Income Capitalization Approach
- Summary

2) Percentage Adjustment Method Adjustment Process

- Property Rights Conveyed
- Conditions of Sale
- Financial Terms
- Market Conditions
- Location
- Physical Traits
- Economic Characteristics
- Summary

Representative Appraisal Example

- 3) Income Capitalization Approach
 - Summary of Percentage Adjustment Method
 - Methodology
 - Potential Gross Income
 - Subject Tenancy
 - Lease Structure
 - Types of Leases
 - Local Market Lease Structure
 - Subject Property Lease Structure
 - Market Rent Estimate
 - Pending Leases
 - Month-To-Month Leases
 - Analysis of Comparable Office Rents
 - Discussion of Comparable Rents
 - Market Rent Conclusion
 - Revenue & Expense Analysis
 - Discussion of Revenue Items
 - Vacancy and Collection Loss
- Summary of Percentage Adjustment Method
 - Discussion of Expenses
 - Utilities
 - Repairs & Maintenance
 - Janitorial
 - Management Fees
 - Other Expenses
 - Real Estate Taxes
- Summary of Percentage Adjustment Method
 - Operating Expense Comparables
- Income and Expense Pro-Forma
 - Investment Considerations
 - ❖ Capitalization Rate Analysis
 - ❖ Capitalization Rate from Investor Surveys
 - ❖ Derivation of Ro from Band of Investment
 - ❖ Equity Dividend Rate
 - ❖ Calculation of Overall Capitalization Rate
 - ❖ Capitalization Rate Conclusion

Representative Appraisal Example

- ❖ Capitalization Rate Analysis
- ❖ Capitalization Rate from Investor Surveys
- ❖ Derivation of Ro from Band of Investment
- ❖ Equity Dividend Rate
- ❖ Calculation of Overall Capitalization Rate
- ❖ Capitalization Rate Conclusion
- ❖ Direct Capitalization Method Calculation
- ❖ Reconciliation and Final Value Opinion
- ❖ Exposure Time and Marketing Time
- ❖ Insurable Replacement Cost/Insurable Value
- ❖ Assumptions and Limiting Conditions
- ❖ Certification of Appraisal
- Addenda Contents

Summary of Important Facts

The subject property consists of a 2-story, multi-tenant office building that contains 30,795 square feet of rentable area. The improvements were completed in 1948 and 1981 and are in average condition. The property is currently 100% occupied and includes 1,500 square feet of owner-occupied space.

Summary of Important Facts

Site Information

Land Area:	1.25 Acres
Main Parcel	
Site Shape:	Irregularly shaped Site
Topography:	Level at street grade
Frontage:	Above average
Site Utility:	Average
Flood Zone Status	
Flood Zone:	AE
Flood Map Number:	09001C0434G
Flood Map Date:	8-Jul-13

Building Information

Type of Property:	Office
Building Area:	
Gross Building Area:	37,100 SF
Net Rentable Area:	30,795 SF
Land-to-Building Ratio:	1.56:1
Number of Buildings:	One
Number of Stories:	Two
Actual Age:	69 and 36 years
Quality:	Average
Year Built:	1948 and 1981
Condition:	Average
Parking:	
Number of Parking Spaces:	125
Parking Ration (per 1,000 sf):	4.06:1
Parking Type:	Surface and garage

Summary of Important Facts

MUNICIPAL INFORMATION

Assessment Information:

Assessing Authority	Town of _____
Assessor's Parcel Identification	50/8/4/10
Current Tax Year	2016/2017
Taxable Assessment	\$2,375,940
Current Tax Liability	\$92,638
Taxes per square foot	\$3.01
Are taxes current?	Taxes are current
Is a grievance underway?	Not to our knowledge Subject's assessment is: At market levels

Zoning Information:

Municipality Governing Zoning	Town of _____
Current Zoning	CA
Is current use permitted?	Yes
Current Use Compliance	Complying Use
Zoning Change Pending	No

Scope of Work

1. Overview
2. Research
3. Analyses
4. Report Option Description
5. Valuation

Based on highest and best use: The four criteria that must be met to qualify for highest and best use are: legal permissibility, physical possibility, financial feasibility and maximum productivity.

Two views:

1. Highest and best use of a site as though vacant
2. Highest and best use of property as improved

A conclusion is drawn and a buyer predicted. In this case, the most likely purchaser is an investor who would rely on the income approach to value the property.

Valuation Process and Methodology:

Cost Approach: Based on the proposition that an informed purchaser would pay no more for the subject than the cost to produce a substitute property with equivalent utility

Sales Comparison: Sales of comparable properties are adjusted for differences to estimate a value for the subject property.

Income Capitalization: The income-producing capacity of a property is estimated by using the current leases and estimating market rent for the vacant space. Deductions are then made for vacancy and operating expenses to obtain an NOI (net operating income). The NOI is divided by a market cap rate to arrive at an opinion of value.

Yield Capitalization: Anticipated future cash flows and a reversionary value are discounted to an opinion of net present value at a chosen yield rate (internal rate of return).

Leases are evaluated in detail, so both current and future income and expenses are analyzed to determine value.

Potential gross income, lease structure, occupancy and rent levels are all evaluated and compared to current market conditions.

Valuation Process and Methodology:

VALUATION INDICES	Market Value
VALUE DATE	XX-XX-XXXX
SALES COMPARISON APP	
Indicated Value:	\$2,925,000
Per Square Foot (NRA):	\$94.98
INCOME CAPITALIZATION APPROACH	
Direct Capitalization	
Net Operating Income (stabilized):	\$216,215
Capitalization Rate:	8.00%
Indicated Value:	\$2,702,691
Indicated Value Rounded:	\$2,700,000
Per Square Foot (NRA):	\$87.68
FINAL VALUE CONCLUSION	
Real Property Interest:	Leased Fee
Concluded Value:	\$2,700,000
Per Square Foot (NRA):	\$87.68
Implied Capitalization Rate:	8.01%
EXPOSURE AND MARKETING TIME	
Exposure Time:	12 Months
Marketing Time:	12 Months
Insurable Value	
Conclusion	\$5,350,000

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Next Session

Next Session: Ways to Create Business

Tuesday, May 7th, 2024
@ Noon Eastern

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