



COMMERCIAL APPRAISAL

You've got the listing, but will the appraisal come out?

Stephen Stadlbauer, MAI, MRICS – Principal – Leshar Chee Stadlbauer, Inc.

Chris Ponsar, MAI, SRA, MRICS – Director – The Hallstrom Group | CBRE, Inc.



CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

UNDERSTANDING THE DIFFERENCE BETWEEN “PRICE” AND “MARKET VALUE.”

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

DIFFERENCE BETWEEN “PRICE” AND “VALUE.”

- Brokerage and Appraisal – Related fields separated by a common language. The need for clarity as to property interests.
- **Price** – A Fact
 - Sale Price
 - Listing Price
- **Value** – An Opinion
 - An expression of worth for a specific property interest in real property – not the physical real estate.
 - Needs to be “repeatable”
 - Evidence of a “market” where the most probable price may be established (as opposed to “a market of one”).
 - Bank loans
 - Imperfect Market

PROPERTY INTERESTS

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

PROPERTY INTERESTS

- Fee Simple
 - Vacant Land
 - Owner Occupied
 - “Fee Simple – Subject to Tenant Leases”

PROPERTY INTERESTS

- Leasehold
 - Contract rent above or below market creates leasehold “value” (positive or negative)
 - The market still uses cap rates – Is this appropriate?
 - Mortgage lending – Need to recapture principle
 - Sandwich Leasehold Positions

PROPERTY INTERESTS

- Leased Fee
 - LF interest at market rent = Similar to Fee Simple
 - LF interest above/below market rent
 - Long term LF = Similar to Fee Simple (depending on lease terms)
 - Short term LF = Seller may expect Fee Simple Value

BUYER PROFILES

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

BUYER PROFILES

- Critical to determining Highest and Best Use and ultimately the market for the property interest being considered.
- **Investors** – considerations are largely real estate related returns (and lately tax concerns relative to 1031 exchange).
- **Owner Users** – tend to consider on-going business enterprise.

**ESTIMATING MARKET VALUE IN AN ENVIRONMENT
OF LIMITED SALES TRANSACTIONS.**

**VALUATION TECHNIQUES THAT MAY ASSIST IN
INFORMING LISTING PRICE RANGES.**

CBRE






Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

VALUATION WITH “NO COMPS” - TECHNIQUES

- Sales Comparison via Land Extraction (AI technically considers this a Cost Approach)
 - Most applicable to owner-user properties
 - Useful when Sales Comparison is the dominant methodology.
- Income Properties – mechanics of the Income Approach will lead the analysis.

