



NETWORK

Fall 2010

VIRGINIA ASSOCIATION OF ASSESSING OFFICERS
The Quarterly Newsletter of Virginia's Assessment Professionals

City of Falls Church



Falls Church City has a total area of 2.2 square miles and is seven miles southeast of and across the Potomac River from Washington, DC.

In 1608, Captain John Smith left Jamestown and explored the Chesapeake Bay area, including the Potomac River up to the Little Falls, and in 1624 published the names of 11 different Indian nations or groups living along the lower Potomac from its falls to its mouth on the bay. In 1649, Prince Charles, and later Charles II, of England granted over 5,000,000 acres of land between the Rappahannock and Potomac Rivers and designated it the Northern Neck Proprietary, which included territory that would become Falls Church. This territory was in Stafford County until 1730, Prince William County until 1742, Fairfax County until 1948, and currently, the City of Falls Church. A log cabin (Big Chimneys) was built with large chimneys at both ends, one inscribed 1699, the date accepted for the first English settlement in Falls Church. In 1733, the Truro Parish vestry directed that The Falls Church (named after the Little Falls of the Potomac River) be built. Vestrymen included George Mason, William Fairfax, George William Fairfax and George Washington. By 1730, tobacco was Virginia's largest cash crop. A tobacco warehouse was built in 1732 on the upper side of Hunting Creek where the first town in Fairfax County (Alexandria) was established in 1749. In 1742, a tobacco warehouse was built at the Little Falls. Old Indian trails became the rolling roads through Falls Church where "casks" of tobacco were rolled to these warehouses. Two of these trails that intersected just west of The Falls Church are present day Routes 7 and 29.

Twenty-four Fairfax Resolves were written by George Mason for the Colony's first revolutionary war convention in 1774 and were presented by George Washington of Mount Vernon and Col. Charles Broadwater of Falls Church. The Declaration of Independence was read from the steps of The Falls Church during the summer of 1776. In 1790, Congress authorized the ten-mile-square Federal District of Columbia on the Potomac River. Two of the 40 boundary stones are set on the Falls Church boundary line: The Ellicott Stone marks the meeting point of Arlington and Fairfax Counties and the City of Falls Church; and, the Banneker Stone was named to honor a gifted astronomer, Benjamin Banneker, a free black man who assisted with the project. In 1814 (War of 1812), when the British burned the Capitol, the Navy Yard's Commodore Thomas Tingley sent the Yard's gunpowder to his daughter and her husband in Falls Church to be stored on their farm.

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and Directors**

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Stanley Wooten

Administrative Assistant

Sam Davis, CAE former Director of the Henrico County Finance Department Real Estate Assessment Division retired in February 2010. Sam retired after many years of service in Henrico County and the City of Colonial Heights.

Sam served the VAAO in many capacities including past president and continues to maintain the VAAO website. He also had served the IAAO for numerous years including several years on the Executive Board.

Sam has been replaced by Thomas Little, the former Henrico County Real Estate Section Manager. Will E. (Biff) Leonard, III, CAE, SRA has been appointed acting Real Estate Section Manager in addition to his duties as Commercial Appraisal Supervisor.

A Message from the President

Summer is here and I hope everyone is enjoying the hotter weather, extra hours of sunshine and had the opportunity to take a well deserved vacation.

Our year in VAAO continues with a successful Education Seminar. Many thanks to Jennifer Steveson and the Education Committee for all the hard work they put in to develop a program that provided continuing education credits and topics that were of great interest to the membership.

I'd like to give a special "thank you" to Ryan Davis for publishing our first issue of the Network since 2005. I'd also like to thank John Yeatman for his continued service to the VAAO by keeping our website, www.vaa.org, up and running. Both the Network and VAAO website are excellent sources of information.

Co-Chairs Kim Smith and Janice Hudgins report the 2010 Annual Conference program is in place and will offer even more education opportunities. The conference will be held at the Hilton Oceanfront in Virginia Beach. We were very fortunate to arrange a room rate of \$119 at an excellent facility. USPAP and IAAO workshop 158, Highest and Best Use will be offered. The Commissioners of Revenue will also hold concurrent education sessions. Kim reports that 110 people have registered to date. Visit the website for registration and the schedule of events. We'll also be joined at our banquet by the IAAO Board and our own Bruce Woodzell who will be installed as the next IAAO president at the IAAO Conference in Orlando.

Again, I want to thank everyone who has made this a successful year for the VAAO. Many people from the Officers, Directors, Committee Chairpersons and Committee member have work extremely hard to make VAAO a success. Our organization is only as successful if the membership participates. I encourage everyone to volunteer for a Committee or that you take advantage of the benefits of being a VAAO member.

Hope to see you at the Conference in Virginia Beach, November 2nd – 5th.

Bob Willingham, VAAO President

(Continued from Page 1)

Leesburg Pike (Route 7) was completed in 1839. In 1846, Arlington County was created out of Fairfax County land that had been designated for the District of Columbia in 1792. Falls Church became a postal village in 1849. In 1847, the General Assembly chartered the Alexandria and Harper's Ferry Railroad Company to establish service between those two points through Falls Church. The first train ran the full line in spring 1861 just in time to provide a valuable and highly contested service for both the Confederacy and the Union in the Civil War. In 1861, during the Civil War, Professor Thaddeus Lowe used his hot air balloon, the Enterprise, to perform the first known aerial military reconnaissance in the Western Hemisphere. A town charter was approved in 1875.

Following the sinking of the warship Maine on February 15, 1898 during the Spanish-American war, a two-square mile tract of land west of Falls Church was secured by the War Department in Washington and named Camp Russell A. Alger after the secretary of war. Over 20 regiments forming the U.S. Second Corps took residence there, totaling almost 30,000 soldiers. Electric street lamps were installed in 1912. In early 1915, the NAACP was organized with Joseph Tinner as president. The first automobile appeared in Falls Church in 1907. The electric trolley entered a period of steep decline and the Washington-Virginia Railway was liquidated in 1927.

