

# **Discussions on Writing Client - and Reviewer - Friendly Reports**

## **Presenters:**

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# **DISCLAIMER**

**The views and opinions expressed in this seminar are those of the presenters and not necessarily those of the:**

- **Appraisal Institute**
- **Appraisal Standards Board**
- **Appraisal Foundation**

**It is the responsibility of participants to determine the relevance and applicability of the material presented herein.**

# INTRODUCTION

## **THIS PRESENTATION IS:**

**The Presenters' thoughts and opinions to:**

- **Help appraisers write client-friendly reports**
- **Help appraisers write reviewer-friendly reports**
- **Help appraisers understand the influence of reviewers on their appraisal business**

# INTRODUCTION

## **THIS PRESENTATION IS NOT:**

- **Not a USPAP discussion**
- **Not intended to influence technique or methodology (although both may be addressed)**
- **Not a lecture-style presentation but intended to generate discussions beneficial to participants**

# OPENING REMARKS

## Why I Began Review Work:

- Became aware of the need
- Banks needed help developing appraiser list
- Banks needed help with appraisal requests
- Bank personnel needed training

**Results: Now handle all bank client appraisal requests**

# **TILLMAN CONSULTING WORK INCLUDES:**

**A. ROW Project Management**

**B. ROW Reviews**

**C. Bank Reviews**

- **Under contract with ten bank clients**
- **Various consulting assignments for other banks, attorneys, government agencies, and quasi-government agencies**

**TILLMAN CONSULTING, LLC**  
**STEP BY STEP APPRAISAL REQUEST PROCESS**

<b>1.</b>	<b>Request for quotes received from bank client</b>
<b>2.</b>	<b>File is created for the assignment</b>
<b>3.</b>	<b>Request form checked for accuracy and completeness</b>
<b>4.</b>	<b>Appraisers selected from bank's approved list to receive request</b>
<b>5.</b>	<b>Request sent to the appropriate appraisers</b>
<b>6.</b>	<b>Appraisers submit their proposal (fee + turn time)</b>
<b>7.</b>	<b>Quotes are assembled and sent to the bank anonymously</b>
<b>8.</b>	<b>Bank notifies us of the quote they have selected</b>
<b>9.</b>	<b>Notification is sent to appraiser whose quote was chosen</b>
<b>10.</b>	<b>Notification is sent to appraisers whose quotes were not selected</b>
<b>11.</b>	<b>Engagement letter is prepared</b>

**(cont'd)**

- |            |   |          |
|------------|---|----------|
| <b>12.</b> | <b>Engagement letter &amp; all support documents emailed to appraiser</b>       |          |
| <b>13.</b> | <b>Engagement/assignment entered into Tracking System</b>                       |          |
| <b>14.</b> | <b>Appraiser returns signed engagement letter</b>                               |          |
| <b>15.</b> | <b>Appraisal report arrives and arrival date is logged into Tracking System</b> |          |
| <b>16.</b> | <b>Preliminary detail check of report is completed</b>                          |          |
| <b>17.</b> | <b>All pertinent report details entered into review template</b>                |          |
| <b>18.</b> | <b>Report review begins</b>   |          |
| <b>19.</b> | <b>Reviewer enters comments into review template</b>                            |          |
| <b>20.</b> | <b>Review questions for appraiser entered into review template</b>              | <b>★</b> |
| <b>21.</b> | <b>Review questions emailed to appraiser</b>                                    | <b>★</b> |
| <b>22.</b> | <b>Appraiser responds with answers to reviewer questions</b>                    | <b>★</b> |

**(cont'd)**

- |            |  |
|------------|--|
| <b>23.</b> | <b>Appraiser sends revised report when necessary</b> ★   |
| <b>24.</b> | <b>Appraiser responses to questions entered into review template</b> ★   |
| <b>25.</b> | <b>Revised report undergoes a thorough check to verify all revisions have been correctly addressed</b> ★   |
| <b>26.</b> | <b>Final review notes added to review template</b> ★   |
| <b>27.</b> | <b>Final Report, Review Report, and Invoices sent to the bank client</b>   |
| <b>28.</b> | <b>Appraiser is notified the report is approved and hard copies, if requested by the bank, can be sent per instructions in the engagement letter</b> |
| <b>29.</b> | <b>Assignment is marked as “Finalized” and folder is closed</b>  |
| <b>30.</b> | <b>Assignment status is changed from active to finalized in Tracking System</b>  |
| <b>31.</b> | <b>Invoice sent to bookkeeping</b>   |