VALUATION WITH "NO COMPS" - TECHNIQUES

DATA SUMMARY	SUBJECT PROPERTY	TRANSACTION 1	TRANSACTION 2	TRANSACTION 3
				
Tax Map Key (Division 1)		9-6-08; 5 & 6	9-4-49; 8 & 9	9-4-49; 39
Location / Identification	Urban Honolulu Mapunapuna	96-1373 & 96-1367 Waihona St. Pearl City Industrial Park	94-157 & 94-167 Leoleo Street Waipahu Ind. Subdivision	94-150 Leokane St. Waipahu Ind. Subdivision
Year Built (Completed)	1979	1988	1975	1970
Primary Construction	Pre-engineered Steel	Pre-engineered Steel	Steel and Masonry	Steel and Masonry
Bldg. Description	Warehouse	Warehouse/Office	Warehouse/Showroom	Warehouse/Office/Cold Storage
Building Height (Feet)	27'	26'	24'	20'
Condition of Improvements/ Overall Quality of Accommodation	Average	Average	Average	Average
Design and Utility	Average	Average	Average	Above Average
Bldg. Area				
Ground Fl. Warehouse/Production Areas	44,561 87%	47,242 84%	17,700 42%	20,000 78%
Shed Area	0 0%	0 0%	14,500 26%	2,400 6%
Gr. Floor Office	4,439 9%	4,500 8%	0 0%	1,870 4%
2nd Fl./Mezzanine Office	2,036 4%	4,500 8%	0 0%	1,438 3%
Mezzanine Storage	0 0%	0 0%	9,540 17%	0 0%
Total Building Area (SF)	51,036 100%	56,242 100%	41,740 85%	25,708 91%
Building Footprint Area (SF)	49,000	51,742	32,200	21,870
Lot Area in Square Feet	32,000	87,538 (1)	80,000	40,124
Bldg. Footprint/Lot Coverage Ratio	53%	59%	40%	55%
Indicated FAR (Total Bldg./Lot)	0.55	0.64	0.52%	0.64%
County Land Use Zoning	I-2	I-1	I-2	I-2
Property Use at Time of Sale	-	Single User	Single User	Single User
Purchaser Profile		Owner-User	Owner-User	Owner-User
Date of Sale ("Meeting of the Minds"/DROA/or Document Date)		Jan-14	May-13	May-12
Date of Recordation		Mar-14	Sep-13	Oct-12
Grantor		Ocean Resource Innovations, LLC	City Mill Company, Ltd.	Wilson Market, Inc.
Grantee		2676 Waiwai Loop, LLC	Hawktree International	D2J LLC
Recorded Sale Price		\$5,900,000	\$5,250,000	\$3,700,000
Listing Price		\$7,000,000	n/a	\$3,900,000
Variance From List Price		-25.7%	-	-5.7%
Days on Market		n/a	n/a	150
Conditions of Sale Adjustment		\$200,000	\$300,000	\$0
Cash Equivalent Sales Price		\$6,100,000	\$5,550,000	\$3,700,000
Cash Equivalent Sales Price/SF of				
Total Building Area Before Land Extraction		\$108	\$133	\$144
Estimated Fee Simple Unit Land Value		\$35.00	\$43.00	\$50.00
Estimated Fee Simple Land Value (rounded)		\$3,063,830	\$3,440,000	\$2,010,000
Extracted Improvement Allocation		\$3,036,170	\$2,110,000	\$1,690,000
Percentage of Overall Sales Price		50%	38%	46%
Unit Allocation to Improvements (PSF of building area)		\$53.98	\$50.55	\$65.74

VALUATION WITH “NO COMPS” - TECHNIQUES

- Alternate Methods
 - Space and Time
 - Broker and Market Participant Interviews
 - Traditional Cost Approach
 - “The absence of data is data”
 - Leasehold Properties
 - DCF
 - Direct Cap – Accelerated Recapture

**VALUATION METHODOLOGIES: OWNER-USER
PROPERTIES VS. INVESTOR PROPERTIES.**

**PITFALLS OF IMPLICIT CAPITALIZATION RATES
DERIVED FROM OWNER-USER TRANSACTIONS.**

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

PITFALLS OF “IMPLICIT” CAP RATES

- What is an “implicit cap rate”?
- Understand the danger
- Extracting a rate in a way that it wasn’t intended
 - Speaks to owner user premiums
 - But the buyers/sellers may not have been thinking that way
 - May be a measure of substitution
 - Marketing Tool
 - “Own for the cost of renting” – Total cost of occupancy

GROUND LEASEHOLD PROPERTY VALUATION:

**IMPACT OF LIMITED-TERM GROUND LEASES
ON VALUATIONS.**

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

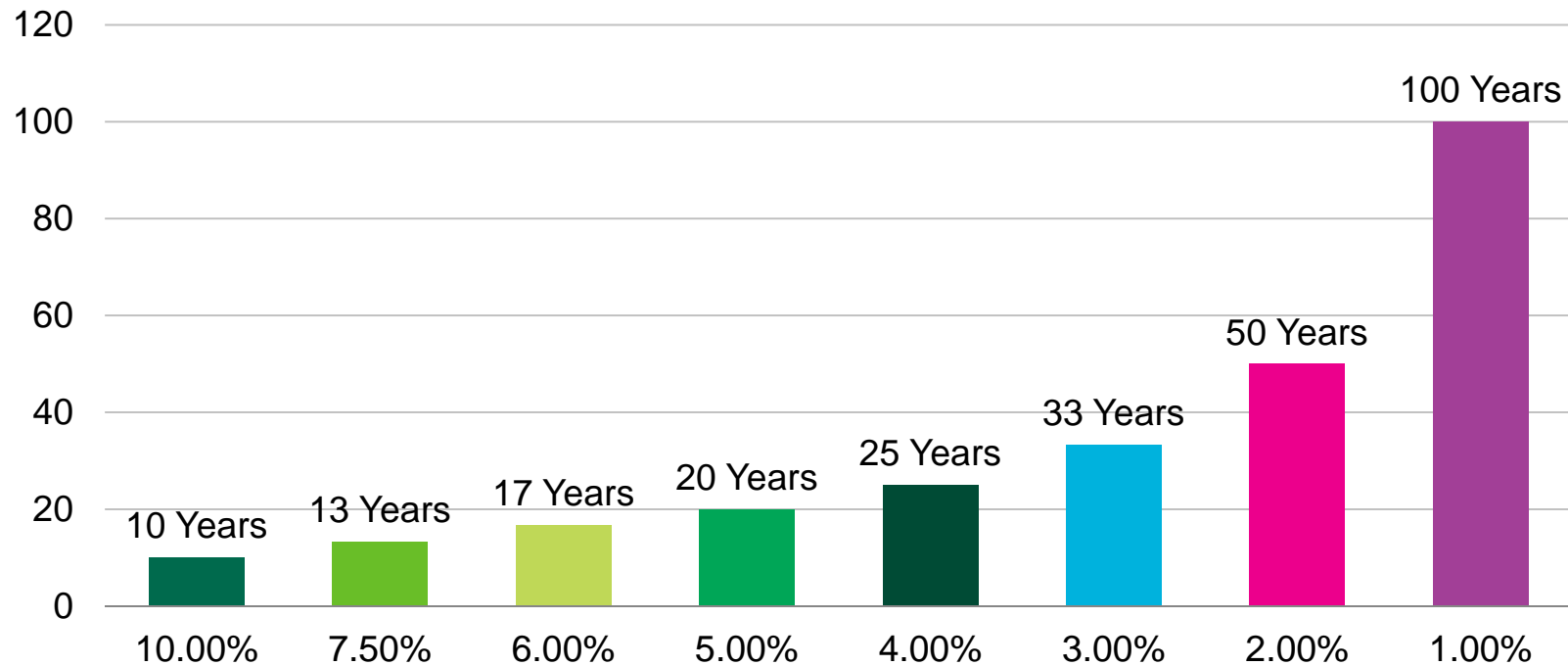
GROUND LEASEHOLD PROPERTY VALUATION

- Direct Capitalization
 - What it really means
 - A forecast into perpetuity (forever)
 - “Return On” and “Return Of”
 - Accomplished via:
 - Interim income, and income growth
 - Appreciation of the asset, realized at sale
 - What if you never intend to sell?
 - All profit must come from income
 - The Hong Kong Method
 - “When do I get my money back?”

CAP RATES – THE HONG KONG METHOD

When do I get my money back?

