

How Can Appraisals Reflect “Market” When There Is No Market?:

Appraising the Appraisal



Troubled Asset Forum
June 23-24, 2009

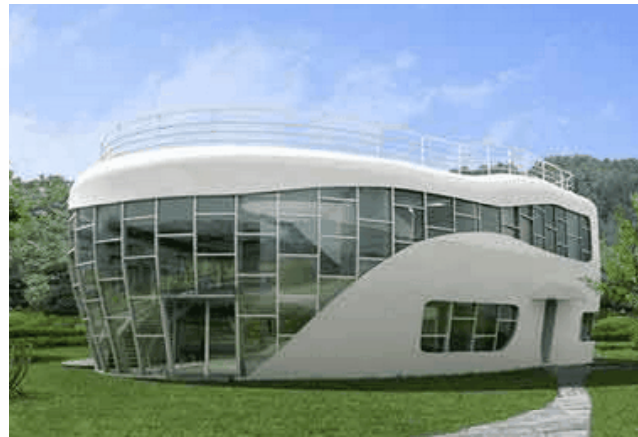
David Rosenthal, MAI
President & CEO

It's a wild new world out there....





1. What is the Asset?



1. What is the Asset?

- **Ground Lease**
- **Un-stabilized occupancy**
- **Special Purpose building**
(e.g.-school, religious facility, health care)
- **Going Concern**
(e.g.- gas station, hotel/motel, health care)

2. What values are estimated?



2. What values are estimated?

A. Exposure Time - Market or Compressed?

- **Market Value**
- **Disposition Value**
- **Liquidation Value**

2. What values are estimated?

B. Condition of the Asset?

- **As Is?**
- **As If Complete?**
- **Subject to Hypothetical Conditions?**

2. What values are estimated?

C. Component Values

- Land Value
- Insurable Value
- Going Concern
 - Business Enterprise value
 - Depreciated F,F&E value
 - Real Estate component value

2. What values are estimated?

D. Subdivisions/Condominiums

- **Sum of the Individual Market Values**
- **Bulk Value to One Buyer**
- **Condo – Hypothetical Apartment Value**

3. Highest and Best Use



3. Highest and Best Use

Is Highest and Best Use changing?

- Vacant Big Box Retail
- Broken or Fractured Condominium (apt?)
- Entitled Subdivision Land (entitlements?)
- Owner-Operated Executive Office Suite

