

A COMMERCIAL SMORGASBORD

AND

IT'S REALLY THE BEST OBSOLESCE USE?

**Sponsored by
Virginia Association of Assessing Officers
(VAAO)**

VAAO 63rd Annual Conference

Location:

**Hotel Roanoke and Conference Center
City of Roanoke, Virginia**

**7.0 - hour Seminar
October 6, 2011**

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A COMMERCIAL SMORGASBORD AND IT'S REALLY THE BEST OBSOLESCE USE??

7 hours CE - October 6, 2011

The thrust of this seminar is:

a-This seminar to be a "Testing" one - early on exploring the commercial sector in light of the prevailing economic conditions. Focus will center on an ever-present changing/transitioning of property uses, and how this more recent trending can impact Highest and Best Use – incorporating some "Testing".

b-This spills over into recognizing the several types of obsolescence – any one of which may impact property value, then demonstrating appropriate application to measuring obsolescence through numerous Situational Dilemmas presented for class discussion/participation. Featured is measuring the contribution of value to a specific major improvement. Herein, obsolescence is mostly impacted by and measured by the principle: Highest and Best Use. This principle is market tested to a conclusion of use and ultimate value associated with the underlying site.

c-Now, further into the smorgasbord – to address:

**Contract rent vs. Market rent, Ground leases,
What public records show and may not show.**

And, now, that Time-Line

A COMMERCIAL SMORGASBORD AND IT'S REALLY THE BEST OBSOLESCECED USE??

A. M.

8:00 – 9:00

The opening – “Testing Time” with the class participants through math challenges.

9:00 – 10:00

Delving into trending Re: commercial properties along commercial corridors – more recently reflecting transitioning of uses in light of the prevailing economic conditions.

10:00 – 10-15

Break

10:15 – 11:30

Coverage now includes examples of “Testing” for Highest and Best Use. This then expands into identifying and measuring obsolescence.

11:30 – 1:00

Lunch

P. M.

1:00 - 3:00

Continuation of the special “Testing” that includes measuring obsolescence.

3:00 - 3:15

Break

3:15 – 4:30

Coverage of remainder of Smorgasbord – featuring Contract rents vs. Re: property transfers show.

Focal terms we'll tackle today include:

Transition Use

Contribution of Value

Market Rent vs. Contract Rent

F F & E and Sales

Impact of Foreclosures

To Do Nothing

Exploring Highest and Best - - -

Incorporating Simple Testing

Ground Leases



This is your initial Dilemma:

To value: 20-space parking lot, Rent/mo. @ \$30 ea.

You find - Cost to operate:

Annual Insurance - \$500,

Mgmt. fee @ 5%,

R.E.T. based on assessment of \$175,000 and a tax rate of \$0.90/\$100.

Market OAR is 8.0%.

After doing some calculations, what are your questions?

1 _____

2 _____

3 _____

Why do you have these questions???

(Folks, this ain't no crip course – it's brain-sweating time!)



And, here's Dilemma No. 2:

To value: a 2,350 sf free-standing retail on a 10,000 sf site; Contract rent @ \$5.00/sf annually.

You find - Cost to operate:

Annual Insurance - \$1,000,

Mgmt. fee @ 5%,

Maint. - \$1,200

R.E.T. based on assessment of \$150,000 and a tax rate of \$0.75/\$100.

Market OAR is 8.5%; a Market GIM is 7.25.

Comparable lot sales: \$125,000 - \$150,000.

Indicated Values:

Income Approach _____

GIM Approach _____

Now, what are your questions 1 _____ ? 2 _____ ? 3 _____ ? W H Y ?

These two “Teaser” Tests were presented to bring attention to certain market phenomena that have become real forces that can materially impact property values.

This has become most disconcerting to those within both the fee appraisal world, as well as those within the ad valorem appraisal world – both seeking
Market Value.

The issue: Are there ways or methods that can demonstrate how to identify/react to these market forces during the prevailing downturn within the local commercial and/or industrial markets that began accelerating September 2008 (or were there earlier signs)?

- - Thus, the reason for this Seminar - -

First, let’s explore and identify the market principles that tend to play a role within markets now seeming to be in an upheaval.

Recall some of the focal terms introduced on Slide 4?

The notable key terms
to address at this point include:

Transition Use

Contribution of Value

Impact of Foreclosures

To Do Nothing

Exploring Highest and Best - - -

Incorporating Simple Testing

All of the

Terms

on the preceding Slide have become

everyday “**buzz-words**” for us

– the real issue –

is

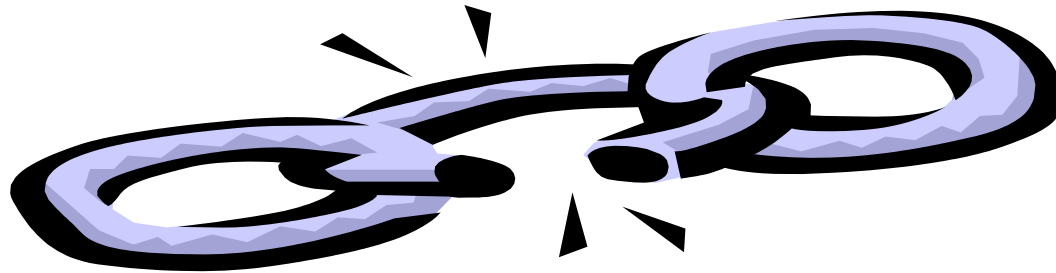
recognizing each

Term

then properly applying those

**“recognized methods and techniques
that are necessary to produce a credible appraisal”**

Thereby



with our basic

appraisal

Principles

Now,

LET'S

CHEW – THE – FAT

On this key

TERMINOLOGY



Contribution of Value – Herein, aren't we really dealing with measuring the contribution of value to an improvement by: (1) valuing the site, then (2) valuing the property as an entity. From this, can we then not also measure the diminution, or loss, from value that can be attributed to a **a** **f** of **d**??