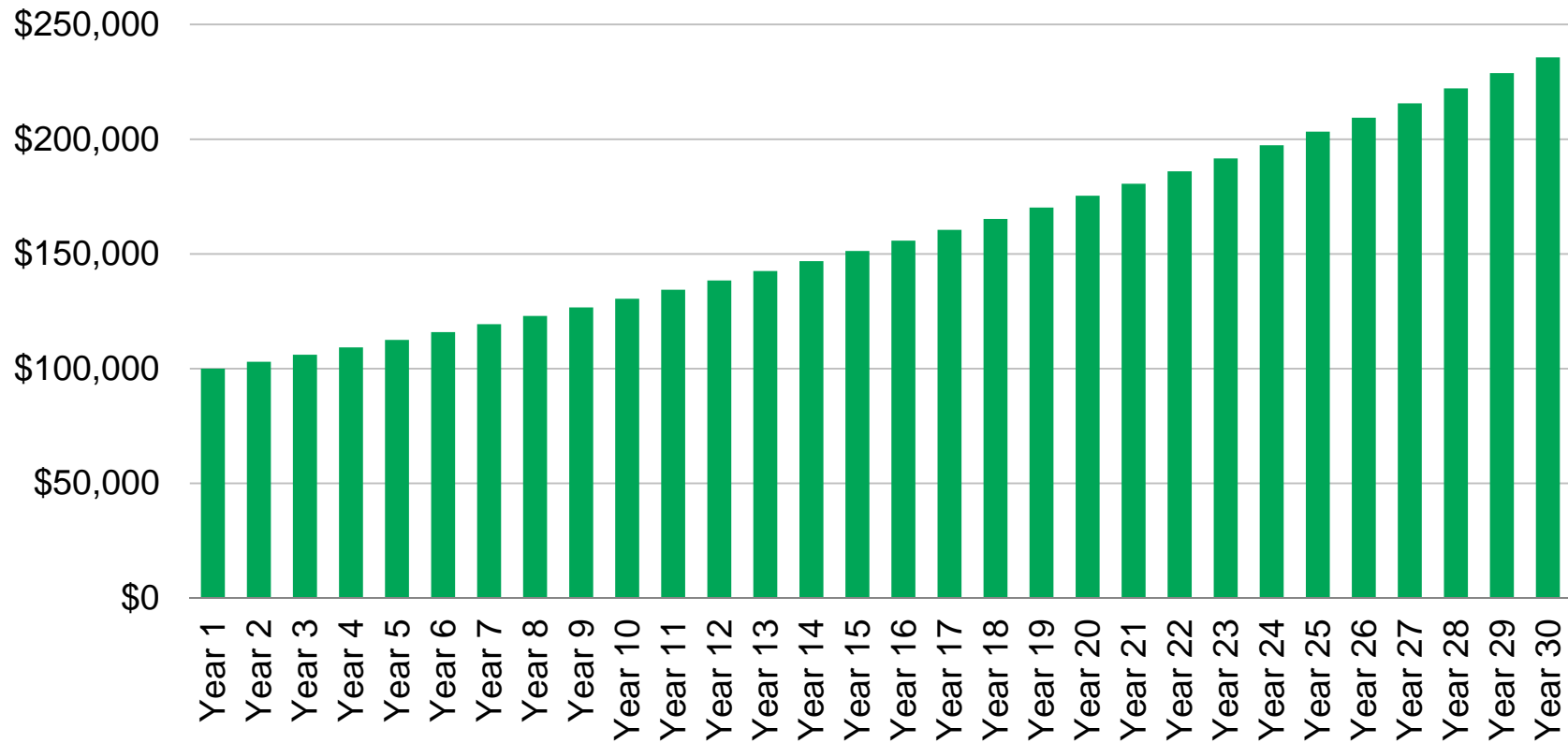
“Return Of Only – Everything Else is Gravy” – Cap Rates converted to payback years assuming stable income.