In 1924, the Commonwealth granted Falls Church its own school district. On April 30, 1936, East Falls Church -- located in Arlington County -- withdrew from the town. In 1948, Falls Church became a city, and by 1990, the population was 9,522. In 1948, the town's first strip shopping center opened in the 1000 block of West Broad Street. By the 1950s, Falls Church connected directly to the Dalecarlia Treatment Plant in Maryland to provide water to approximately 120,000 people in and around Falls Church.

In 1958, the Citizens for a Better City (CBC) formed to endorse and elect to the Council pro-school candidates. In 1988, the Falls Church Citizens Organization (FCCO) formed largely in response to land use decisions that were not maintaining the character of the City. In 1957, City Hall was begun; in 1968, the Community Center opened; and, the East Wing was added in 1982. Falls Church celebrated its Tri-centennial in 1999.

The City has an historic commitment to public education, with its schools ranked among the highest in the nation. Now called "The Little City," Falls Church has recently focused on mixed use projects, with a buildup of residential/commercial high-rise buildings along West Broad Street. It has a very popular farmers market that is nationally ranked. The Community Center provides space for local groups to conduct daily activities, the Falls Church News Press reports on community and governmental activities, and a variety of restaurants and entertainment venues are available.

Congratulations to the VAAO's latest Designation Awards

- George Barham RES
- David Jones RES
- Ellen Windley PPS
- Leo Marsh PPS



Bios of New Designees

David L. Jones, RES, received the Residential Evaluation Specialist (RES) designation in April 2010. David serves as a Real Estate Analyst for the City of Chesapeake, Virginia. He has held that position for ten years. He previously served as a Staff Appraiser for First Virginia Bank of Tidewater. David received a Bachelor's Degree in Business Administration from Old Dominion University. David joined the IAAO in 2000. David benefited from much encouragement from his supervisors and co-workers in pursuing this IAAO designation and would like to thank everyone for their support.

Ellen Windley is a tax auditor with Fairfax County's Department of Tax Administration where she has been employed for 18 years. Ellen studied Public Policy at George Mason University Business Enterprise Center and has conducted Business Tax Assessment training programs for Fairfax County. Ellen has been an Active Member of IAAO since 2001 and was the first candidate in Virginia to earn the Personal Property Specialist (PPS) Designation. Ellen is also a member of both Virginia Association of Assessing Officers and Virginia Association of Local Tax Auditors.

Leo Marsh, a Richmond-area native, has worked for the Henrico County Department of Finance since 2000. For the past 6 years he has served as the Business Section Manager (the Business Section assesses the BPOL, M&T and Business Personal Property Taxes). He also served 9 years in the Army and Virginia National Guard. His education includes a BS from VCU and a JD from the College of William and Mary. His wife, Carrie, and he have been married 14 years, and their daughter, Emily, is their greatest accomplishment!

VAAO AWARDS NOMINATIONS
DEADLINE FOR NOMINATION SEPTEMBER 10, 2010

Billie Taylor, Senior Appraiser
Albemarle County Assessor's Office
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Charlottesville, VA 22902
434-296-5856

VAAO MEMBERS ONLY

Outstanding Member Award (VAAO members only) this award may be presented to the VAAO member who has achieved the most outstanding professional success. It is the highest award offered by the VAAO and is reserved to recognize truly outstanding accomplishments.

Most Valuable Member Award (VAAO members only) this award may be presented to the VAAO member who has made the greatest contribution to the success of the VAAO. This contribution can be the result of committee assignments or individual acts, and may also be the result of an accumulation of activities, none of which would individually qualify for the award.

Membership Award (VAAO members only) this award may be presented to the VAAO member who recruits the most new members between the last annual meeting and 60 days prior to the annual meeting.

The individual should enroll at least eight new members before the award is granted.

VIRGINIA RESIDENTS

Publication Award (Virginia residents only) This award may be presented to a Virginia resident who is the author of an article on some phase of assessment administration, which in the judgment of the Awards Committee is the best publication in the Network since the last annual meeting.

Distinguished Service Awards (open) these awards may be presented to any individual or organization that makes a significant contribution to the improvement of assessment administration in Virginia. This contribution can be the result of committee assignments or individual acts, and may also be the result of an accumulation of activities, one of which would individually qualify for the award. Additional awards in the form of Certificates of Appreciation may also be presented. Certificates of Appreciation may be presented to individuals who have contributed to VAAO, but not to the degree required to qualify for one of the above rewards.

Certificates of Appreciation (open) may be awarded to individuals who have contributed to the VAAO but not to the degree required to qualify for one of the other awards. An example would be a committee who has duties that require exceptional contributions of time, etc.

I nominate _____ for the _____ Award.

Submitted by _____ Office _____

Phone Number _____ Date _____

(ATTACH ADDITIONAL SHEETS WITH COMMENTS AND DOCUMENTATION AS NECESSARY)

**VAAO SUMMER BOARD MEETING
DOUBLETREE HOTEL
CHARLOTTESVILLE, VIRGINIA
JULY 15, 2010**

- Call to order by VAAO President Robert Willingham, ASA on July 15, 2010 at 5:35 PM.
- **In Attendance:**
- Voting Members:
- Past President Thomas Rice, CAE -Present
- President: Robert Willingham, ASA -Present
- President Elect: Susan Lower, SRA -Present
- 1st Vice President: Greg Daniels, CAE -Present
- 2nd Vice President: Larry Mackereth, CAE -Present
- Secretary: Bill Marchand -Present
- Treasurer: Ron Agnor -Present
- Director 1 Year: Catherine Brincefield -Present
- Director 1 Year: Lisa Neunlist -Absent
- Director 1 Year: Terry Yowell -Present
- Director 2 Years: Mary Deas -Present
- Director 2 Years: Dayle Gallaher -Absent
- Director 2 Years: Don McKigney -Excused

- **Invocation:** Deacon Brian Bergen provided the invocation.