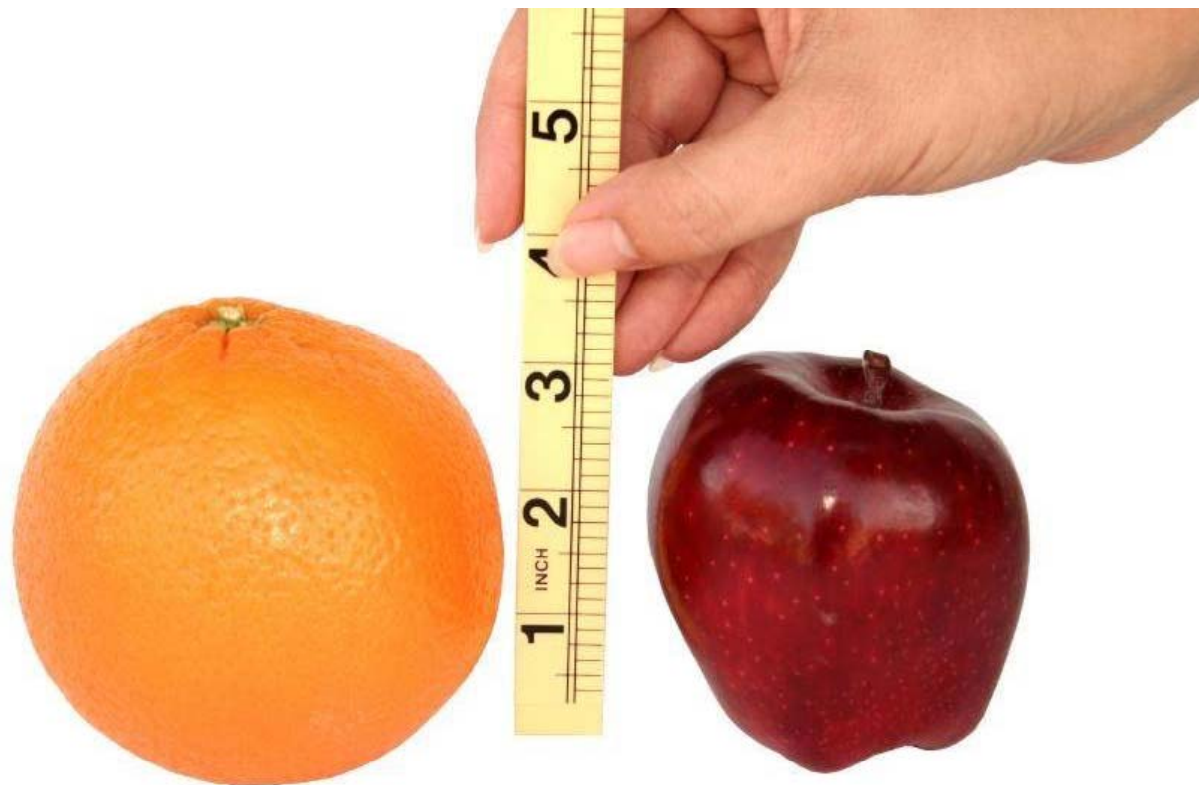
4. Cost Approach



4. Cost Approach

- Is Cost Approach relevant? Required?
- How reliable is land value?
- Is construction financing available?
- Developer's Profit?
- Economic Obsolescence?

5. Sales Comparison Approach



5. Sales Comparison Approach

- Are Sales Comps Current/Relevant? (post 10/08?)
- Distressed Sales? Are they Market?
- Listings? (upper limit of value?)
- Exposure Time of Sales?
- Survey of Market Participants?

6. Income Approach



6. Income Approach

A. What is sustainable Potential Income?

- **What is Market Rent?**
 - Rent reductions?
 - Concessions?
- **Are Tenants Credit-Worthy?**

6. Income Approach

B. How Are Above-Market Rents Handled?

- **Mark to Market?**
- **Fee Simple with Lease-by-Lease analysis?**
- **Contract Rents with higher cap rate?**

6. Income Approach

C. Vacancy?

- **What is Market Vacancy?**
- **What about Single Tenant?**
- **Tenant Rollover Risk?**

6. Income Approach

D. What's the Cap Rate/Yield Rate?

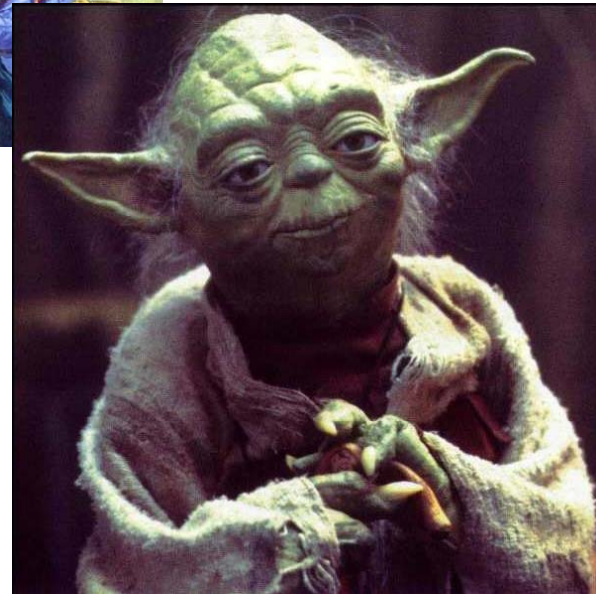
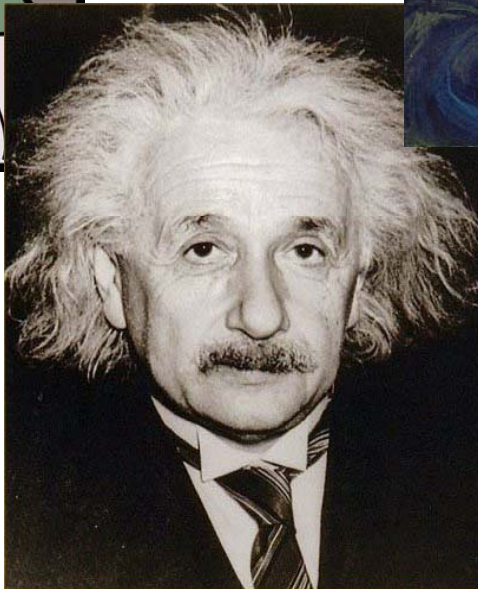
- How to bridge the Bid-Ask gap?
- Based on current income or trailing 12?
- Sources of support?
 - Sale comps – Current? Dated?
 - Supplemental Cap Rate Sales
 - Survey of Market Participants
 - Band of Investments / Mortgage Equity Analysis

6. Income Approach

E. Un-stabilized Properties

- What is a realistic absorption period?
- Costs of Lease-up
 - Rent Loss
 - TI's
 - Leasing Commissions
- Impact on other tenants? Rollover risk?

7. Value Conclusion?



Speaker's Biography



David Rosenthal, MAI has over 25 years of commercial real estate appraisal experience working with lenders, equity sources, attorneys, and public agencies. Prior to founding Curtis-Rosenthal, Inc. in 1983, he worked at Security Pacific National Bank as a corporate banker. He has an MBA from the Kellogg Grad School of Mgt at Northwestern Univ, and a BS in finance from the Univ of Florida. He lectures on real estate at UCLA and Loyola Marymount Univ., and is a frequent author for commercial real estate publications. His "Economic Update Report" is a regular feature on www.RENTV.com.

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