Transition Use – Hmmm, aren't we still dealing with measuring the contribution of value to an improvement? Herein, we would be encountering a property whereby the market trends readily tend to reflect a more identifiable/shorter end of economic life to the major improvement. This remaining life may even constitute a property penalty; or could this also indicate the major structure just might be a misplaced improvement? What about the possibility that the major structure could demonstrate a measureable interim value?

Foreclosures! Foreclosures! Foreclosures! –
YUCK! YUCK! YUCK!

R E C A L L

**Foreclosure – is a process; not a sale, and can be
a judicial or non-judicial process**

**In addition, with the potential threat of Foreclosure, the following
can occur:**

- + Bankruptcy sales**
- + Distressed sales**
- + Short sales**
- + Voluntary deed-back sales
(deed in lieu of foreclosure)**
- + REO's**

To Simply do nothing – Can we really hold off from doing something – hoping the perilous market conditions will take care of themselves – just ride off into the sunset? In your dreams! Would “doing nothing” be a violation of USPAP?

Exploring Highest and Best Use –

Because we’re typically seeking

Market Value,

we cannot ignore this key

principle.

So much
comes from application of this principle -
so much!

For example, this principle provides:

Basis for measuring for land value,

Basis for estimating property value,

Basis for measuring total depreciation,

Basis for economic decisions from market “testing”,

How about a “down use”?

And, now, how about we look at Dilemma No. 3?



You're within a residential market with a 3-block stretch of a few 1-family uses, several conversions to duplexes and triplexes, but more recently, there have been several newly constructed 6-and 7-unit apartments. Occupancy levels are mostly 100%. This happening is because of an expansion of a local industrial plant.

Based on the current property uses, are there any potential Highest and Best Use issues?

What would I need to explore before concluding whether the 1-family residencies have issues? (1)_____?(2)_____?
(3)_____?(4)_____?
(5)_____?

Oh, no! Not another (it's the 4th) dad-gummed, cotton-pickin', Dilemma!



For 2008, free-standing commercial sales (6) revealed package prices ranging from \$75 -\$95/sf of GBA;

For 2009, (4) commercial sales revealed package prices ranging from \$38-\$49/sf of GBA;

For 2010, (2) sales revealed package prices of \$23/sf & \$30/sf of GBA, with 3 listings all available from \$25/sf to \$30/sf of GBA.

Is there now sufficient data to stabilize a package price for mid-2011_____?

Hmmm, do you really have enough input from the sales provided _____?

What else would be most beneficial before a better supported decision can be made _____

_____?

(These are really very devious questions – actually down right dirty)

Though not yet presented as a topic of interest,

It's already been alluded to

that troublesome term

OBSOLESCENCE

YUK! YUK! YUK!

O B S O L E S C E N C E

Webster –

“To grow out of use”.

The Dictionary of Real Estate Appraisal, Fifth Edition, 2010, Appraisal Institute –

“One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external”.

How about – It doesn't meet the current tastes and desires of the market????

OBSOLESCENCE – (Types of)

Functional Obsolescence

“The impairment of functional capacity of a property according to market tastes and standards”

External Obsolescence

“An element of depreciation; a diminution in value caused by negative externalities and generally incurable on the part of the owner, landlord, or tenant”.

Source: The Dictionary of Real Estate Appraisal, Fifth Edition, 2010, Appraisal Institute

A further look into Obsolescence

Whether Functional or External, it can be further broken down into:

Curable or Incurable – economically, that is.

Simply put, Curable Obsolescence is (best answer):

- a) The market really doesn't "give a hoot",**
- b) I don't "give a hoot", either,**
- c) It's so simple – just pay to cure the problem,**
- d) A deficiency the market is willing to correct.**

How about Incurable Obsolescence? It is (best answer):

a) What's that?

b) Now, does anybody really "give a hoot"?

c) I still say - It's so simple – just pay to cure the problem,

d) A deficiency/superadequacy the market is willing to correct.

Is this a better choice of answers?

- a) Don't care – I can't measurement it,**
- b) If I can't measure it – neither can the market,**
- c) Re: a residence, the secondary market/Fannie Mae doesn't want to know it exists,**
- d) A deficiency/superadequacy the market is not willing to correct.**

Let's look further into External Obsolescence

- a) It's so hard to identify/measure, I won't discuss it;**
- b) I think I've seen examples of this, but I don't want to tackle it;**
- c) I think it may be Curable or Incurable, but don't ask me to give you an answer;**
- d) It's probably not curable, regardless of what you do.**

Let's take a peak at some potential

Situational Dilemmas

1 - We find a small 30-year old, 550 square foot, owner-operated shop on a 33,350 sq. ft. site that, if unimproved, would be a prime location for a more intense commercial use, i. e. fast food restaurant. The owner doesn't want to move, or to sell. Similar type shops in this market tend to rent for \$500-\$600 per month.