- **Pledge of Allegiance:** John Lockard – Present

- **Secretary's Report:** Bill Marchand - Present
-
- After Secretary Marchand began reading the minutes from the previous board meeting Mr. Thomas Rice, CAE awoke from his slumber and made a motion to dispense with the reading of the minutes from the April 23, 2010 Board Meeting. The motion was seconded by Greg Daniels, CAE. All voted in favor.
- Past President Thomas Rice, CAE also made a motion to adopt the minutes from the April 23, 2010 Spring Board Meeting. The motion was seconded by Catherine Brincefield. All voted in favor.

- **Treasurer's Report:** Ron Agnor – Present
- The Association's total assets were \$139,315.13 as of July 15, 2010. This total did not include income or expenses from the 2010 Education Seminar or Annual Conference. The attached reports include the details for the Association's deposits, reserves, revenues, and expenditures. As of July 15, 2010, income minus expenses equals \$9,382.61.
- VAAO Summer Board Meeting
- DoubleTree Hotel, July 15, 2010
- Dues for 2010 have been paid by 891 Regular Members, 26 Retired Members and 33 Associate Members. The first set of invoices for the 2010 membership dues were mailed during February 2010, with a second set of invoices mailed the week of April 19, 2010 for all unpaid invoices. The Treasurer also mentioned that interests on the CD's were down
- The VAAO sponsored IAAO Course 102 during the week of June 21st - 25th, 2010, in Northern Virginia. The seminar's expenses exceeded revenues by \$1,236.98. The attached report does not include this event.
- The 2009 Income Tax Returns were prepared and submitted to IRS in May, 2010.
- First Vice President Greg Daniels made a motion to accept the report as presented and was seconded by President Elect Susan Lower. All voted in favor.
- Budget is attached
- **Committee Reports:**
- **Reporting to the President Elect: Susan Lower, SRA**
- **Education Committee:** Jennifer Stevenson - Present
- The Chair reported 263 Seminar Attendees. President Willingham complimented Ms Stevenson for a job well done. The Seminar's dinner picnic at Penn Park was enjoyed by all.
- **Audit & Finance Committee:** Billy Driver - Present
- The Committee met on June 23, 2010 at the Albemarle County Administration Building to conduct the internal audit of the VAAO Checking and Savings Accounts as well as the Certificate of Deposits. As of June 23, 2010 the balance in the Checking Account was \$64,456.90, \$5,271.48 in the Savings Account and \$63,427.17 in Certificates of Deposit. 843.54. The Audit and Finance Committee thanked The Conference committee members for preparing and keeping great records. The Committee also made some suggestions to make the record keeping and auditing a little easier. The Chair also thanked his committee for their help with the audit.
- The Report is attached.
- **Annual Meeting 2011:** Holly Newbold & Jennifer Steveson - Present
- The VAAO 63rd Annual Conference will be held in Roanoke at the Hotel Roanoke. Tentative dates are October 4th, 5th, 6th & 7th 2011.

- **Reporting to the First Vice President: Greg Daniels, CAE**
- **Arrangements Committee 2010:** Kim Smith - Absent & Janice Hudgins - Present
- The VAAO 62nd Annual Conference will be held November 2nd, 3rd, 4th & 5th, 2010 at the Hilton in Virginia Beach. The committee reported that the final preparations were being made to the Education Program. The golf outing had been finalized and were looking forward to a successful Annual Conference in Virginia Beach. To date there were 68 registrants.
- The Board is looking forward to hosting the IAAO Board at the Annual Conference Dinner in Virginia Beach
- **Membership Committee:** John Nelms, RES, SRA - Absent
- John report was presented by First Vice President Greg Daniels, CAE. John apologized for not being able to attend. Since his last report in April, John recorded six (6) new members.
- Verbal Report
- **PDP Advisory Committee:** David Sanford, CAE - Absent
- The Chair's report was read by the First Vice President. The new designees were recognized and awarded their designations at the Opening Session of the Education Seminar. Greg Daniels, CAE commented on the presentations and bringing attention to the successful candidates.
- Verbal report
- **Personnel Committee:** Kathy Grizzle - Present
- The Salary Survey forms will be available by August. Email will be sent out the first week in August and the website updated with the 2010 form. Please complete the forms and return to Corinna Payne as soon as possible. Ms Jennifer Steveson has submitted her name in for consideration to relieve Ms Grizzle. The completed Survey should be available by the Annual Conference in Virginia Beach.
- The Report (email) is attached
- **Reporting to the Second Vice President: Larry Mackereth, CAE**
- **Awards Committee:** Billie Taylor - Absent
- Forms for the Award nominations would be available the week
-
- **Resolutions Committee:** John Nelms, RES, SRA - Absent
- A resolution commemorating Mr. Richard Chandler, MAI, CAE, past VAAO President, and IAAO President was introduced by Janet Coldsmith, CAE and seconded by Treasurer Ron Agnor.
- **Manual Committee:** John Kiger - Absent
- No Report

- **Publicity Committee:** Ryan Davis - Absent
- The Chair told the Board that the Network would be available electronically before the Annual Conference in Virginia Beach. The proposed deadline for Network content would be August 1, 2010. The Secretary will provide the Board minutes to the committee for posting on the VAAO web site.
- **Reporting to the President: Robert Willingham, ASA**
- **Nominating Committee:** Thomas Rice, CAE, Past President - Present
- Slate of Officers will be drafted in the next few weeks
- **Legislative Committee:** Janet Coldsmith, CAE – Present
The Legislative update presentation by Andy Herrick was very good. Past President Coldsmith specifically mentioned HB 570 “Burden of Proof” as a bill to watch closely in the upcoming General Assembly Sessions.
- **Technology Committee:** John Yeatman, AAS - Absent
- The committee continues to update the website (www.vaa0.org) as information is presented. Both John and Sam Davis expressed desire to continue maintaining the VAAO Web Site.
- **Use Value Committee:** Charles Campbell, COR -Absent & Warren Arthur, COR - Absent
- Land Use Session went very well with several good comments.
-
- **Parliamentarian:** Thomas Rice, CAE – Present
- No Report
- **Historian:** Brian Bergen, MAI, SRA - Present
- No Report
- **Chaplain:** Janice Nutter – Absent
- Brian Bergen, MAI, SRA, provided the invocation for The Board.
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- **Flag Bearer/Sergeant-at-arms:** John Lockard - Present
- VAAO Summer Board Meeting
- DoubleTree Hotel, July 15, 2010
- **Ad Hoc Committee for One-Day Regional Seminars:** Kim Smith – Absent
- Kim Smith is hosting IAAO Course 101 in Virginia Beach. Ms Smith reported that 23 have registered to date. The Board restated their commitment to continue providing education for its members.

