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| --- |
| Cost Approach |

Methodology

Typically under the Cost Approach: 1) the replacement cost new of the improvements is estimated; 2) accrued depreciation, if any, is deducted from this amount; and 3) the resultant amount is added to an estimated fee simple land value to equal the estimated improved property value via the Cost Approach. The market value of the subject site was estimated preceding, with the valuation of the improvements presented following.

Replacement Cost of the Subject Improvements

The replacement costs for the building and site improvements estimated using the Marshall Valuation Service and cost comparables. **Replacement cost** is defined as follows:

“The estimated cost to construct, at current prices as of the effective appraisal date, a substitute for the building being appraised, using modern materials and current standards, design, and layout." *[[1]](#footnote-1)*

Marshall Valuation Service Analysis

The following replacement cost new estimate is based on cost information obtained from the Marshall Valuation Service (MVS), a national cost guideline service that compiles construction costs on various structures from local contractors. The Service utilizes a calculator method. The estimate, using this service, **includes** interest as well as loan processing and service fees for building funds during construction; charges for workmen's compensation, fire, liability, and unemployment insurance; sales tax on building materials, if applicable; the cost for equipment rental, temporary facilities, and security; architect fees; permits, fees, and contractor's overhead; as well as direct labor and material costs of construction.

This service **does not include** site improvements, permanent loan costs, legal, appraisal, feasibility, consulting, planning, escrow, or other professional fees that may be charged in association with the project. Also not included are the costs of the property taxes during construction, taxes on land during the holding period prior to construction, interest costs or return on the land value prior and during construction, off-site construction costs, developer's profit, stabilized occupancy, and leasing or marketing costs.

Direct Costs: The subject’s building improvements are considered most similar to the Marshall Valuation's classification for the following separate components:

Buildings 1 and 2 - Class S Light Industrial Manufacturing Building (Sec. 14, P. 14) … good quality (Building 1) and average quality (Building 2).

Buildings A, B, C, D, and E - Prefabricated Buildings, Office Structures (Sec. 14, P. 14) … high cost quality (Buildings A, B, C and D) and average quality (Building E).

In terms of the modular offices, Buildings A, B, C and D had extensive remodeling after their installation in 2014. Therefore, the cost figure was modified to reflect the higher quality interior upgrading more typical of stick-build offices.

Add Ons: Adjustments to the preceding base unit costs include the following:

Building 1 - Included 1,960 SF of average quality stacked office allocated at $54.00 per SF. Additional add-ons include full HVAC central air conditioning at $6.78 per SF or $13,289; and (4) overhead truck doors. Industrial Office Building 2 had no heat source but was adjusted for its (2) truck doors.

Buildings A, B, C, D, and E – The Modular Office base cost does not include the cost of foundation prep (gravel or concrete pad), foundation piers or installation, heating, ventilation or air conditioning and utility hook-ups. The foundation includes pressure treated skirting ($35.00 per lineal foot excluding Building E which had partially completed skirting, and piers ($50 per pier) or the grading and gravel required for the base ($3.00 per SF). Plumbing (utilities) were included at $605 per fixture. Central heating and cooling system were included at $6.78 per SF.

Multipliers: Multipliers adjust for time, locality, floor area, building perimeter, and height/story multiplier. Please refer to the summary chart for a summary of the multipliers used, as well as reflective page number in the Marshall Valuation Service.

Site Improvements: Site improvements include grading and minor landscaping around the site; 60 ton truck scale ($69,562); approximately 18,500 SF of asphalt paving at $4.25 per SF, chain link fencing on three side of approximately 2,000 lineal feet with one gate; and approximately 2,500 SF of Trex decking with wood rails at $20.50 per SF.

Additional Soft Costs: Additional soft costs include taxes during construction and miscellaneous costs, plus professional services (legal, accounting, appraisal, environmental, consulting, title, etc.), estimated at 3.0% per building which is common in the marketplace.

The following page is a summary chart of the respective refinements and calculations included in the Marshal Valuation Service Calculator Cost Method. In summary, a replacement cost of **$\_\_\_\_\_\_\_\_\_**, or $\_\_\_\_\_\_\_\_ per SF of gross building area is calculated, which is reasonable for the subject’s building types and site coverage.





Improvement Cost Conclusion

Based on the cost service analysis, the **total direct/indirect cost new** is still reasonably concluded to be in-line with MVS at **$\_\_\_\_\_\_\_ per SF** **GBA**, or **$\_\_\_\_\_\_\_\_\_\_\_\_\_** ($\_\_\_\_\_\_\_ / SF x ${gba} SF GBA; rounded).

Developer's Profit & Overhead

This cost component compensates the developer for project risk and management. It is unlikely that a developer would proceed with a development unless adequate profit is available to justify the effort. This cost includes office overhead, staff, profit, and absorption costs during rent-up. The profit component is typically used to cover excess holding costs. According to various developers active in the market, profit and overhead generally ranges between 5% and 20% of the improvement costs, depending upon project value, size, location, and marketability.

Developer's profit and overhead is best extracted from the sale of newly improved properties which have sold a short time after completion. With no recent comparables available, general analysis will be used. The subject is a build-to-suit, owner-occupied, auto dealership with full service facility. Such projects are usually constructed for business profit, and not to earn a developer's profit on the real estate. Therefore, **no allocaton** for **developer's profit and overhead** has been included in this analysis.

Replacement Cost New

In aggregate, direct and indirect costs for the subject improvements result in a **total replacement cost new** of **$\_\_\_\_\_\_\_\_\_\_\_\_\_**.

Accrued Depreciation

From the improvement replacement cost new, a dollar amount of depreciation is deducted. There are three types of depreciation: physical, functional, and external. Physical deterioration is the result of physical wear and tear on the improvements.

Functional obsolescence is the result of design or physical problems which reduce the income-producing ability or desirability of the subject property. External obsolescence is the result of outside influences (economic, neighborhood) which decreases the value of the property.

The subject improvements are newer with the modular homes featuring extensive reconfiguring / remodeling within the past six years. Depreciation will be considered on a per building basis using the age / life method of depreciation. This method coordinates the effective age of the building to its total economic life as noted on the chart. This resulted in a depreciated value of the subject project of **$\_\_\_\_\_\_\_\_\_\_\_** (rounded).

Concluded Market Value Via The Cost Approach

Combining the concluded land value with the estimated depreciated replacement cost new of the subject improvements indicates a **concluded stabilized market value** of the fee simple interest in the **subject property** via the **Cost Approach** as follows (rounded to the nearest $5,000):

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| --- | --- |
|  |  |
| **Concluded Market Value Via the Cost Approach:** | **$\_\_\_\_\_\_\_\_\_\_\_\_\_** |

Our analysis of the subject property via the Cost Approach is presented on the following page.



1. Source: The Dictionary of Real Estate Appraisal, 6th Edition, 2015, The Appraisal Institute, Page 197. [↑](#footnote-ref-1)