Your initial reaction is _____?

2 – Look what I just got as an appraisal assignment – The 50-year old Fluffy’s Flour Mill operation. Hmmm – I recognize it’s probably a complex appraisal, but, I notice it’s located along a high-demand corridor with recently completed concentrated commercial development.

Your initial reaction is _____?

3 – Let’s present a dual situation to ponder; a) a place of worship in a typical residential setting with it’s site valued @ \$150,000; whereas, b) a similar-designed place of worship located within a downtown business setting with it’s site valued @ \$1,000,000. You are to appraise both properties, and research reveals limited sales of similar type places of worship. Accordingly, the appraisal of each property must now strongly rely on application of the Cost Approach.

Your initial reaction is _____?

One more
Situational Dilemma

Ever encounter the need to look into the
Conceptual Acceptance Re:

Unity of Lands?

Factors in play include:

Unity of Ownership
Contiguity (Physical Unity)
Unity of Use

T E A S E R T I M E !

CAN

EXTERNAL OBSOLESCENCE

BE EITHER

TEMPORARY OR PERMANENT?

How many sides to a standard pencil__?

How about on a STOP sign__?

Recall No. 1? We find a small 30-year old, 550 square foot, owner-operated shop on a 33,350 sq. ft. site that, if unimproved, would be a prime location for a more intense commercial use, i. e. fast food restaurant. The owner doesn't want to move, or to sell. Similar type shops in this market tend to rent for \$500-\$600 per month.

A quick look at market multipliers reveals this:

GIM's tend to range from 7 to 8

Thus, GIM of 7 x \$500/mo. X 12 = \$ ___/___

GIM of 8 x \$600/mo. X 12 = \$ ___/___

Searches of nearby site sales for commercial uses, such as fast-food restaurants, indicate the following:

C-1, 39,500 sq. ft. site sold 3 mos. ago for \$425,000;

C-2, 41,350 sq. ft. site sold 5 mos. ago for \$395,000;

C-3, 26,100 sq. ft. site sold 8 mos. ago for \$289,000.

Therefore, the **subject site of 33,350 sq. ft.**

@ \$ _ _ . _ _ = \$ _ _ _ , _ _ _ .

What does this say about the functionality of the subject with it's small shop?

Does the cost of effective demolition come into play?

Recall No. 2? – Look what I just got as an appraisal assignment – The 50-year old Fluffy’s Flour Mill operation. Hmmm – I recognize it’s probably a complex appraisal, but, I notice it’s located along a high-demand corridor with recently completed concentrated commercial development.

PROPERTY INSPECTION REVEALS THIS TO BE A FAMILY-OWNED/FAMILY-OPERATED FLOUR MILL THAT INCLUDES DATED EQUIPMENT – IN A DATED STRUCTURE. DATED BUILDINGS TOTAL 43,450 SQ. FT. OF GBA ON 2.2 ACRES. INTENDED USE OF APPRAISAL IS FOR REFINANCING TO UPGRADE THE FACILITIES. OWNER PRESENTED APPRAISER WITH A 6-MONTH OLD APPRAISAL REPORT – A VALUE OF \$3,000,000 - PREPARED UNDER A VALUE-IN USE PREMISE.

WHAT NOW POPS INTO YOUR MIND _____ ?

WHAT DOES A VALUE-IN USE INCLUDE/EXCLUDE _____ ?

Now, let's look at activity in the marketing area (and just forget about the Value-In-Use premise).

A – 50,000 sq. ft. **commercially-zoned site recently sold for \$400,000, or at \$8.00/sq. ft.**

B – 63,800 sq. ft. **commercially-zoned site recently sold for \$488,000, or at \$7.65/sq. ft.**

C – 82,000 sq. ft. **commercially-zoned site recently sold for \$578,000, or at \$7.05/sq. ft.**

D – 88,750 sq. ft. **commercially-zoned site recently sold for \$612,500, or at \$6.90/sq. ft.**

I-A – A 39,500 SQ. FT. **32-YEAR OLD INDUSTRIAL FACILITY** ON A 2-ACRE SITE SOLD 6 MONTHS AGO FOR \$600,000, OR AT \$15.19/SQ.FT. OF GBA.

I-B – A 55,500 SQ. FT. **41-YEAR OLD INDUSTRIAL FACILITY** ON A 2.4-ACRE SITE SOLD 9 MONTHS AGO FOR \$725,000, OR AT \$13.06/SQ.FT. OF GBA.

I-C – A 28,700 SQ. FT. **26-YEAR OLD INDUSTRIAL FACILITY** ON A 1.77-ACRE SITE SOLD 3 MONTHS AGO FOR \$475,000, OR AT \$16.55/SQ.FT. OF GBA.

ASSUMING LOCATION IS NOT A FACTOR, WHAT DOES THE MARKET DATA RESEARCHED TELL US _____?

**HMMM – SUBJECT PROPERTY VALUES ARE:
SITE AS THOUGH VACANT, BASED ON
95,832 SQ. FT. SITE @ \$ __. __ = \$ ____ , ____**

**PROPERTY AS IMPROVED, BASED ON
43,450 SQ. FT. GBA @ \$ __. __ = \$ ____ , ____**

C O N C L U S I O N ?

**WHAT DOES THE MARKET DATA SAY ABOUT THE
CONTRIBUTORY VALUE OF THE SUBJECT
INDUSTRIAL-ORIENTED
FACILITY _____?**

AND, WE CALL THIS OBSOLESCENCE BY _____?

