|  |
| --- |
| Reconciliation |

Summary of Value Indications

The reconciliation of value indications is the final step in the appraisal process and involves the reviewing and weighing of the individual valuation techniques in relationship to their substantiation by market data, and the reliability and applicability of each valuation technique to the subject project. The reconciliation criteria are appropriateness, accuracy, and quantity of evidence.

All three approaches, the Income Capitalization, Sales Comparison and Cost Approaches to value were utilized in this assignment. Based on the three methods of appraisal, the estimated **prospective stabilized market values** of the fee simple interest in the subject project is summarized as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| **Valuation Approach** |  |  | **Value Conclusion** |
| **COST APPROACH** |  |  | **$\_\_\_\_\_\_\_\_\_\_\_** |
| **SALES COMPARISON APPROACH** |  |  | **$\_\_\_\_\_\_\_\_\_\_\_** |
| **INCOME APPROACH** |  |  | **$\_\_\_\_\_\_\_\_\_\_\_** |

Concluded Prospective Market Value - Stabilized

Assuming the subject’s future 100% leased / stabilized status as a two-tenant industrial property, primary emphasis would be placed on the Income Capitalization Approach due to its strong investor appeal. However, good credible support is also provided by the Cost and Sales Comparison Approaches which were given strong secondary consideration in arriving at the concluded prospective stabilized market value.

Note that this prospective stabilized valuation was conducted under the assumption that the subject will be leased at market rents under typical market terms. Therefore, the prospective stabilized value conclusions is reported as leased fee, consistent with the client’s requested scope of work. However, the prospective stabilized leased fee and fee simple values are considered equal to one-another.

Based on the research, analyses and conclusions contained within this report, it is the appraiser’s opinion that the **concluded prospective stabilized market value** of the leased fee interest in the subject project (95% stabilized occupancy), as of ${eff\_date\_value}, should be:

|  |  |
| --- | --- |
|  |  |
| **Concluded Prospective Market Value - Stabilized** | **$\_\_\_\_\_\_\_\_\_\_\_** |

Prospective Market Valuation at Completion

Absorption / Lease-up Analysis

As previously discussed, the subject property is forecast to be 100% leased two tenants on stabilization, each assumed with an equal size space with an equal amount of office build-out. Given that marketing has already begin for the project, with groundbreaking in May 2020, and project completion by February 2021, this leaves approximately 12 months in order to sign one or possibly even two tenant leases. Our review of tenant interest relating to companies currently seeking distribution space like the subject (see Listings / Offers / Contracts subsection near the beginning of this report) would suggest current active interest and a strong possibility of pre-leasing at least 50% of the subject project on completion.

Note that our Market Overview section reported the average lease-up time for space in the immediate CBD / West Vancouver submarket at 5.7 months, while the average leasing time in the larger Clark County market was reported at 6.3 months. Further, the market statistics indicate an approximate 75% probability of leasing a space within 6 months, and a +90% chance within 12 months of being actively marketed. With a pre-construction / development period of 12 months, an additional absorption period of 6 months after the date of completion is reasonably anticipated. This would infer a prospective stabilization date of August 1, 2021. Based on the preceding, we have assumed 50% of the subject will be leased on completion, with the remaining 50% leased within 6 months thereafter.

With 50% pre-leased on completion (96,212 SF GLA), in order for the entire 192,424 SF project to theoretically achieve stabilized occupancy (192,424 SF x 95% = 182,803 SF stabilized occupancy over a 10-year investment holding term), there needs to be 86,591 SF to be leased. However, the reality is that the developer will need to lease the entire project with likely two individual tenant leases, with this analysis taking into account the entirety of both tenant spaces to be absorbed.

Note that no incremental lease-up is assumed in this analysis, with the average square footage for the two tenant spaces (96,212 SF GLA) assumed to achieve full occupancy at the end of the 6‑month absorption period. Our projection assumes the first space will leased / occupied on completion, with the final space leased in Month 6.

Rent loss over the 6-month lease-up period is based on the average monthly blended market rent for the entire project of $0.619 per SF NNN, and includes a 5.0% deduction for stabilized vacancy. Leasing commission of 4.0% of the total rent over an assumed typical 7.5-year lease (assuming likely range of 5 to 10 years for the subject spaces) are deducted, as are the developer’s pro forma Tenant Improvement cost estimate at $120.00 per SF office area. Foregone monthly expense recoveries are roughly estimated at $0.169 per SF, which is considered to cover property taxes, insurance, nominal utilities, common area expenses (landscaping, etc.) and management fees over the lease-up period, and was also adjusted for stabilized vacancy of 5.0%. Total expenses over the absorption period are estimated at $1,629,100.

