

- 2) Greg is appraising a commercial office building. The building has 55,000 square feet of gross leasable area. Of this, 25,000 square feet rent for \$12.50 per square foot (psf) while the remaining 30,000 square feet rent for \$11.00 psf. All leases in this building are gross leases. Currently, the average vacancy rate for similar office space 12%.

Based on historical values from the property, annual operating expenses are expected to be as follows:

Depreciation	\$51,282
Utilities	88,115
Maintenance	35,300
Management expenses	5% of EGI
Property insurance	45,155
Mortgage interest	152,658
Property taxes	29,320

Based on an analysis of comparable properties in the market, Greg has determined the following market multipliers and ratios

Potential gross income multiplier	5.00
Effective gross income multiplier	5.75
Cap rate	0.09
Operating expense ratio	0.50

- a) Write out the pro forma operating statement for this property. What is its expected net operating income?

- b) Estimate this property's market value using the potential gross income multiplier.

c) Estimate this property's market value using the effective gross income multiplier.

d) Estimate this property's market value using the capitalization rate.

e) Which of the above value estimates do you believe is the most reliable for the subject property? Explain your reasoning.

f) Based on these calculations, what is your best estimate of the property's market value?

4) Consider the following information on a subject property and three comparables:

<u>Characteristic</u>	<u>Subject</u>	<u>Comp 1</u>	<u>Comp 2</u>	<u>Comp 3</u>
Sale price		\$105,000	\$115,000	\$122,000
Condition		Similar	Similar	Similar
Location		Similar	Similar	Similar
Age	15 years	22 years	12 years	8 years
Design	Ranch	Ranch	Ranch	Bi-level
Time since sale		6 months	9 months	10 days
Living area (sf)	2,200	2,100	2,350	2,400
Bedrooms	4	4	4	4
Baths	2	2	2½	2½
Construction	Brick	Brick	Wood	Brick
Air conditioning	Yes	No	Yes	Yes
Garage	1-car	1-car	1-car	2-car
Financing	Market	Market	Special rate	Market
Lot size (sf)	23,000	similar	similar	similar

Based on prior analysis, you have determined the following adjustments for certain property attributes of interest:

Square feet of living area	\$30 per square foot
Bedrooms	\$3,200 per bedroom
Bathrooms	\$1,400 per full bath
	\$600 per half bath
Wood frame exterior compared to brick	(\$4,500)
Aluminum siding compared to brick	(\$4,000)
Air conditioning	\$2,500
Garage (per car)	\$2,000
Bi-level design compared to ranch	(\$1,500)
Time since sale	5% per year
Age of house	(\$400) per year

In addition, you have calculated the effect of the special-rate financing on Comparable #2 as being worth \$2,000 compared to market-rate financing.

Based on this information, estimate the final adjusted sale price of each comparable property. What is your estimate of the subject's market value? You may want to lay out your adjustment grid on the next page.

Name _____

[This space is available for you to show your work]

- 5) Marcia is conducting an appraisal of a 120,000 square foot industrial property that is 10 years old. Based on standard cost guides, she estimates the reproduction cost new of the property to be \$30 per square foot. Using the sales comparison approach, she has also estimated the value of the land for this parcel to be \$300,000.

Marcia has collected the following information on comparable properties in the market:

	<u>Comp. 1</u>	<u>Comp. 2</u>
Selling price	\$5.7 million	\$2.1 million
Land value	\$200,000	\$250,000
Reproduction cost new	\$7 million	\$3 million
Age	8 years	15 years

Use market extraction to estimate annual depreciation in this market and then use this depreciation rate to estimate the value of the subject property using the cost approach.

Name _____

- 6) Name and briefly explain each of the different categories of depreciation that are estimated in the breakdown method. For each, give an example of that type of depreciation.