DOES THE MARKET PENALIZE THE SITE _____?

Recall No. 3?– Let’s present a dual situation to ponder; a) a place of worship in a typical residential setting with it’s site valued @ \$150,000; whereas, b) a similar-designed place of worship located within a downtown business setting with it’s site valued @ \$1,000,000. You are to appraise both properties, and research reveals limited sales of similar type places of worship. Accordingly, the appraisal of each property must now strongly rely on application of the Cost Approach.

Ah! This doesn’t appear to be a “taxing” assignment problem. There’s the good ‘ole Cost Approach – always the bail-out for special purpose properties.

Hmmm – let’s set up a parallel scenario just to be sure of the proper application of the Cost Approach:

Let's assume both places of worship are highly similar in Quality of Construction, Building Size & Design, Front Facade, as well as Site Size. Therefore, under full application of the Cost Approach, the indicated values would be somewhat parallel, except the one located within the downtown business setting would approximate an additional \$850,000 - that attributable to the higher downtown site value.
C O R R E C T ? ?

C O R R E C T ? ?

O R

Is something else going on here - such as perhaps additional obsolescence that may be attributable to the place of worship because of its location within the downtown business setting_____?

If you buy into this - and shouldn't you - what type of additional obsolescence might be identifiable_____?

And, if identified as such, how might it be measured_____?

(Clue - does the two distinct site values come into play?)

T E A S E R T I M E !

“The appraiser is cautioned that from a real estate investment perspective, not all commercial property is income producing”.

And you say _____?

Reference source _____?

On the back of a \$1 bill, what is in the center _ _ _ ?

Whose face is on a dime _____?

Recall the “One-more-**Situational-Dilemma**”?

Ever encounter the need to look into the
Conceptual Acceptance Re:

Unity of Lands?

Factors in play include:

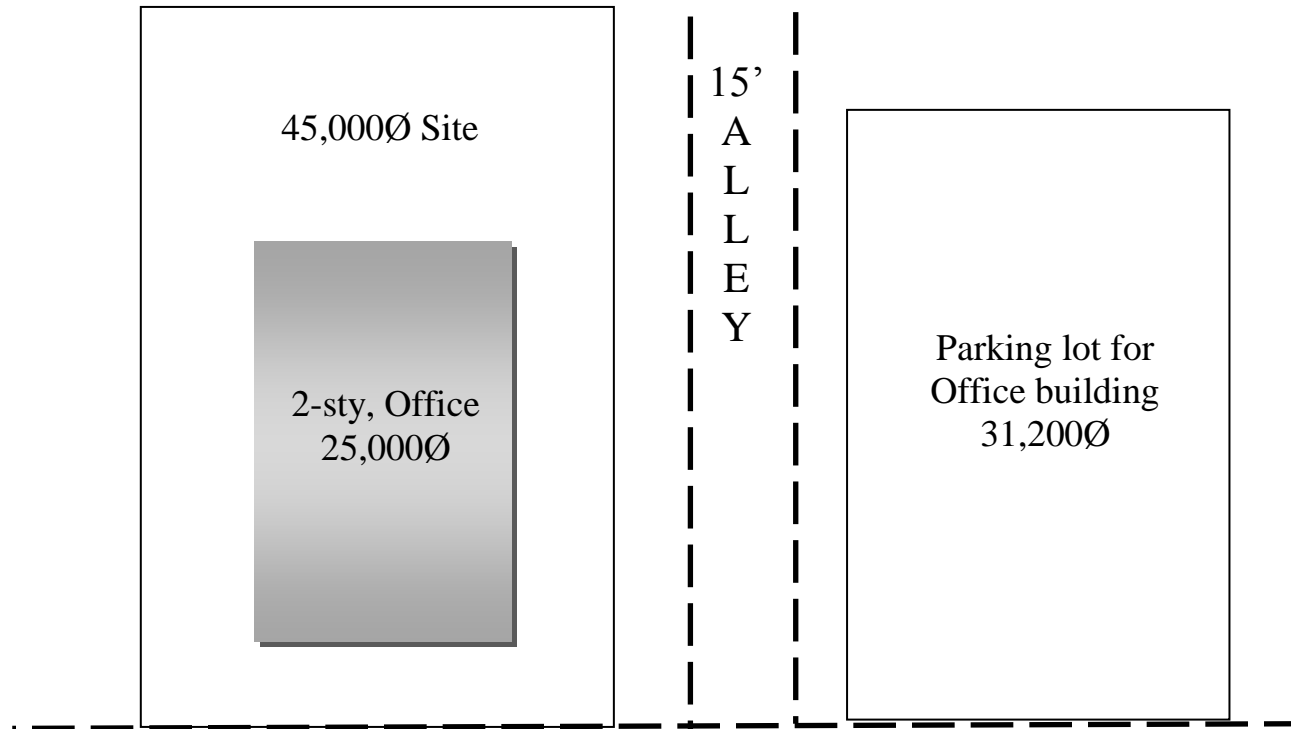
Unity of Ownership
Contiguity (Physical Unity)
Unity of Use

These three preceding "factors" apply to a specific appraisal assignment - whether the potential situation arises in a fee assignment - or in an assignment involving eminent domain.