- **Education Liaison:** Brian Bergen, MAI, SRA - Present
- Although The Annual Advanced Assessor's School was cancelled this year, Mr. Bergen was continuing his planning for the school next year.

- **COR Liaison:** Terry Yowell, COR – Present; Priscilla Bele, COR - Present
- The 2010 CRAV Annual Conference will be September 12th-14th at the Westfield Marriott. The 2011 CRAV Annual Conference will September 11th-13th at Smyth Mountain Lake. The COR's will provide a full day Workshop at the VAAO Annual Conference, provided by VALTA
- Report Attached.

- **Old Business:** No Old Business.

- **IAAO Representative:** Wendell Ingram, ASA – Present
- No Report

- **New Business:** Richard Chandler MAI, CAE Resolution
- A motion was made by Thomas Rice, CAE to adjourn the meeting; it was seconded by Secretary Bill Marchand. All present voted in favor and the meeting was adjourned at 7:05p

- Respectfully Submitted
- Bill Marchand
- Secretary

VALUATION SOLUTIONS IN DISTRESSED MARKETS



2010
Commercial Real Estate Symposium

Royal Institute of Chartered
Surveyors (RICS)

and

International Association of
Assessing Officers (IAAO)

March 18, 2010

Peter F. Korpacz, MAI, CRE, FRICS
President
Korpacz Realty Advisors

Korpacz Realty Advisors

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The Problem

Income Approach

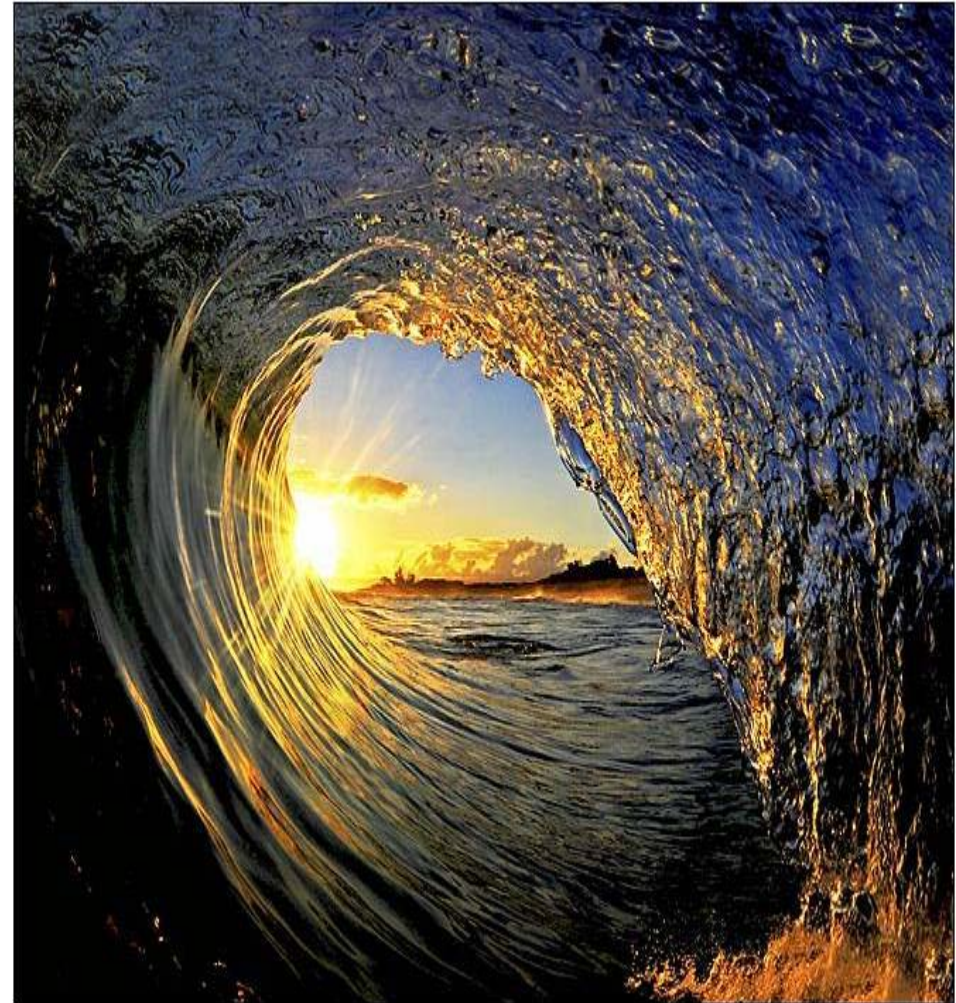
Sales Comparison

Cost Approach

Conclusions

– Addenda –

The Elusive Cap Rate



The Problem



Korpacz Realty Advisors

Appraising in distressed markets...is not easy!

- Requires more time and effort despite reduced market data
- Requires in-depth verifications and analysis of available market data, including
 - current sales (few unfortunately)
 - older sales at or before the pricing peak
 - surveys of investors/owners/investment brokers on a local level preferred

Diverse solutions provide the answer

- Existing appraisal methodology still applicable
- More attention to market pricing behavior
- Updated cap rates on older sales – a new promising technique (See “The Elusive Cap Rate” article in the Addenda)

Solutions – The Approaches to Value

Income approach

continues to be the most reliable
measure of value

Sales comparison

price per square foot loses “punch”

Cost approach revival?

depreciation estimate may not be relevant

Income Approach



Korpacz Realty Advisors

Solution lies in market behavior...as it always has

- Who knows what the cap rates are?
- Seek them out, pick their brain, and feel their pulse
- Sound familiar?