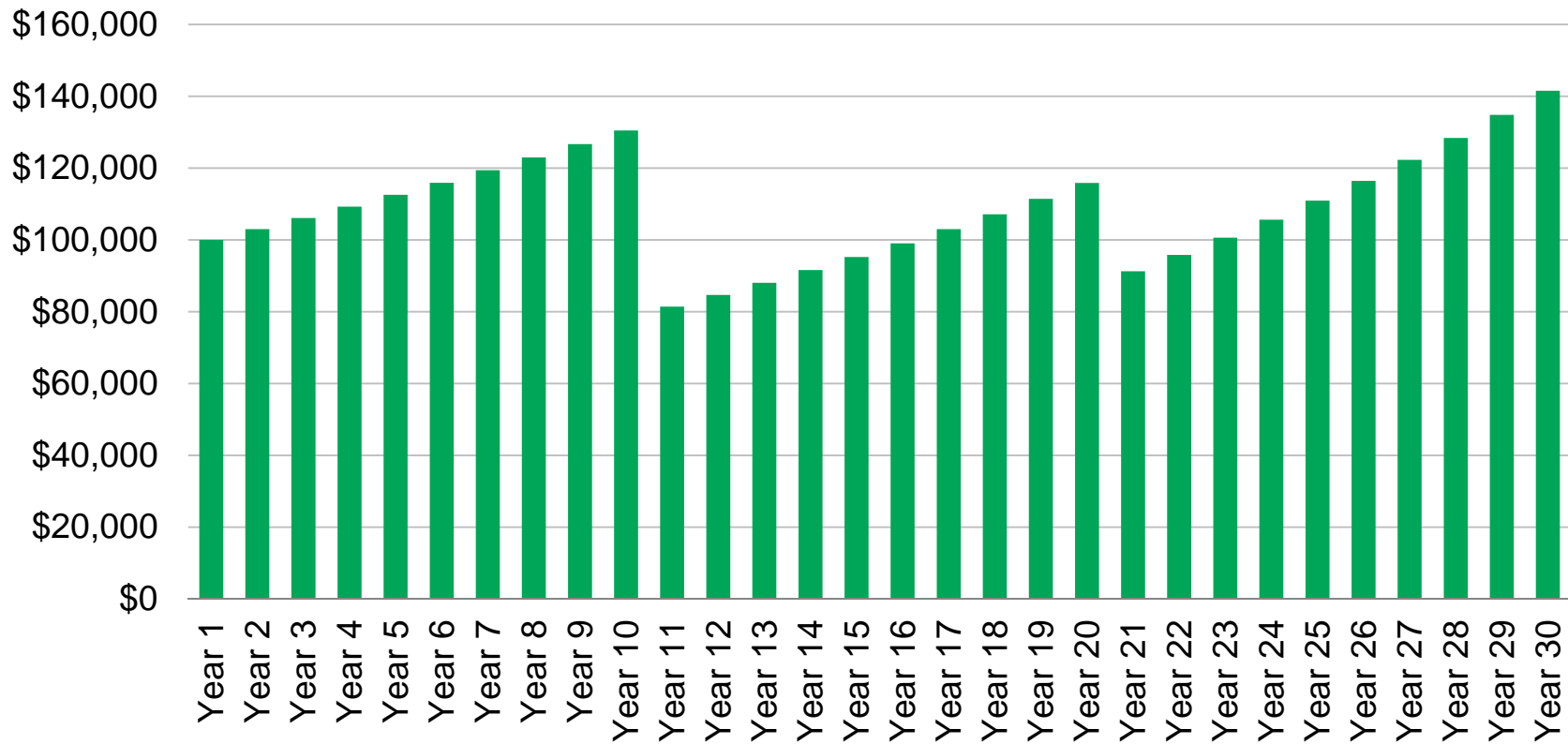
GROUND LEASEHOLD PROPERTY VALUATION

- Direct Capitalization
 - Three Scenarios
 - Fee Simple
 - Long Term Leasehold (example: 30 Years)
 - Short Term Leasehold (example: 16 Years)