Now, the assignment - to appraise the following:

Fronting a public street is a 45,000 sq. ft. rectangular site includes a 2-story, 25,000 sq. ft., limited-partition, office building, includes only 5 on-site parking spaces. Across a 15-foot wide public alley, and under the same ownership, is a 31,200 sq. ft. rectangular site that is paved and marked for 35 parking spaces - necessary for full utilization/functionality of the aforementioned site improved with the office facility.

Note: Refer to property diagram on the following slide.



And, your initial thoughts are _____?

Do the three "factors" come into play _____?

Hmmm - so far, so good.

**And, now, the City/County fathers plan to expand a park -
that will require**

ALL

of the 31,200 sq. ft. parking lot parcel.

**OOOPPS! That only leaves _____
_____?**

**Reassessing this AFTER TAKE predicament - the remaining
improved parcel is impacted _____
_____?**

The functionality of the office building has been_____

_____?

How has this affected the Highest and Best use:

Of the remaining site - as though unimproved_____

_____?

Of the remaining site - as improved_____

_____?

And now – the issue of ”Testing”

Re: Highest and Best Use

The initial step in the criteria (I hate the use of the word TESTING) to tackling

Highest and Best Use is:

a) Will the current use suffice?

OR

b) Ask the owner or potential purchaser what he/she thinks

OR

c) Check on what can be physically put on the site

OR

d) Check on the legal implications

OR

e) Just make sure the use makes a profit

OR

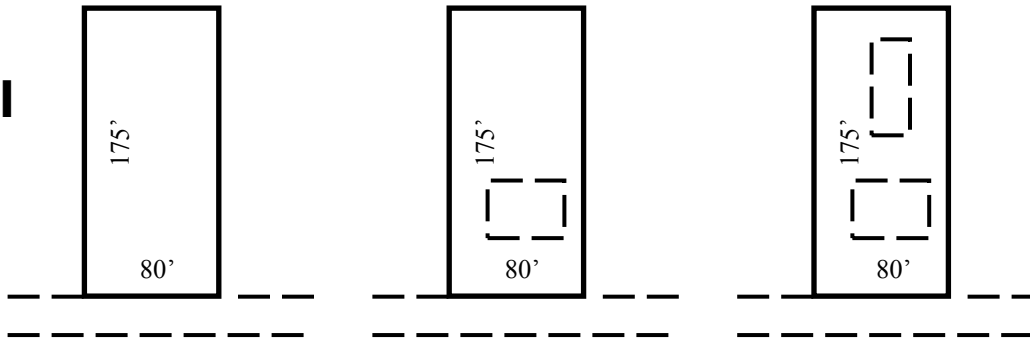
f)-Let's wait and do this group of properties later

**The Following Represents
Examples
one might encounter
when confronted with
identifying/analyzing/testing**

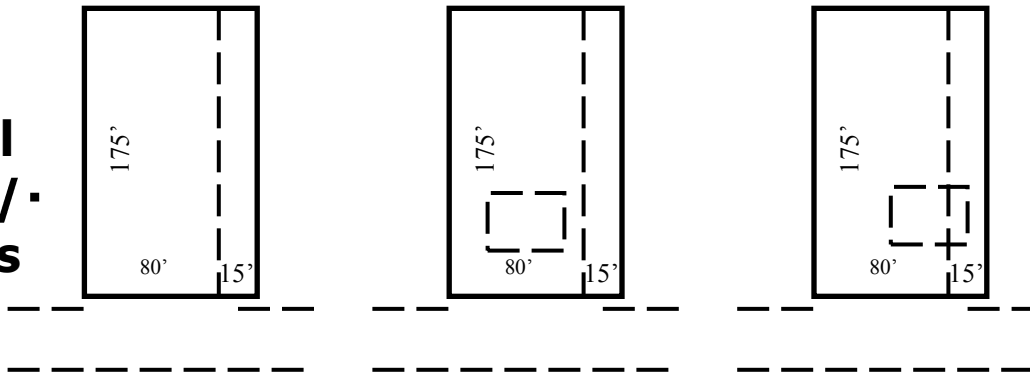
HIGHEST AND BEST USE

Example situations Re: Residential and Commercial properties follow:

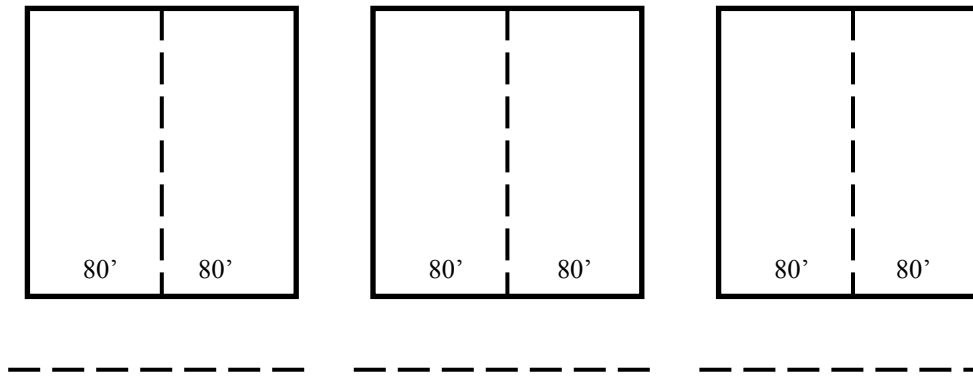
**(A)·
Typical
Site**



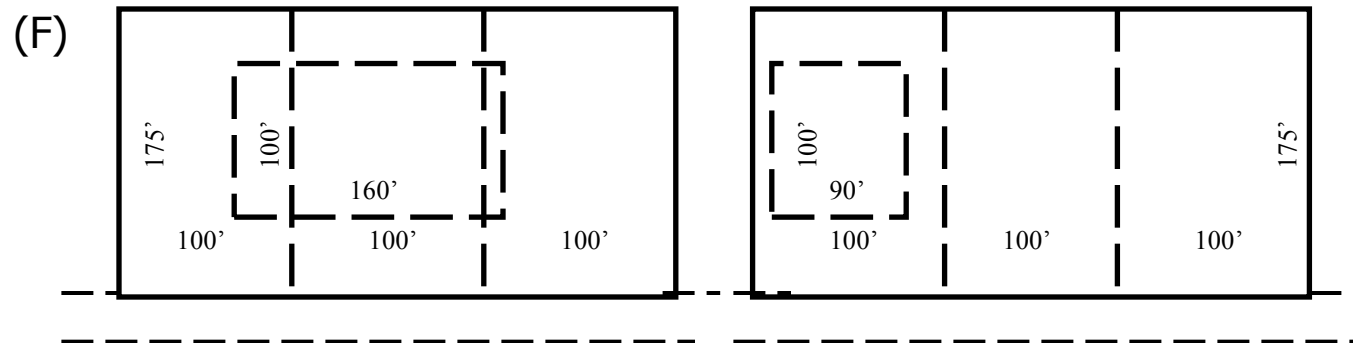
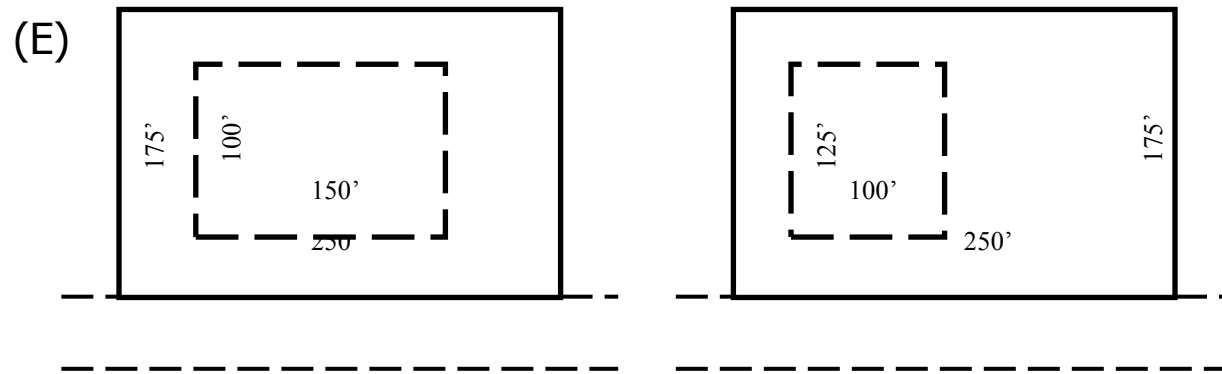
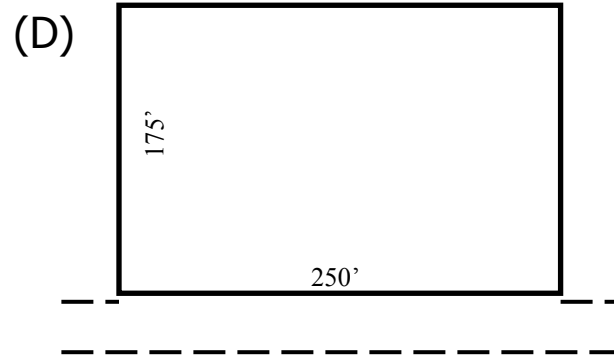
**(B)·
Typical
Site w/
surplus
land**



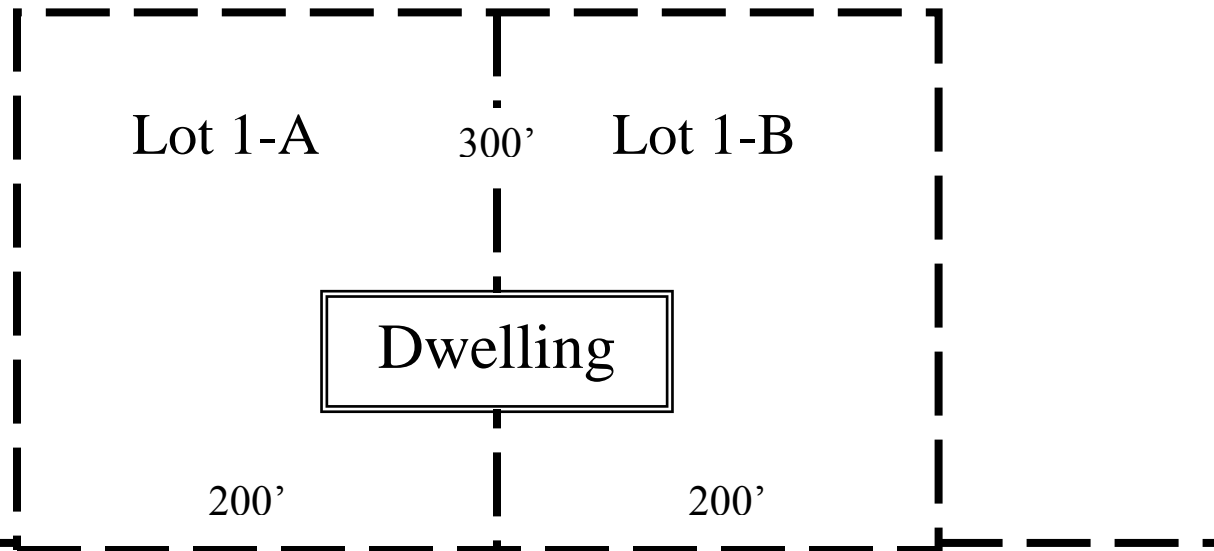
**(C)
Two
Typical
& Legal
Sites**



Examples of Property Uses
(Non-Residential – i.e.: commercial, industrial)



What does this all-too-recognizable situation bring to mind???