The final consideration for lease-up costs is in the form of developer’s profit, which is typically applicable for income-producing properties. However, in the case of the subject project, it is being developed as institutional grade investment property, with a reasonable entrepreneurial required to compensate for the risk and effort of lease-up. Such projects are typically in the range of 10% to 20% , depending on the level of perceived risk. Therefore, a 15% developer’s profit is assumed in this analysis due to its average risk characteristics.

Overall, a total deduction of **$\_\_\_\_\_\_\_\_** (rounded to the nearest $5,000) from the prospective stabilized market value of the subject for **Absorption / Lease-Up Costs** is applicable to conclude at the prospective value at completion.The lease-up calculations are provided following this subsection.

Concluded Prospective Market Value - At Completion

Deducting the lease-up cost from the concluded prospective stabilized market value results in the **concluded prospective market value at completion** of the leased fee interest in the **subject project** (50% pre-leased), as of ${eff\_date\_value}, as follows:

|  |  |
| --- | --- |
|  |  |
| Concluded Prospective Market Value - Stabilized | $\_\_\_\_\_\_\_\_\_ |
| Less: Absorption / Lease-Up / Remaining TI Costs | ($\_\_\_\_\_\_\_\_) |
| **Concluded Prospective Market Value - At Completion** | **$\_\_\_\_\_\_\_\_\_** |



Extraordinary Assumptions:

* The prospective market value concluded to in this report is predicated upon the proposed improvements being built as detailed in this report with non-defective building materials and is based on preliminary plans supplemented by conversations with the developer. It is therefore fundamental that the proposed improvements be built as described in this report. Finally, the prospective completion date is based on conversations with the developer and is not a guarantee by the appraiser that the project will be competed at that time. If actual construction / timing of the improvements is different than described in this report, the assignment results may be invalid.
* Note that this prospective stabilized valuation was conducted under the assumption that the subject will be leased at market rents under typical market terms. Therefore, the prospective stabilized value and prospective value at completion conclusions are reported as leased fee, consistent with the client’s requested scope of work. However, the prospective stabilized leased fee and fee simple values are considered equal to one-another. If this assumption is later found to be incorrect, this may impact the assignment results.

Hypothetical Conditions:

* None.

Concluded As Is Market Value

The subject property currently consists of a vacant, finished industrial zoned parcel awaiting project development. Previously, the subject site was concluded to have a market land value was of $3,890,000. This amount is below their acquisition cost of $4,250,000 as it was considered a leading edge sale for the local market, and was determined to be slightly above market. However, since purchasing the developer has reportedly spent approximately $280,000 in architectural and engineering costs, as well as environmental and geotech costs. Given the functional design of the subject project, and good perceived market demand for distribution warehouse space, full credit would likely be given to these soft costs if the current owner were to sell the property in its current pre-development state.

Combining the subject’s current market land value with the contributory value of the plans & approvals obtained to date, it is the appraiser’s opinion **concluded as is market value** of the fee simple interest in the **subject property**, as of ${eff\_date\_value}, is as follows (rounded):

|  |  |
| --- | --- |
|  |  |
| Concluded Market Land Value | $\_\_\_\_\_\_\_\_\_ |
| Add: Contributory Value of Plans & Approvals | $\_\_\_\_\_\_\_\_ |
| **Concluded As Is Market Value** | **$\_\_\_\_\_\_\_\_\_** |

Exposure Time and Marketing Periods

Based on statistical information about days on market, escrow length, and marketing times gathered through national investor surveys, sales verification, and interviews of market participants, marketing and exposure time estimates of up to 12 months, respectively, are considered reasonable and appropriate for the subject property.

SWOT ANALYSIS

Strengths:

* Newer, good quality construction in good condition (less repair and maintenance expenses).
* Good, nearby highway access and retail proximity location within an established, newer industrial park.
* High demand, smaller warehouse bays ideal for a variety of small light manufacturing or wholesale warehouses uses.
* Smaller project site, is attractive to a wide pool of potential purchasers – including both investors and small, likely partial owner-users.
* Current leases are longer term agreements with national tenants, with investor purchasers being attracted to the stability of the project cash flow.

Weaknesses:

* None.

Opportunities:

* Good long-term potential for a sale to an owner that may pay a premium for the property upon roll-over of the tenant leases.

Threats:

* Current COVID-19 crisis has shaken the market and may have unforeseen consequences (please refer to the Market Overview discussion).
* Mortgages of all kinds continue may be more difficult to obtain due to the pandemic, and by extension, investor required rates of return have to rise in correspondence with this added financing risk, as well as the greater economic risk.