## **PREVIOUS SEMINAR**

**Mark and Roger have assisted with a number of reviews and consulting assignments**

**We developed a 3-hour seminar to give appraisers insight into the importance of producing client-friendly and reviewer-friendly reports**

## APPRAISAL PROFESSION – GOING FORWARD

- Too often appraisal reports are written with the reviewers, appraiser boards, and/or other appraisers in mind – WRITE FOR THE CLIENT
- The disconnect between appraisers and banks has existed for too long
- Provide your clients with what they need and expect
- Bank lobby vs appraisal lobby
- New \$500,000 de minimis (*The Definition of de minimis is as follows: lacking significance; so minor as to merit disregard*)
- Evaluations

## ASSIGNMENT CONDITIONS

*“An appraiser’s knowledge of loan underwriting concepts is essential when an appraisal report’s intended use is to assist in loan underwriting purposes.”* <sup>(1)</sup>

- **Valuation for bank loans is more than simply providing a Fee Simple or Leased Fee value estimate.**

<sup>(1)</sup> The Appraisal Journal, Spring 2019 edition, Page 115

## **ASSIGNMENT CONDITIONS EXAMPLES**

- **Assignment is to value Fee Simple - appraiser learns property is leased but does not notify reviewer or client**
- **Assignment is to provide individual value estimates on three adjoining properties.**
- **Stating the effect of Dollar General leases on assignment results**

## **ASSIGNMENT CONDITION**

**Bank client requested the appraisal provide separate values for 3 adjoining buildings/lots. Appraiser values the property as a whole and allocates the value of the 3 tracts.**

**Problem: The bank was making 3 separate loans to one borrower and the individual values would not equal the appraiser's value as a whole.**

# EVALUATIONS

- Numerous states have passed evaluation legislation
- Unqualified bank staff completing evaluations
- Original intent was for appraisers to complete evals
- Qualifications for evals overlooked by most banks
- Evals should be considered a new source of business and must not be overlooked
- ROW & Bank eval legislation passed in Alabama

# Financial Industry

# ARE YOUR REPORTS FAT?



**In Summer of 2018: Marty Skolnik, Chief Appraiser Director at Freddie Mac, presented to the Appraisal Institute what chief appraisers want. Skolnik is part of a growing segment of lenders telling appraisers:**  
**YOUR REPORTS NEED TO LOSE WEIGHT!**

**Skolnik Suggests: Brevity, Standardizing and**  
**NOT REPEATING INFORMATION**

**Appraisers Should Summarize/Shorten/Focus**

**Skolnik recommends 50 pages max**

**Skolnik says commercial reports are too long with too much boiler plate and duplication. Reports often lack support for adjustments.**

**Calls to bankers about these issues showed there was complete agreement with Skolnik: *“Give us the facts, not the fluff – appraisers submit voluminous reports instead of concise and solid data and analysis.”***

**Clients, including financial institutions, municipal organizations, government agencies, and others are clear about what they need:**

<b>1.</b>	<b>Accuracy</b>	<b>Reports must be accurate and free of errors</b>
<b>2.</b>	<b>Consistency</b>	<b>Format and methodology must be consistent</b>
<b>3.</b>	<b>Relevance</b>	<b>Comps must be truly comparable to the subject property</b>
<b>4.</b>	<b>Compliance</b>	<b>Report follows USPAP and client-specific standards</b>
<b>5.</b>	<b>Data</b>	<b>Opinions are supported by FACTS</b>
<b>6.</b>	<b>Speed</b>	<b>Timely report delivery (deadlines becoming faster)</b>
<b>7.</b>	<b>Competitive</b>	<b>Fees are reasonable</b>

## **ISSUES WITH REPORT SIZE**

- **Boilerplate**
- **Useless duplication**
- **Using narrative rather than charts**
- **Inserting copy of entire lease**
- **Copy of entire other expert reports**

