

*You are a commercial real estate investor with expert valuation skills. A business is for sale, including the real estate. The real estate is assessed at \$362,410 by the local county. The asking price is 1,750,000. The SDE of the business is \$229,000. What would be a fair valuation for the real estate?*

To estimate a **fair valuation for the real estate**, we'll approach it from both **valuation theory** and **real-world investor logic**, considering:

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### **Known Data**

- **County Assessed Real Estate Value:** \$362,410
  - **Asking Price (Business + RE):** \$1,750,000
  - **Seller's Discretionary Earnings (SDE):** \$229,000
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### **Goal: Determine Fair Market Value of Real Estate**

There are a few methods we can use:

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## **1. County Assessed Value as a Benchmark**

County assessments are **usually below market value**, sometimes significantly. Depending on the jurisdiction, assessed values may be 70% to 90% of market value.

Assuming the local market assesses at **80% of FMV**:

**Estimated FMV = \$362,410 / 0.80 = \$453,000**

This gives us a rough **floor valuation**.

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## **2. Income-Based Allocation (Business Valuation Method)**

Let's first estimate the value of the **business alone** using a typical **SDE multiple**.

- For owner-operator businesses, **SDE multiples** typically range from **2.0 to 3.0**, sometimes higher if the business has strong fundamentals, recurring revenue, or unique value.

Assuming a **2.5x SDE multiple**:

**Business Value  $\approx$  \$229,000  $\times$  2.5 = \$572,500**

Subtract that from the asking price:

**Real Estate Value**  $\approx \$1,750,000 - \$572,500 = \$1,177,500$

This implies the seller values the real estate at **~\$1.18M**, which is well above the assessed value.

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### 3. Replacement Cost / Market Comp Approach

Without specific square footage, cap rate, or NOI, we'd usually look at:

- **Cost to replace** the structure
- **Comparable sales** of similar commercial real estate in the area

Since we don't have those here, we can only say:


If \$1.18M is the implied value and the assessed value is \$362K, the seller may be **overpricing the real estate by 2.5–3x market assessment**, which would only be justified in **prime areas** with strong appreciation or unique property features (e.g., drive-thru, highway frontage, redevelopment potential).

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### Conclusion: Fair Market Valuation Estimate

Method	Estimated FMV
Assessed Value (inflated 25%)	~\$453,000
Backed into from SDE valuation	~\$1,177,500
Realistic market range	<b>\$450,000 – \$700,000</b>

 **Recommendation:** Unless the property has very unique or high-traffic location advantages, a fair market value for the real estate is likely in the **\$500K–\$700K range**.

If you can get comps, cap rates, or building size, I can get you a much tighter number. Would you like help with that?

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*The business for sale is located near Dallas, TX. Does this make a difference with the above assessment?*

Yes—being part of the Dallas–Fort Worth metroplex, especially with its prime commercial submarkets like Las Colinas, has a major impact on what the real estate is worth. Let's refine that estimate with local data:

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#### 1. Local Cap-Rate Environment

Commercial cap rates in Dallas typically range between **6 % and 7 %**, averaging around **6.18 %**, with industrial closer to 7 % ([cityfeet.com](http://cityfeet.com)). Retail and shopping centers average around **5–7 %**.

Cap rates are crucial because they express  $NOI / Property\ Value = Cap\ Rate$ . Lower cap rates mean higher valuations for a given NOI.

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## 2. Deriving NOI-Based Value

To use this method, we need an estimate for the property's **Net Operating Income (NOI)**.

We don't have NOI directly, but one proxy is to assume the SDE (\$229K) is similar to what an owner-operator draws from the property. That's optimistic because SDE also includes labor and owner's extras beyond pure real estate income—but it gives us a starting point.

**If the real estate NOI  $\approx$  \$229,000:**

- At **6 % cap rate**  $\rightarrow$  value  $\approx$  **\$3.82 M**
- At **7 % cap rate**  $\rightarrow$  value  $\approx$  **\$3.27 M**

But that seems *far* above the total asking price of \$1.75 M—making it unrealistic.

More likely, the real estate only contributes a portion of the SDE.

Let's reverse the logic:

Seller implies the real estate is worth  $\sim$ \$1.18 M (asking minus business SDE multiple). If that \$1.18 M property yields NOI of:

- At **6 % cap**  $\rightarrow$  NOI  $\approx$  **\$70,800 annually**
- At **7 % cap**  $\rightarrow$  NOI  $\approx$  **\$82,600 annually**

That would represent about **31–36 %** of the SDE—seems within reason for a commercial property tied to a small business (rest of profit comes from operations).

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## 3. Updated Valuation Range

Starting with the **assessed value**, adjust up to market at  $\sim$ 85–95 %:

- **\$362K / 0.90  $\approx$  \$400K – \$450K  $\rightarrow$  that's the **floor**.**

Now using cap rate method:

- Assume realistic NOI is **\$70K – \$90K:**
    - At **6 % cap**  $\rightarrow$  **\$1.17M – \$1.5M**
    - At **7 % cap**  $\rightarrow$  **\$1.0M – \$1.29M**
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## Conclusion

Given Dallas area market:

- A **conservative low-end** is still around **\$400K–\$500K** (based on assessed value uplift).
- More realistically, using NOI/cap rates, a fair market value is likely **\$1.0 M – \$1.3 M**, assuming the property produces ~\$70–90K of net income annually.