The Elusive Cap Rate...updating older sales

- Reconnect with investors on older sales
- How would they underwrite the same deal at the current date of value?
- Constitutes a highly targeted local “investor survey”
- What serves the client better? The appraiser’s opinion
 - based on broad references to distressed conditions
 - supported by seasoned investors in the local market
- Reflects standard appraisal methodology of getting to investors in the know

Cap rate updates from the 2001 recession era

San Francisco Office Sale Comparables Reverification Survey										
No.	Location	Sale Date	Bldg. Size (SF)	Sale Price	Price/ Sq. Ft.	NOI/ Sq. Ft.	Indicated	Overall Rate		
							Overall Rate	Estimated	7/2/01	1/1/02
1	600 Battery Street	Jun-01	112,208	\$37,500,000	\$334.20	\$32.55	9.74%	9.74%	9.74%	
2	550 California Street	Feb-01	339,910	\$107,000,000	\$314.79	\$28.56	9.07%	10.57%	11.07%	
3	114 Sansome Street	Nov-00	177,696	\$62,000,000	\$348.91	\$32.45	9.30%	(1)	(1)	
4	131-141 Steuart Street	Nov-00	75,404	\$27,850,000	\$369.34	\$25.85	7.00%	(1)	9.25%	
5	225 Bush Street	Nov-00	570,000	\$143,500,000	\$251.75	\$22.66	9.00%	11.25%	13.00%	
6	100 Pine Street	Nov-00	402,534	\$156,000,000	\$387.54	\$36.82	9.50%	10.75%	11.75%	
7	650 California Street	Oct-00	492,131	\$154,000,000	\$312.92	\$20.34	6.50%	(2)	(2)	
8	180 Montgomery Street	Sep-00	299,118	\$99,500,000	\$332.64	\$20.29	6.10%	(1)	(1)	
9	100 California Street	Jul-00	274,000	\$88,750,000	\$323.91	\$21.86	6.75%	(2)	(2)	
10	50 Fremont Street	Jul-00	771,875	\$258,767,933	\$335.25	\$23.47	7.00%	8.25%	8.25%	
11	303 Second Street	May-00	700,892	\$210,267,600	\$300.00	\$21.00	7.00%	(1)	(1)	
12	100 First Street	May-00	451,000	\$135,000,000	\$299.33	\$23.95	8.00%	(1)	(1)	
13	501 Second Street	Feb-00	189,154	\$54,650,000	\$288.92	\$16.18	5.60%	9.25%	9.75%	
14	201 Spear Street	Nov-99	230,604	\$62,400,000	\$270.59	\$17.59	6.50%	8.50%	9.00%	
15	88 Kearney Street	Jul-99	209,474	\$67,000,000	\$319.85	\$28.51	8.91%	10.41%	10.91%	
16	333 Bush Street	Jun-99	542,743	\$156,500,000	\$288.35	\$21.04	7.30%	8.80%	9.30%	
			Low:	75,404	\$27,850,000	\$251.75	\$16.18	5.60%	8.25%	8.25%
			Mean:	364,922	\$113,792,846	\$317.39	\$24.57	7.70%	9.72%	10.20%
			High:	771,875	\$258,767,933	\$387.54	\$36.82	9.74%	11.25%	13.00%

(1) Would have paid less, but unwilling to estimate an OAR.
(2) Would not comment on estimated cap rate for this date.

Source: PricewaterhouseCoopers

Korpacz Realty Advisors

Cap rate updates from recent study

Recent Retail Study by KRA

	<u>Malls</u>	<u>Community/ Power/Big-Box</u>	<u>Neighborhood</u>
Deal Overall Cap Rate⁽¹⁾			
High	9.27%	8.99%	7.97%
Low	5.10%	6.15%	5.07%
Average	7.36%	7.39%	6.31%
Cap Rate Opinion January 1, 2009⁽²⁾			
High	12.40%	10.75%	11.06%
Low	7.25%	7.65%	6.40%
Average	9.26%	9.05%	8.74%

(1) Sales prior to 2008

(2) Same sales with updated cap rates

Cap rates increase decisively

Basis-Point Change from Sale Date to 1/1/09

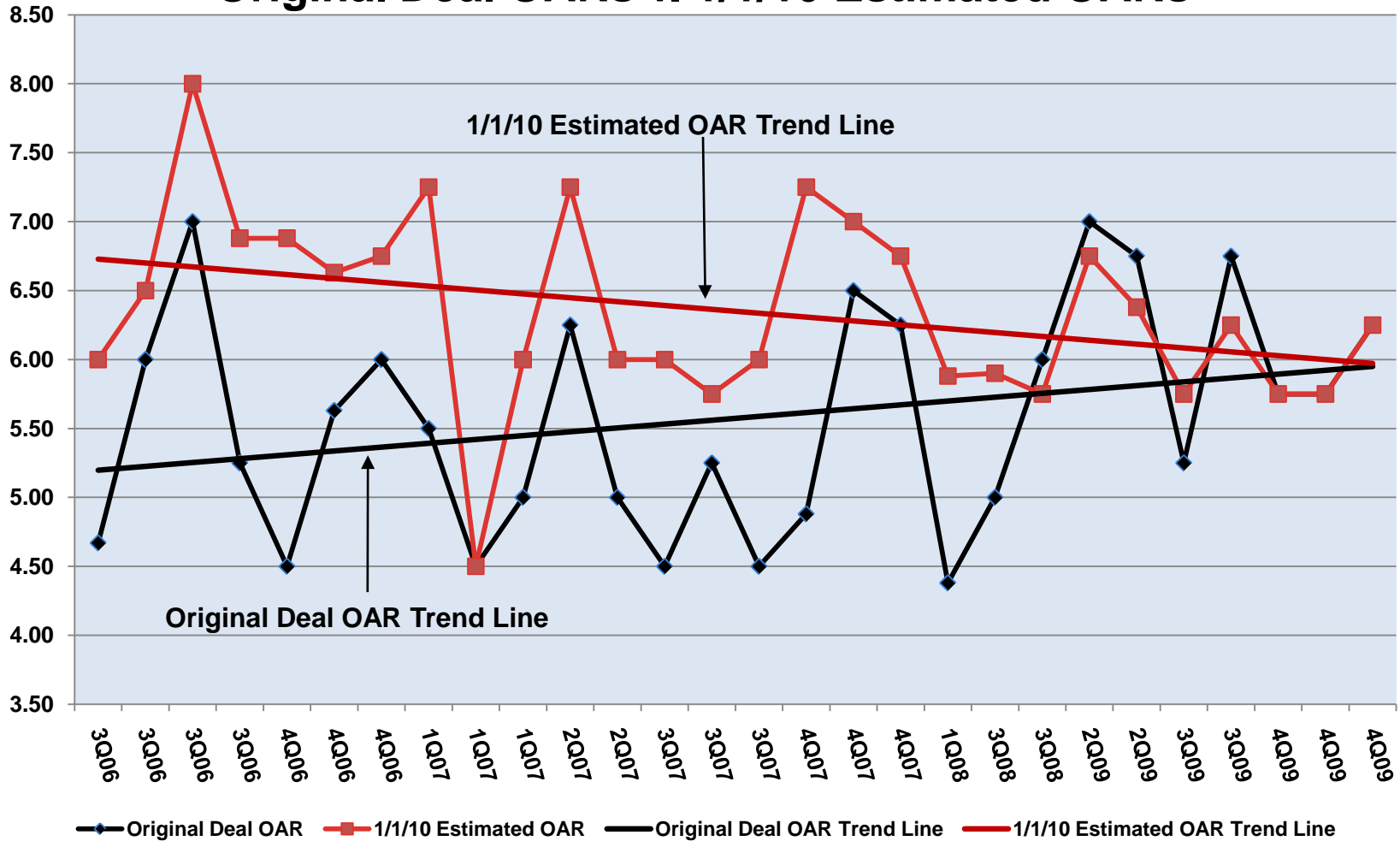
	<u>Malls</u>	<u>Community/ Power/Big-Box</u>	<u>Neighborhood</u>
High	313	176	309
Low	215	150	133
Average	190	166	243