# APPRAISAL REPORTING

- A \$500,000 property and a \$5,000,000 property – both with 150 page reports
- Consider reducing the level of support details in lower value properties
- Consider client's familiarity with the market and property type
- It doesn't save time to reduce boilerplate

# Sources

## **SOURCES & EDITIONS**

**Appraisal reports should always utilize the most current publication sources:**

**Today is:**

- **The Dictionary of Real Estate 6<sup>th</sup> Edition**
- **The Appraisal of Real Estate 14<sup>th</sup> Edition**
- **USPAP 2018-2019 Edition**

# Date of Value

## **EXAMPLE 1**

**In the Letter of Transmittal  
Date of Value Shown: June 1, 2019**

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**In the Body of the Report  
Date of Value Shown: May 2, 2019**

**Inconsistent dates affect credibility. Clients, underwriters, and employee analysts read reports in detail. Example: The Chief Credit Officer is a CPA; Underwriting Analyst contacts appraiser frequently.**

## **EXAMPLE 2**

**“As Is” Date of Value: 5/25/19**

**“As Complete” Date of Value: 11/25/19**

**“As Stabilized” Date of Value: 5/25/20**

### **Methodology:**

- **Rent Loss**
- **Cost + Entrepreneurial Incentive**

**If deduction of cost method is utilized, it is recommended a statement of funding for complete project be in place. Private equity or loan funds. (Ted Anglyn, MAI, & FDIC Trainer)**

# Typical Issues, Errors & Omissions

# **ENGAGEMENT LETTER**

## **The Requirements Most Commonly Omitted**

- **Client is not specifically identified by name**
- **Charts do not meet font size as per engagement**
- **No statement verifying that omission of an approach to value has no affect on the credibility of the value estimate**
- **Report contains an entire lease rather than the required summary of same**

## **IN THE LETTER**

**Omission of Extraordinary Assumptions definition when these are provided in the letter?**

**Never combine the definitions of Extraordinary Assumptions and Hypothetical Conditions**

**Failure to list all clients such as the U.S. Small Business Administration**

**Including in the letter the required 3 year prior services statement?**

**Multi-page letters containing incorrect page numbers and/or dates in the header**

## **IN THE BODY OF REPORT**

**Client, intended users, intended use - all combined in one narrative**

**No clear statement as to the appraisal format**

**Highest & Best Use introduction and definition adds multiple pages**

**Highest & Best Use narrative inconsistent with improvement description/neighborhood/zoning**

## **APPRAISAL REPORT TYPE**

### ***Example of Preferable Language:***

**This is an Appraisal Report as defined by Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2(a). This format provides a summary or description of the appraisal process, subject and market data and valuation analyses.**

## APPRAISAL REPORT TYPE

### *Example of Non-preferable Language:*

#### Appraisal Conformity and Report Type

We developed our analyses, opinions, and conclusions and prepared this report in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation; the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute; the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA); and the requirements of our client as we understand them.

## **NUMBERING ISSUES**

**Mixing Roman numerals (I, II, III, IV) (i, ii, iii, iv) with traditional numbers (1, 2, 3, 4)**

**PDF numbers not corresponding with the actual page numbers**

**Using a smaller font for page numbers than used in report (Example: report is 12 point font, page numbers are 6 point font)**

**Report divided into sections that are numbered in a non-contiguous sequence**

## EXAMPLE

**EXTRAORDINARY ASSUMPTION:** *an assignment-specific assumption as of the effective date regarding uncertain information used in an analysis which, if found to be false, could alter the appraiser's opinions or conclusions.*<sup>1</sup>

Uncertain information may include physical, legal, or economic characteristics of the subject; or conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis. **(Zoning)**

**THIS IS REQUIRED and is currently a hot issue. Location in report is important. Many reports are using variations of definitions.**

<sup>1</sup> *Source USPAP 2018-19*

# Client Identification

## EXAMPLES

1. Failure to specifically identify the client by name.
2. The client is mentioned as an intended user throughout the report but never specifically identified as the “client.”
3. Identifying the client by name is clearer for reviewer and the client. It could also become a legal issue – which will be discussed in the Intended Users Section.
4. It is best that a specific heading of “CLIENT” be utilized in the report to prevent being missed by the reader.
5. A party may engage the appraiser, be an intended user and recipient of the report and not be the client.