That aligns reasonably with the seller's implicit \$1.18 M for the real estate.

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## Next Steps to Sharpen the Estimate

1. **Obtain actual NOI**, including rents, taxes, insurance, and maintenance breakdown.
2. **Compare to recent Dallas commercial real estate comps**—if your type of property (retail, office, industrial) has sold recently, we can tighten cap rate.
3. **Consider property class & location** – e.g., Las Colinas properties tend to trade at **lower cap rates (5–6 %)**, industrial might fetch **6.5–7 %**.

Let me know if you can provide NOI breakdown or property type, and I can refine the valuation further!

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*The building is 5500 square foot*

Great, with the building size (5,500 sq ft) and Dallas local data, we can refine the valuation:

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## 1. Market Pricing – Price per Square Foot

Recent listings show:

- **Average commercial sale price** in Dallas: ~\$305–309 / sq ft ([cityfeet.com](http://cityfeet.com))
- **Average industrial**: ~\$214 / sq ft ([loopnet.com](http://loopnet.com))
- **Warehouse**: ~\$168 / sq ft

If your building is retail/office, the **\$305 / sq ft** gives:

- **5,500 sq ft × \$305 = ≈ \$1.68 M**

That aligns nearly with the **implied \$1.18 M** from SDE logic and suggests confidence in seller valuation.

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## 2. Cap-Rate/NOI Approach

Let's test NOI assumptions:

**Assume property NOI = \$75K–90K/year**

With Dallas's average cap-rate ~6.2% ([cityfeet.com](https://www.cityfeet.com/)):

- $\$75\text{K} / 6.2\% = \$1.21\text{M}$
- $\$90\text{K} / 6.2\% = \$1.45\text{M}$

This range again supports a **\$1.2–1.5M** valuation.

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### 3. Assessed Value as Floor

Assessments are often ~90–95% of market value but this one seems low:

- Based on **80% rule**:  $\$362\text{K} / 0.80 \approx \$453\text{K}$  → This is the floor — but far below market realities.
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### Summary Table

Method	Implied Value
Market \$/sq ft (commercial)	~\$1.68 M
Cap-rate (\$75–90K NOI)	\$1.2 M – \$1.45 M
Assessed floor (inflated)	~\$0.45 M

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### Fair Valuation Range

Considering all, a **fair market value** for this 5,500 sq ft commercial property in Dallas is:



**\$1.2 M to \$1.5 M**, with \$1.4–1.7M as stretch if NOI is strong and cap rates firm.

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### Recommendations

1. Get the **actual NOI breakdown** (gross rent, expenses).
  2. Confirm **property type**—office? retail? industrial? This impacts per-sf pricing.
  3. Review **recent sale comps** of similarly sized properties in Dallas/Las Colinas.
  4. You can confidently offer in the **\$1.2–1.4M** range if NOI supports it, with \$1.5M as max.
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Let me know if you can provide NOI details or property subtype—happy to fine-tune further!

*The property is owned and leased back for \$86,400 a year*

Perfect — with that **leaseback rent of \$86,400/year**, we now have the key to performing a clean **income-based valuation** using the **Direct Capitalization (Cap Rate) Method**.

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## Direct Cap Rate Valuation

**Net Operating Income (NOI):** \$86,400

**Local cap rate (Dallas, TX):** ~6.0% – 7.0% (depends on use: office/retail/industrial)

### ♦ Valuation Formula:

$$\text{Property Value} = \frac{\text{NOI}}{\text{Cap Rate}}$$

**Cap Rate Value = \$86,400 / Cap**

6.0%      \$1,440,000

6.5%      \$1,329,230

7.0%      \$1,234,285

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## Fair Market Value Range

**\$1.23M – \$1.44M** is the fair market range, depending on:

- **Quality of tenant** (owner-occupant helps, but buyer must trust the lease),
- **Lease terms** (NNN or gross? duration? escalation?),
- **Building type and location** (office vs retail vs flex)

This confirms the **real estate portion is fairly valued at ~ ♦ \*\*\$1.3M–\$1.4M\*\***.

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## Additional Insights

- If the lease is **NNN** (tenant pays all expenses), this NOI is very “clean” and supports a **lower cap rate → higher value**.
  - If it’s a **gross lease**, then NOI must be adjusted downward for taxes, insurance, maintenance — lowering value.
  - The **\$86,400 lease on 5,500 sq ft = \$15.71/sq ft/year**, which is **reasonable to low** for Dallas depending on the use (retail often \$20+/sf, industrial ~\$10–12/sf).
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## Final Conclusion

With confirmed lease income:

- ♦ **Fair real estate valuation: \$1.3M – \$1.4M**
- If seller expects full asking price (\$1.75M), that implies:
  - Business is valued at ~\$350K–\$450K
  - Which is **1.5x – 2x SDE**, a **reasonable deal** if the business is solid.

Let me know if you want to model this as a combined **deal structure** (business + real estate cash flows).