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Overview

Seminar Description

Evaluating Commercial Leases: The Tenant and the Terms Both Matter covers two distinct topics that are nonetheless related and are key to the valuation of commercial real estate. The seminar was written for beginner to intermediate appraisers, brokers, lenders, and other market participants who have a variety of background experiences and are directly or indirectly involved in the valuation of commercial real estate.

Section 1 explores the key business features of commercial leases. Participants will see how the key business terms of a lease affect the *quantity* and *duration* of the income stream that a property will generate and, specifically, the development of the property's income statement. The seminar goes beyond merely explaining how the typical business provisions serve as the basis for the appraiser's estimate of net income and cash flow. Issues that are covered include nontraditional sources of income, the proper period to use in measuring the income, measurement of the real vacancy rate, expenses that might not be recoverable by a landlord if a CAM formula is incorrect, and how other special clauses in a lease can affect the property's income stream.

Section 2 explores tenant credit risk. Understanding a tenant's financial strength is key to assessing the *quality* of the income stream. Even nearly identical properties leased to single tenants with varying credit ratings can have drastically different leased fee values if one tenant has a strong credit rating and the other does not. Long-term leases to a weak tenant can be worthless and may even adversely affect value. This section of the seminar will address issues of how the credit quality of the tenant will impact the quality of the income stream for a property. The class will discuss tenant credit risk, review examples of strong and weak credit risks, and explore various methods of accounting for risk in estimating value. Fundamental credit analysis, which is a topic not familiar to many appraisers, will also be explained. Fundamental appraisal theory, definitions, and problems will provide a variety of real-life scenarios for the class to discuss.

Learning Enhancements

The seminar has been designed with a variety of elements to enhance your learning experience.

- A. **Preview.** To give you a taste of what is to come, you will find a *Preview* page that begins each Part. Included on the *Preview* page is a brief overview of the content, learning objectives to consider as you move through the content, and learning tips that will assist you in understanding the information you're about to learn.
- B. **Learning Objectives.** Each learning objective covers essential information you need to know to fully understand the concepts in the seminar. Look them over before the Part begins so that you have a frame of reference while moving through the material. At the end of each Part, read the objectives again. Are you able to do

what is stated? If not, this is the time to ask your instructor for help or to review the concepts you do not understand.

- **Examples, Discussion Questions, Problems, and Exercises.** Supplementing the lectures, we've included examples, discussion questions, problems, and exercises to help you visualize and practice what you're learning.
- **Fill-in-the-Blanks.** It is proven that when you write something down, you are more apt to remember it. The Course Handbook has "missing" content in the outline that you will need to add in the space provided in your handbook as the instructor reviews the content.
- **Review.** Each Part concludes with a review. Included in the review are the learning objectives and key terms and concepts that have been covered.
- **Suggested Solutions.** Answers to all of the exercises, problems, and discussion questions are provided behind the Solutions tab at the back of the handbook.

Classroom Guidelines

To make the learning environment a positive experience for everyone, please follow these guidelines:

- 100% attendance is required. No exceptions.
- Limit use of laptops to classroom projects.
- Communicate with business associates during break time instead of class time.
- Put away reading materials such as newspapers and books that are not used in class.
- Silence cell phones.
- Use recording devices only if prior permission has been granted.
- Refrain from ongoing conversations with those seated near you and other distracting behavior.

General Information

- **Calculator.** A financial calculator is required. The accepted model used in the seminar is the HP-12C. Other calculators can be used if participants know how to operate them. No class time will be used to cover the operation of other calculators.
- **Breaks.** There will be two 10-minute breaks during the morning session and two 10-minute breaks during the afternoon session. The lunch break is one hour.

- Attendance sheets will be distributed during class to verify attendance during the morning and afternoon sessions.
- Certificates of completion may be downloaded upon completion of the seminar. Attendance for the entire seminar is required.

Recommended Texts

- *The Appraisal of Real Estate*, current edition. Chicago: Appraisal Institute.
- *The Dictionary of Real Estate Appraisal*, 6th edition. Chicago: Appraisal Institute, 2015.
- Konikoff, Paula K. and contributing author Peter T. Christensen. *Appraisers in Arbitration*. Chicago: Appraisal Institute, 2018.
- Slade, Barrett A. *The Valuation of Office Properties: A Contemporary Perspective*. Chicago: Appraisal Institute, 2009.