Percentage Change from Sale Date to 1/1/09

	<u>Malls</u>	<u>Community/ Power/Big-Box</u>	<u>Neighborhood</u>
High	33.76%	19.58%	38.77%
Low	42.16%	24.39%	26.23%
Average	25.82%	22.46%	38.51%

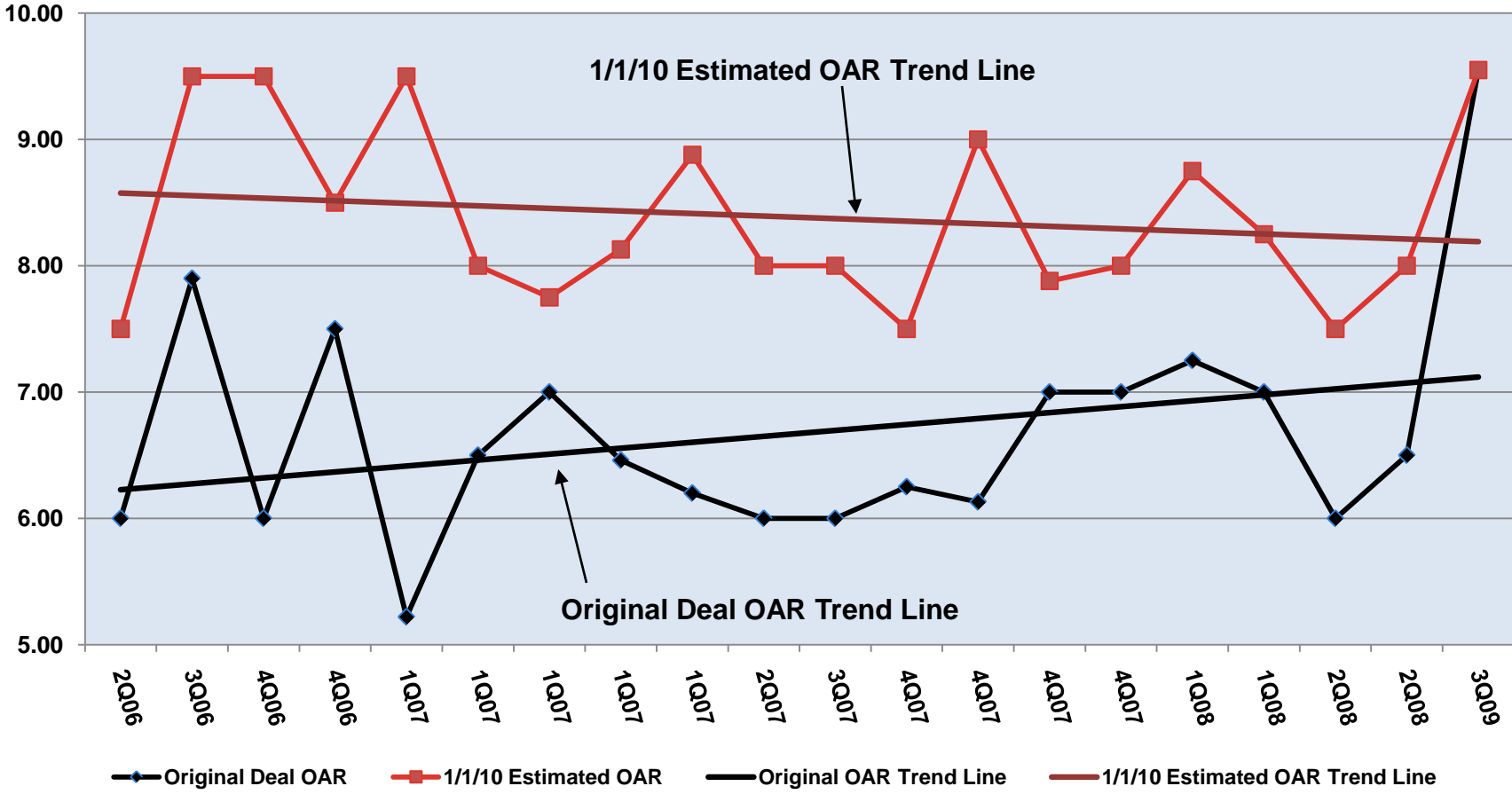
Recent cap rate examples...current recession