## **EXAMPLE OF CLEAR IDENTIFICATION**

**CLIENT: City Bank**

**INTENDED USER: City Bank and no others.**

**INTENDED USE: This appraisal is to be used for underwriting decisions, loan portfolio analysis, and/or disposition of the asset.**

# APPLICABLE REQUIREMENTS

Appraisal conforms to the requirements of the following:

- Uniform Standards of Professional Appraisal Practice (USPAP);
- Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
- Applicable state appraisal regulations;
- Appraisal requirements of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), revised June 7, 1994;
- Interagency Appraisal and Evaluation Guidelines issued December 10, 2010;
- **Appraisal guidelines of South City Bank**

# Intended Users

## WHO IS INTENDED USER?

**An intended user is a person (or entity) whom the appraiser intends will use the results of the appraisal for some purpose. <sup>(1)</sup>**

The client may provide the appraiser with information about other potential users or the appraisal, but the appraiser ultimately determines who the appropriate users are, based on the appraisal problem to be solved. Identifying the intended user is necessary so that the appraiser can report the opinions and conclusions developed in the appraisal in a manner that is clear and understandable to the intended users.

**<sup>(1)</sup> The Appraisal of Real Estate, 14<sup>th</sup> ed.**

**(cont'd)**

**Parties who receive or might receive a copy of the appraisal report are not necessarily intended users. The appraiser's responsibility is to the intended users identified in the report, not to all readers of the appraisal report. <sup>(1)</sup>**

- LIA Attorney Peter Christensen states that 70% of lawsuits are dismissed if the report has a proper Intended User Section.**

**<sup>(1)</sup> The Appraisal of Real Estate, 14<sup>th</sup> edition (Page 50)**

# INTENDED USER COMMENTS

Identification of the Intended Users is important for the following reasons:

- Notice to potential readers of the report: if not listed, they are not an intended user
- Notice to potential readers: if not listed as an intended user, appraiser has no responsibility to that reader
- Limits the appraiser's exposure to unlimited number of users
- Courts, past and present, continue to rule it is the appraiser's responsibility to properly identify users BY NAME

# **The Three Approaches to Value**

## COMMON ISSUES

1. Using M&S and not including the contractor's estimate for proposed buildings
2. Sales summary chart shows a sale price per unit different from detail sheets and adjustment grid
3. Using credit tenant absolute net comp sales for local (non-credit) tenant-occupied properties \*
4. Sales comp detail sheets not correlating with the sales price per unit shown in the adjustment grid

\* Real Life Example

**(cont'd)**

- 5. TOO MANY COMPS – using more comps than necessary does not add credibility to a report**
- 6. Discrepancies between the adjustment grid and the narrative support for same**
- 7. Relying on market rent only when property is tenant-occupied – stating no rent roll was furnished**
- 8. Lease and rent roll not provided to appraiser who doesn't state the attempt to obtain same**
- 9. Lease start dates of comps are not provided**

**(cont'd)**

**10. The current rental rate of comps not identified as new or as renewal of an existing lease**

**11. Estimating expenses when actual expense categories are readily available**

**12. Using current tax expense in as complete/as stabilized value when substantial addition is proposed**

**13. Relying on RealtyRates as primary source for selecting the cap rate**

## **EXPENSE ISSUES**

- **Tax adjustments due to being over assessed (“as is” issue)**
- **Appraiser having no access to historical expenses**
- **Reimbursable expenses**
- **Projected expense ratios differ from that indicated by the comps of same property type or the historical data furnished**
- **Lease and rent roll not provided to appraiser**
- **Report not showing appraiser’s attempt to obtain historical expense statements, lease, and rent rolls**

# Presenter Suggestions

## SUGGESTIONS

1. Carefully read engagement letters so all terms are met
2. Discuss assignment conditions with client
3. Carefully scrutinize all available report-writing software before purchase
4. Develop a report format relevant to today's market
5. Write reports the specific client can understand
6. Is the report an easy read?
7. Is the report concise, to the point for solving the problem?