Trending along this highway corridor indicates commercial development is market-ready.

The questions that immediately come to mind are:

- 1 _____ ?
- 2 _____ ?
- 3 _____ ?

Now, following are Model Examples for use in “Testing” Highest and Best Use

Model Example

Re: Testing for Highest and Best Use

| 1-F Dwelling | | Assumed Alternate Use |
|--------------|---|---------------------------------|
| \$, (+) | Market Value of Improvements | \$, (+) |
| \$, (+) | Site Value | \$, (+) (Based on rezoning) |
| | Demolition Cost | \$, (-) |
| | Less Market Value of Existing 1-Family Property | \$, (-) |
| | RCN of | \$, (-) |
| | | |
| \$, (+) | | \$, (+/-) |

Conclusions:

- 1) Without zoning change, property value is \$, .
- 2) With zoning change, then constructing a new _____ structure, the direction of signs indicate that the outflow for investment _____ market contribution. Thus, _____, as proposed, _____ economically justifiable.

Model Example
Re: Testing for Highest and Best Use
Example A

| | | |
|--------------|---|--------------------------------------|
| 1-F Dwelling | | Assumed 4-Plex |
| \$50,000 (+) | Market Value of Improvements | \$125,000 (+) |
| \$12,500 (+) | Site Value | \$ 25,000 (+) (Based on rezoning) |
| | Demolition Cost | \$ 5,000 (-) |
| | Less Market Value of Existing 1-Family Property | \$ 62,500 (-) |
| | RCN of 4-Plex | \$100,000 (-) |
| | | |
| \$62,500 (+) | | \$ 17,500 (-) |

Conclusions:

- 1) Without zoning change, property value is \$62,500.
- 2) With zoning change, then constructing a new 4-plex structure, the direction of signs indicate that the outflow for investment exceeds market contribution. Thus, 4-plex, as proposed, is not economically justifiable.

Model Example
Re: Testing for Highest and Best Use
Example B

| | | |
|--------------|---|--------------------------------------|
| 1-F Dwelling | | Assumed 4-Plex |
| \$20,000 (+) | Market Value of Improvements | \$125,000 (+) |
| \$12,500 (+) | Site Value | \$ 25,000 (+) (Based on rezoning) |
| | Demolition Cost | \$ 5,000 (-) |
| | Less Market Value of Existing 1-Family Property | \$ 32,500 (-) |
| | RCN of 4-Plex | \$100,000 (-) |
| | | |
| \$32,500 (+) | | \$ 12,500 (+) |

Conclusions:

- 1) Without zoning change, property value is \$32,500.
- 2) With zoning change, then constructing a new 4-plex structure, the direction of signs indicate that the outflow for investment is less than market contribution. Thus, 4-plex, as proposed, is economically justifiable.

Model Example
Re: Testing for Highest and Best Use
Example C

| | | |
|---------------------|---|-------------------------------------|
| 1-F Dwelling | | Assumed Office Conversion |
| \$25,000 (+) | Market Value of Improvements | \$95,000 (+)* |
| \$50,000 (+) | Site Value | \$50,000 (+) (Based on rezoning) |
| | Demolition Cost | \$ 5,000 (-) |
| | Less Market Value of Existing 1-Family Property | \$75,000 (-) |
| | RCN of Office Conversion | \$40,000 (-) |
| | | |
| \$75,000 (+) | | \$25,000 (+) |

Conclusions:

- 1) Assume no zoning change required, therefore, as-is property value is \$75,000.
- 2) As proposed, then constructing a new office conversion structure, the direction of signs indicate that the outflow for investment is less than market contribution. Thus, office conversion, as proposed, is economically justifiable.

*Based on Eff. Gross Annual Income of \$20,000, and a GIM of 7.25

TIME OUT - Solve this:

Select a # between 1 & 99

x 2

+ 5

x 50

+ 1527

+ 234

- yyyy (your year of birth)

=

the # you selected _ or _ _ , then your age _ _ you'll be this year.

From all this, we now can measure total depreciation (includes obsolescence)

Via this sample
Market Extraction Problem

Given: S/P = \$350,000 Building Area = 11,500/S.F., 25 yrs. Old, RCN = \$70
Site Value = \$250,000, Site Impr. = \$ 5,000

Solve:

| | |
|------------------|-----------------|
| Sales Price - | \$ 350,000 |
| Less | |
| Site Value - | \$ 250,000 |
| Site Impr. - | <u>\$ 5,000</u> |
| Depr. Bldg Value | \$ 95,000 |
| From Market | |

Reflects improvement price of $(\$95,000 \div 11,500)$ \$8.26/S.F.