Apartment Market Original Deal OARs v. 1/1/10 Estimated OARs



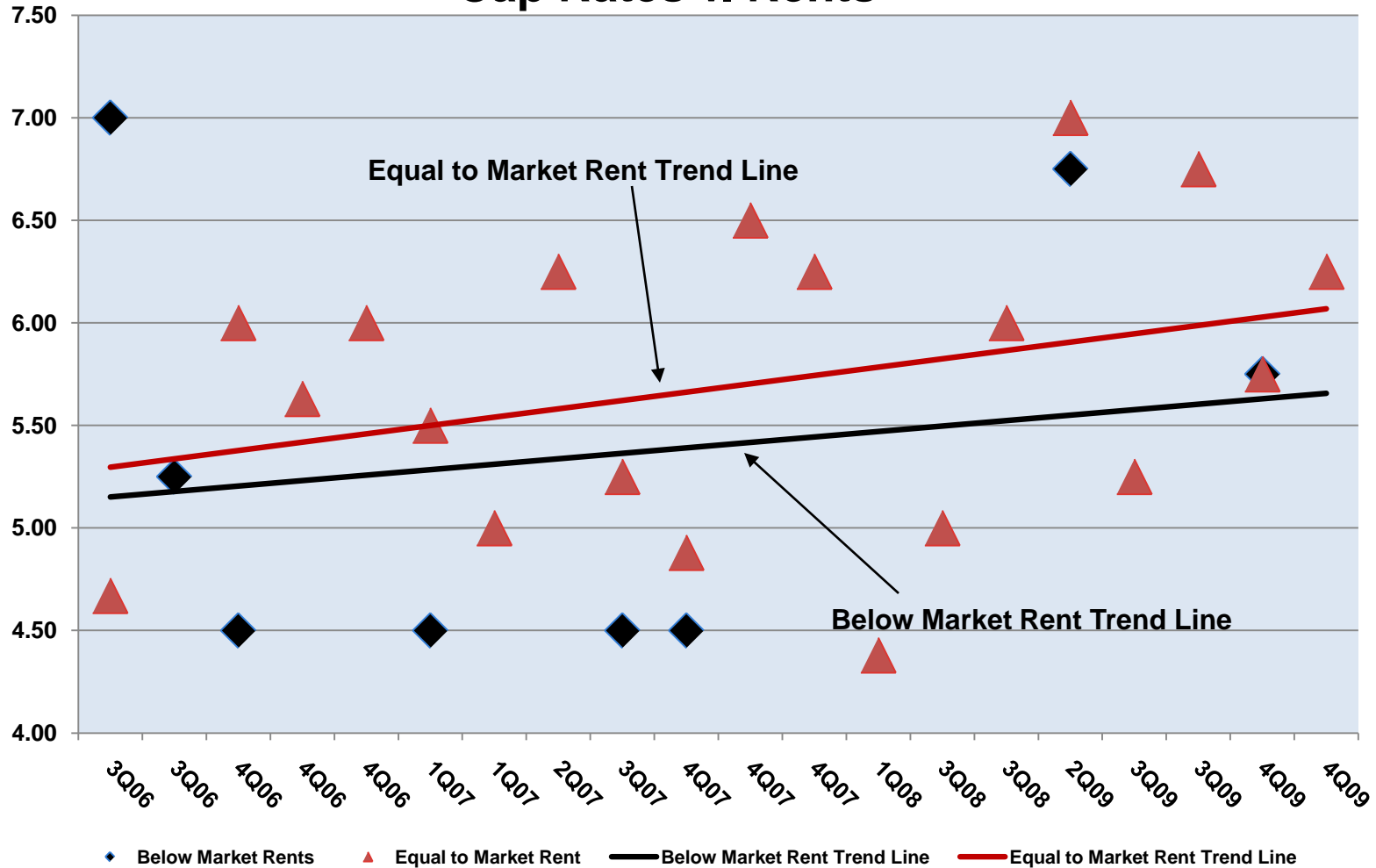
Recent cap rate examples...current recession

Retail Market Original Deal OARs v. 1/1/10 Estimated OARs



Leased Fee v. Fee Simple issue

Apartment Market Example Cap Rates v. Rents



Band of Investment...renewed usefulness

But, can appraisers support the R_e ?

<u>Investment Component</u>	<u>Component Contribution</u>	<u>Weighted Average Rates</u>
Mortgage	$M \times R_m$	+ _____
Equity	$E \times R_e$	
Overall Capitalization Rate		

M = Mortgage as a percent of total property investment

R_m = Ratio of annual debt service to the loan balance (mortgage constant)

E = Equity as a percent of total property investment

R_e = Ratio of equity cash flow to the equity investment (equity dividend rate)

Equity rates from comp sales...problematic

<u>Sale Number</u>	<u>% Mortgage</u>	<u>Interest Rate %</u>	<u>Overall Cap Rate %</u>	<u>Equity Dividend Rate %</u>
1	40.87	5.49	9.27	11.88
2	39.81	4.67	5.50	6.05
3	68.96	7.95	7.95	9.89
4	58.20	6.15	6.15	7.42
5	60.57	5.85	5.85	7.08

Equity dividend rates from ACLI data

OARs and Equity Dividend Rates Inferred from ACLI Data (Retail Properties)

<u>Date</u>	<u>DCR Ratio</u>	<u>Interest Rate %</u>	<u>Mortgage Constant %</u>	<u>L-T-V Ratio</u>	<u>Indicated OAR %</u>	<u>Inferred Equity Dividend Rate %</u>
1Q05	1.62	5.42	7.40	66.90	8.02	9.27
1Q06	1.58	5.78	7.47	63.60	7.51	7.58
1Q07	1.53	5.77	6.63	66.71	6.77	7.05
1Q08	1.89	5.62	6.63	57.96	7.26	8.13
1Q09	1.58	7.62	8.72	58.50	8.06	7.13

DCR = debt coverage ratio; L-T-V = loan to value ratio

Investor surveys...especially relevant now

- Current investor views on
 - trends that impact decision making
 - pricing methodology
- Relevance of national surveys for local markets?
- Local surveys by appraisers a good solution

Sales Comparison



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Comparable sales analysis

Quality of comparable sales

- Distress sales increasing
- Dearth of useful sales
- Market value definition test

Usable sales

- Detailed verifications
- Motivation/strategy
- Update sale prices

Distressed sales...evidence of market value?