## **cont'd**

- 8. Is the client/reviewer required to do their own calculations to determine if conclusions are correct?**
- 9. Avoid too many details as to be confusing to the client**
- 10. Providing the indicated value by all applied approaches with the value conclusions can be confusing**
- 11. Do not endlessly repeat facts throughout report**
- 12. Consider using more charts and less narrative**
- 13. Font size should be large enough that it is easy to read in charts/grids and narrative**

## **cont'd**

- 14. Matching page numbers with pdf numbers is client and reviewer friendly**
- 15. Using small font size for page numbers is not user-friendly**
- 16. Don't show calculations in narrative format; this becomes a word problem that reviewer and client must solve**
- 17. Provide a "going concern" value of \$X with a following statement that it includes \$X of FF&E. There is NO intangible value but is not specifically addressed. Show allocations to make it easy for the client.**
- 18. Display state licenses large enough to clearly show the license expiration date**
- 19. Consider the report from the reviewer/client perspective**

# Real Life Examples

## **Extraordinary Assumption – “As Is” Valuation**

### **FAST FOOD RESTAURANT**

**“The valuation provided herein is subject to change from B-2 to B-3 per the zoning officer who stated that zoning is going to change but the council will not vote until the council meeting in two weeks.”**

**Is this acceptable when providing an “as is” value per FIRREA/Interagency Guidelines?**

## **Extraordinary Assumption – “As Complete” Valuation RESTAURANT/BAR**

**“The surrounding property map shows a church nearby but the effect on the permitting of alcohol sales is not discussed. It is assumed by the appraiser that the distance is such this would not be an issue.”**

**Is this adequate when providing an “as complete” value per FIRREA/Interagency Guidelines?**

**Is the value credible based on the assumption?**

## USE OF CREDIT TENANT SALES

### EXAMPLE

**Assignment:** Value a good quality restaurant, in a good location, typical of franchise restaurants. Subject is owner-occupied by a local restaurateur not considered a credit tenant.

The sales utilized in the report were Leased Fee Sales with credit tenants and absolute net terms. The leases were:

<b>Bojangles</b>	<b>19 years remain</b>	<b>Olive Garden</b>	<b>10-15 years remain</b>
<b>Longhorn</b>	<b>10+ years remain</b>	<b>Red Lobster</b>	<b>10+ years remain</b>

**DO YOU SEE ANY ISSUES WITH THIS SCENARIO?**

## **CREDIT TENANT SALES**

**Proposed three-tenant center with office and retail tenants. The major tenant is a marginal credit tenant with a lease term of less than 10 years. There are local retail spaces – one is rented with a 5 year term and one space is vacant. The appraiser used retail and office space of national tenants with NNN leases, having terms of 10 to 15 years remaining.**

**The appraiser utilized cap rates and sales prices per s.f. based on the national NNN lease properties.**

## Confusing Format (1 of 3)

### Phase 5 – 16 Lots

#### Current As Is Market Value:

The “As Is” market value of the Fee Simple estate of the property, as of 6-20-19, is One Hundred Ninety One Thousand Dollars (\$191,000).

The market exposure time preceding 6-20-19 would have been 12 months and estimated marketing period as of 6-20-19 is 12 months.

#### Prospective As Complete Market Value:

The “As Complete” market value of the Fee Simple estate of the property, as of 10-1-19, is One Million Seventy Five Thousand Dollars (\$1,075,000).

The market exposure time preceding 10-1-19 would have been 12 months and estimated marketing period as of 10-1-9 is 12 months.

## Confusing Format (2 of 3)

### Phase 6 – 20 Lots

#### **Current As Is Market Value:**

**The “As Is” market value of the Fee Simple estate of the property, as of 6-20-19, is One Hundred Thirty Seven Thousand Dollars (\$137,000).**

**The market exposure time preceding 6-20-19 would have been 12 months and estimated marketing period as of 6-20-19 is 12 months.**

#### **Prospective As Complete Market Value:**

**The “As Complete” market value of the Fee Simple estate of the property, as of 10-1-20, is One Million Two Hundred Fifty Thousand Dollars (\$1,250,000).**

**The market exposure time preceding 10-1-20 would have been 12 months and estimated marketing period as of 10-1-20 is 12 months.**

## Confusing Format (3 of 3)

### Excess Land

**Current As Is Market Value – Excess Land:**

**The “As Is” market value of the Fee Simple estate of the property, as of 6-20-19, is Nine Hundred Thousand Dollars (\$900,000).**