Accrued Depreciation

| | |
|-----|--|
| RCN | \$805,000 (11,500 S.F. @ \$70) |
| | - <u>\$ 95,000</u> (Depr. Bldg. Value) |
| → | \$710,000 |

% Depreciation 88.2% $(\$710,000 \div \$805,000)$

% Depr./Year 3.52% $(.882 \div 25 \text{ years})$

Ind. Economic

Life 28 years $(100\% \div 3.5\%)$

JUST DISCOVERED! The preceding: a sale from July 2008 resold for \$226,000 in August 2011. This indicates a reduction of ___% , or ___% per year. Observe the subsequent resale ramifications.

New Givens: S/P = \$226,000 Building Area = 11,500/S.F., 27 yrs. Old, RCN =\$70
 Site Value = \$225,000, Site Impr. = \$ 5,000

Solve:

| | |
|------------------|----------------------|
| Sales Price - | \$ ___ ,000 |
| Less | |
| Site Value - | \$ ___ , 000 |
| | |
| Site Impr. - | <u>\$ _____ ,000</u> |
| Depr. Bldg Value | \$ ___ , 000 |
| From Market | |

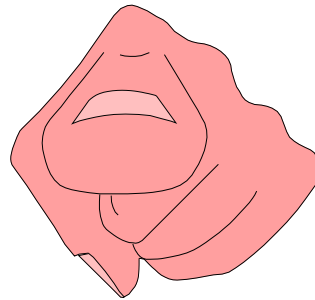
Reflects improvement price of (\$___,000 ÷ 11,500) \$___/S.F.

Accrued Depreciation

| | |
|-----|--|
| RCN | \$___,000 (11,500 S.F. @ \$70) |
| - | <u>\$ _____ ,000 (Depr. Bldg. Value)</u> |
| → | \$___,000 |

W O W ! Assuming this is representative within your specific political jurisdiction for both the commercial/industrial market from 2008 thru mid 2011, what can be gleaned from this commercial sale/resale_____?

And, now just what do
set of market evidence in



plan to do if this was the
political jurisdiction -

and the next effective date of value is as of January 1, 2012???

Is it time yet

To ask:

Is the market beginning to turn around?

O R

Is the forecast to continue to trend do
wn
wa
rd?

HOLD ON! What happened to the term

Transition Use???

**This was one of those Focal Terms
introduced way back on Slide 4 & on Slide 8**

And, Recall from Slide 12 - - ?

Transition Use – Hmmmm, aren't we still dealing with measuring the contribution of value to an improvement? Herein, we would be encountering a property whereby the market trends readily tend to reflect a more identifiable/shorter end of economic life to the major improvement. This remaining life may even constitute a property penalty; or could this also indicate the major structure just might be a misplaced improvement? What about the possibility that the major structure could demonstrate a measureable interim value?

Seems we've dealt with this concept throughout this seminar – Uh, Oh –

**We did mention a potentially measurably short-sighted
Transition Use**

**whereby the end of the economic life of the existing structure is eminent
like in the next one – to three years**

Example – An older 790 sf dwelling sits on a 23,500 sf commercially-zoned site. Rate of Absorption for conversion to new commercial uses on the long subject block is two per year. Exclusive of the subject, four sites for conversion remain.

Here's what we have: subject rents for \$2,200 per month; Real Estate Taxes applicable to the improvements, plus Management total \$2,000 per year, and cost to raze improvements estimated to be \$9,500 in two years. Do the subject improvements demonstrate an interim value?

| | |
|-------------------------|------------------|
| Potential Income | -\$ _____ |
| Carrying Costs | -\$ _____ |
| Cost to Raze | -\$ _____ |
| | =\$ _____ |

Do the subject improvements carry an additional Interim Use/Value _____?

And, now, let's touch on the concept of

Contract Rent vs. Market Rent

And, the issue is???

Hmmm!

Contract Rents = Market Rents

Contract Rents \leq Market Rents

Contract Rents \geq Market Rents

T/F - A forecast Market Value incorporates use of Market Rents;

T/F - Contract Rents MAY be applied to a unit of comparison (i.e. GIM) as long as they can be construed as market-oriented – Hmmm;

T/F - Use of Contract Rents could lead to a Leased Fee Value.

And now, let's jump into a not-so-pleasant issue:

**Just what in the world are the
Clerk of the Court Offices across Virginia trying to accomplish Re?**

Recording Actual Considerations Paid

vs.

**using the Assessor's Value when recording
Deeds of Bargain and Sale**

H E L L O O O ! ! !

And, Help seems to be On the Way!

By way of V A R

To rectify this misuse of deed recordings

(Preparing to introduce a bill in the state legislature in January)

So,  want talk about Ground Leases!

For reminder and discussion, a Ground Lease is defined as:

“A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term”. *

***The dictionary of Real Estate Appraisal, Fifth Edition, 2010. Appraisal Institute**

It still reverts back, does it not, to what is being valued, and the type of value

We know Virginia directs that all taxable properties are to be assessed, for tax purposes, based on the definition of Market Value. This being said, a long term lease - whether a ground lease or a lease incorporating the improvements – just might dictate “movement” Re: Market Value.

Take note that a property may be valued based on the encumbering lease terms, coupled with the PW of the property once the lease terminates – i.e. reversion.

Now ask – is the value concluded then

Market Value or Leased Fee Value?

And, now -

I

Bid you

A grateful

A D I E U !