Focus on the sellers and the sale process

- Level of distress
- Marketing effort
- Competitive bidding

Focus on the buyers

- Number of bidders
- Due diligence period
- Competitive bidding

Distressed sales...undue or normal stimuli?

- Distressed sales may be the norm
- Price discount between distressed and non-distressed sales may be discernable
- May be small, or large, or no differences in price

Cost Approach



Cost approach

External obsolescence can be calculated

So can total depreciation by extraction

External obsolescence by allocation

Total cost		\$1,000,000
Sale price (excluding land value)		<u>- 800,000</u>
Depreciation from all sources		\$ 200,000
Allocation		
Physical deterioration – Curable	\$10,000	
– Incurable	<u>+70,000</u>	
Total physical deterioration	\$80,000	
Functional obsolescence – Curable	\$2,500	
– Incurable	<u>+ 7,500</u>	
Total functional obsolescence	\$10,000	
Total physical deterioration and functional obsolescence		<u>- 90,000</u>
Allocation to external obsolescence		\$ 110,000

External obsolescence by capitalization of net income loss

(Permanent)

NOI under normal market conditions	\$8.00 per square foot
Existing NOI under distressed conditions	<u>\$6.25 per square foot</u>
Net Loss attributable to external obsolescence	\$1.75 per square foot

4,000-sq.-ft. building @ \$1.75 per square foot	\$7,000
Capitalized at OAR of	10%
Equals external obsolescence estimate	\$70,000

Or

(Short term)

Present value of \$7,000 per year for 3 years at 13%	\$16,528
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Total Depreciation – Extraction Method

TOAL DEPRECIATION — EXTRACTION METHOD — LAND SALES (DEMOLISHED BUILDINGS)

	Sale No. 5 Macy's Paradise Valley Mall Phoenix, AZ	Sale No. 6 Macy's Fiesta Mall Mesa, AZ	Sale No. 8 Former May Co. Baybrook Mall Friendswood, TX	Sale No. 9 Macy's Boynton Beach Mall Boynton Beach, FL	Sale No. 10 Robinson's May The Oaks Mall Thousand Oaks Mall, CA
Date of Sale	July, 2006	February, 2007	January, 2005	January, 2005	May, 2006
Total Depreciation Percentage	100.00%	100.00%	100.00%	100.00%	100.00%
Actual Age of Comparable Property	16	27	26	16	27
Average Annual Deprecation Rate	6.25%	3.70%	3.85%	6.25%	3.70%
Total Economic Life Expectancy	16.00	27.00	26.00	16.00	27.00

Conclusions



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Conclusions

- All relevant appraisal methodologies and techniques should be considered
 - cap rate updates on comparable sales
 - investor surveys, especially local ones conducted by the appraiser
 - band of investment technique (if applicable)
 - debt coverage ratio technique (if applicable)
 - sales comparison approach (update pricing on older sales)
 - cost approach (where applicable)

Conclusions

- Imperative to stay current on the economy, financial markets, and real estate leasing and capital markets as data becomes available
- Valuation assumptions and pricing are rooted in investor behavior
- If appraisers do not base their analyses and conclusions on investor behavior, they are not doing their job

VALUATION SOLUTIONS IN DISTRESSED MARKETS



**2010
Commercial Real Estate Symposium**

**Royal Institute of Chartered
Surveyors (RICS)**

and

**International Association of
Assessing Officers (IAAO)**

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Addenda – The Elusive Cap Rate[©]

The Elusive Cap Rate

by

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Finding the elusive cap rate in today's transaction market is the biggest challenge commercial appraisers face. And, it is not simply a U.S. problem, it permeates the entire global appraisal profession.

The solution to the challenge is rooted in traditional appraisal methodologies and is, in fact, right under our collective noses.

Active/potential sellers and buyers have always been the source of cap rates and this reality has not changed. If anyone truly knows cap rates, it is those who are actively seeking to dispose or invest in commercial real estate assets. Without that knowledge, there would be no transactions. Even if some potential sales do not materialize because there is no meeting of the minds, the potential sellers and buyers know their cap rate comfortable level. In those situations, the truth is likely somewhere within the bid/ask gap.

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Taking the pulse of active/potential sellers and buyers has always been the hallmark of good appraisal research and it has not changed just because the market is “distressed.” Appraisers continue to research, verify, and use the limited number of current sales but find themselves with too few cap rate data points to reasonably support their conclusions.

Here’s the solution! Go back to comparables that are a little dated, maybe one to two years prior to a valuation date. Reconnect with participants to those transactions and get their input on how they would do the same transactions on the appraiser’s date of value using the same property, same historical performance characteristics, existing leases, etc., but a different economy and leasing and capital market conditions. The essential questions are how would you underwrite the deal and what cap rate would likely result as of the appraiser’s valuation date?

In doing this, the appraiser does not “create new comparable sales” but instead completes a highly targeted local “investor survey” of transaction participants who have already invested in the local market and are quite familiar with current conditions. This method of extracting useful, supportable current cap rates takes the place of reasoning to a current cap rate using older sales with some narrative discussion of how distressed economic and real estate market conditions lead the appraiser to conclude with a higher cap rate of X. What would the appraiser’s client prefer – the appraiser’s opinion supported by the opinion of seasoned investors in the local market, or the appraiser’s subjective opinion based on broad references to distressed economic and real estate market conditions. The answer is obvious.

The technique described above may be new to many appraisers, but I and a few others have been using it since the 2001 recession. It reflects standard appraisal methodology which is based on getting to investors “in the know,” “taking their pulse,” and “picking their brains” to support valuation assumptions and pricing. What could be more normal for an appraiser!