**The market exposure time preceding 6-20-19 would have been 12 months and estimated marketing period as of 6-20-19 is 12 months.**

**Current As Is Market Value – Hypothetical Condition:**

**The HYPOTHETICAL “As Is” market value of the Fee Simple estate of the property, as of 6-20-19, is Two Million Five Hundred Sixty Thousand Dollars (\$2,560,000).**

**The market exposure time preceding 6-20-19 would have been 12 months and estimated marketing period as of 6-20-19 is 12 months.**

## PREFERRED FORMAT

Phase 5: Land Value “as is” as of 6-20-19 is:	\$214,000	
Developed value “as complete” as of 10-1-19 is:	\$1,075,000	
Phase 6: land value “as is” as of 6-20-19 is:	\$153,000	
Developed value “as complete” as of 10-1-19 is:	\$1,250,000	
Excess Land “as is” value as of 6-20-19 estimate is:	\$2,135,000	(1)

*(1) The client should be aware the excess land value is based on the “Extraordinary Assumption” that the City will zone the excess land the same as Phases 5 and 6 of the adjoining property. The appraiser adjusted the comparable sales downward by 15% which appears reasonable because of the risks - although stated to be minimal and cost associated with the zoning. It is important the client understand if the zoning requested when entering the city limits is different than that assumed in the appraisal report, the assignment results could change.*

# Cost Approach

## GENERAL ISSUES

- If Cost Approach is omitted, the reasons for omission must be explained.
- If any approach to value is omitted, the appraiser must be of the opinion the omission does not have any effect on the credibility of the report and assignment results.
- Appraiser must state same in report.

# PRIMARY COST SOURCES

## 1. Marshall & Swift

- Show multipliers

## 2. Actual costs by contractor

- As part of due diligence, request costs from the property contact
- If costs are not provided by the property contact, notify client or reviewer

## 3. Cost Comparables from similar buildings

# **Sales Comparison Approach**

## **TYPICAL ERRORS MADE IN THE SALES COMPARISON APPROACH**

- **Sales comp detail sheets not correlating with the sales price per unit shown in the adjustment grid**
- **TOO MANY COMPS – using more comps than necessary does not add credibility to a report**
- **Discrepancies between the adjustment grid and the narrative support for same**
- **Lack of support for value conclusions (i.e. simply showing the mean or median, with the conclusion being at or near the mean indication by the adjusted sales prices)**

**IT IS SELDOM THAT ALL SALES SHOULD BE GIVEN EQUAL CREDIT**

# **Income Approach**

# MARKET RENT

## TYPICAL COMP ISSUES

1. Inconsistent lease terms (NNN vs. Full Service) of comparables
2. Not identifying lease terms (# of years remaining) of comparables
3. Utilizing smaller multi-tenant rent comps when subject is a large single-tenant space

**EXAMPLE:** Subject is a 10,000 s.f. single-tenant-designed office building. The comparable rents in the report are 1,000 s.f. to 2,500 s.f. in a multi-tenant office building that is full service with no lease terms provided.

# COMPARABLE RENTALS

<u>Type</u>	<u>Subject</u>	<u>Rental 1</u>	<u>Rental 2</u>	<u>Rental 3</u>	<u>Rental 4</u>
Retail Building	Local Owner-Occupied	Credit Tenant	Credit Tenant	Credit Tenant	Credit Tenant
Built	2015	2017	2017	2016	2018
Construction Class	C	C	C	C	C
NRA (SF)	7,500	3,900	4,500	5,500	4,000
% Leased	Owner-Occupied	100%	100%	100%	100%

## VACANCY & CREDIT LOSS

### EXAMPLE

Subject is an 8-tenant strip center with 5 tenant spaces rented as of the date of value. Subject was completed 12 months before the date of value with no spaces rented in the past 4 months. The report utilizes a 5% vacancy rate at stabilization, which is to occur 3 months from the “as is” date of value. There is little or no support or explanation for the 3 vacant spaces to be rented at the prospective date of stabilization.

Note: the presenter typically sees adequate support for vacancy when the property is owner-occupied or at stabilized occupancy.