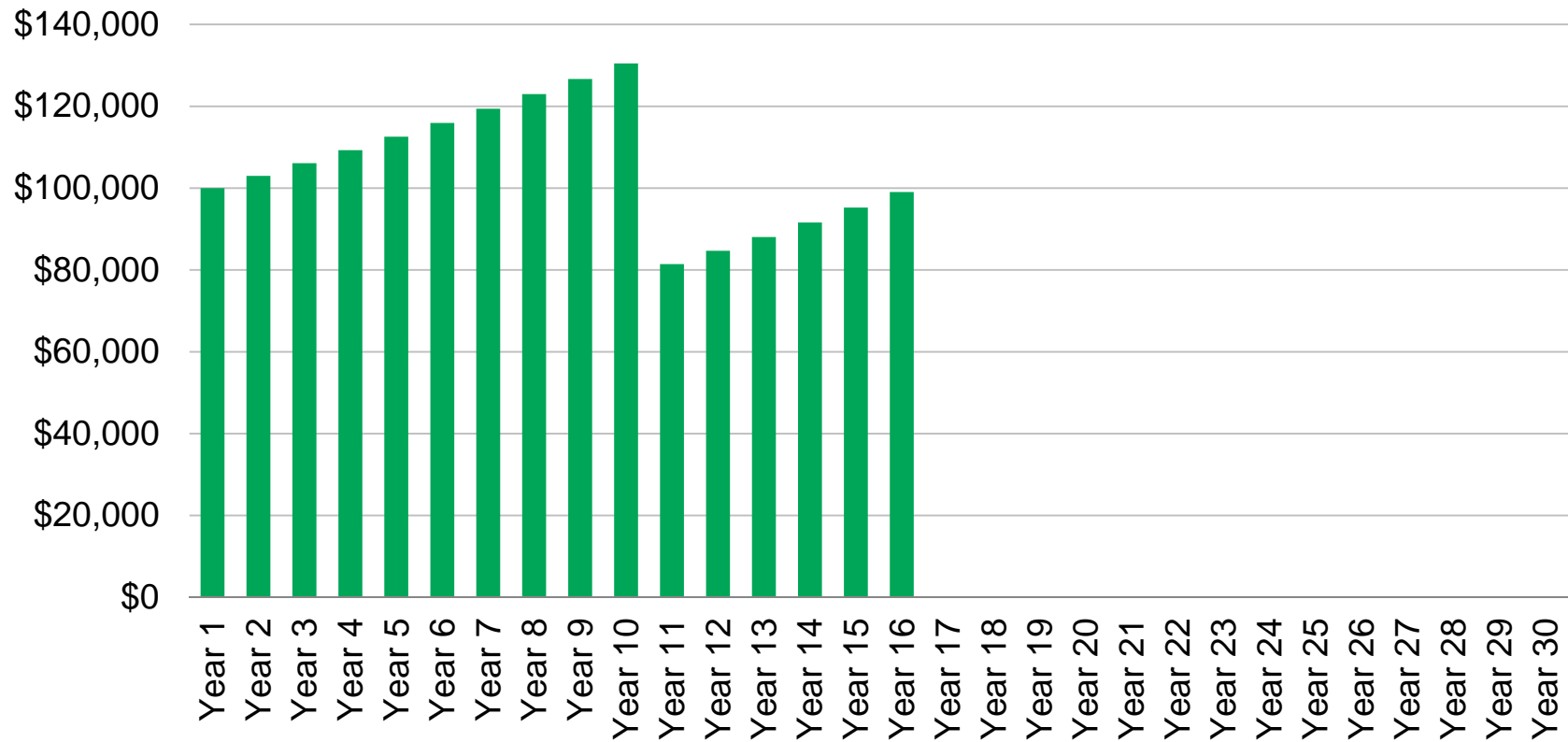
NET OPERATING INCOME (NOI) FEE SIMPLE PROPERTY



NET OPERATING INCOME (NOI) LONG TERM LEASEHOLD PROPERTY



NET OPERATING INCOME (NOI) SHORT TERM (16-YEAR) LEASEHOLD PROPERTY



Q&A

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting

For more information regarding this presentation please contact:

Stephen Stadlbauer, MAI, MRICS

Principal – Leshar Chee Stadlbauer, Inc.

T +1 808 524 1513

ses@lcs-consulting.com

Chris Ponsar, MAI, SRA, MRICS

Director – The Hallstrom Group | CBRE, Inc.

T +1 808 541 5123

Chris.Ponsar@cbre.com

CBRE



Leshar Chee Stadlbauer
Real Estate Valuation & Consulting