# Overall Rate Discussion

# **BANK SURVEY**

**10 Community and National Banks were surveyed regarding LTV Ratio & Loan Terms**

**Survey results indicate:**

- **The typical LTV Ratio to be 75% to 80%**
- **The bank preferred loan term is 15 years with a max of 20 years**
- **25 year loan terms on rare occasions and only for preferred customers**
- **Typical interest rate 5% to 6%**

# OVERALL CAP RATES

## EXAMPLE

Location	Property Type	Built	S.F.	Sale Date	Occupancy At Sale	Overall Cap Rate
<b>Subject</b>	<b>Locally Owned Restaurant</b>					
1. S.E. US	Starbuck's	2017	3808	12/28/17	100%	6.80%
2. S.E. US	Olive Garden	1998	8884	8/18/17	100%	5.70%
3. S.E. US	Red Lobster	2002	7890	11/22/16	100%	5.50%
4. S.E. US	Longhorn Steak	1985	4888	8/29/16	100%	6.64%
<b>Average Capitalization Rate</b>						<b>6.16%</b>

# SUMMARY OF CAP RATES

<u>METHOD</u>	RATE		
	LOW	HIGH	MEAN
Investor Survey Data: RealtyRates.com (Band of Investment Technique)	6.52%	17.79%	11.14%
Investor Survey Data: RealtyRates.com (Debt Coverage Ratio Technique)	4.89%	16.55%	9.00%
Investor Survey Data: RealtyRates.com (Surveyed Rates )	5.19%	16.90%	12.11%
Investor Survey Data: PwC National Net Lease Market	5.50%	8.50%	6.80%
Comparable Sales	5.50%	6.80%	6.18%
<b>Direct Capitalization Rate Selected 6.25%</b>			

# **FACTORS TO BE CONSIDERED**

## **Cap Rates Derived from Market Sales**

- **How was net income obtained or derived?**
- **Was net income before or after deduction of an allocation for Reserves?**
- **Were the sales of lease transactions of local or credit tenants?**
- **Were the sales a version of Modified Gross or Net terms?**
- **How was the term of the remaining lease considered?**

# Reconciliation & Final Value Estimate

# RECONCILIATION

## PRESENTER COMMENTS:

- Over the course of reviewing several thousand reports, reconciliation is generally handled in an appropriate manner
- Normally the appropriate approach to value is given most or all credit depending on the property type
- Many appraisers utilize the percentage allocation to each approach to arrive at a final value conclusion

## **FINAL VALUE ESTIMATE/CONCLUSION**

<b>Cost Approach</b>	<b>Not Applicable</b>
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<b>Sales Comparison Approach</b>	<b>\$600,000</b>
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<b>Income Approach</b>	<b>\$800,000</b>
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### **RECONCILED MARKET VALUE OPINION**

<b>Appraisal Premise</b>	<b>Interest Appraised</b>	<b>Date of Value</b>	<b>Value Opinion</b>
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<b>"As Is"</b>	<b>Leased Fee</b>	<b>May 8, 2018</b>	<b>\$700,000</b>
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## **DETAILS OF A WELL WRITTEN REPORT**

- 1 Page numbers are the same as pdf page numbers**
- 2 Charts and grids are displayed in a font at least 10 points in size**
- 3 Comparables are of good quality**
- 4 Comparables are sufficient in quantity without being too numerous**
- 5 The client is specifically identified by name**
- 6 The intended user is specifically identified by name**
- 7 Report includes a statement regarding the omission of any approach to value and if this omission affects the credibility of the value estimate**
- 8 The USPAP definition for Extraordinary Assumption is included**
- 9 The USPAP definition for Hypothetical Condition is included**

## **cont'd**

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|-----------|---|
| <b>10</b> | <b>The latest editions are always used as reference sources</b>                         |
| <b>11</b> | <b>The report is commensurate with property value</b>                                   |
| <b>12</b> | <b>All report text is fully searchable</b>  |
| <b>13</b> | <b>All report text is clearly legible</b>   |
| <b>14</b> | <b>Document contains no security restrictions</b>                                       |
| <b>15</b> | <b>The effects of property size are clearly stated in the Sales Comparison Approach</b> |
| <b>16</b> | <b>Leases are summarized – report does not include entire lease</b>                     |
| <b>17</b> | <b>All pages are sequentially numbered including the addenda pages</b>                  |
| <b>18</b> | <b>Report and invoice are sent to the reviewer and assistants</b>                       |