RE 3381

REAL ESTATE FUNDAMENTALS CLASS:

REAL ESTATE MARKETS AND VALUATION MODULE

SPRING 2014

CLASS NO. 2

JANUARY 27, 2014

- **Next Class Reading Assignment: Make sure you have read excerpts from Chapter 11 in Handout. Pop tests on their way.**
- **Fill out survey on last page of these notes – be ready to discuss next class!**

Real Points
DAILY REPORTS ON DALLAS COMMERCIAL REAL ESTATE

Chuck Dannis: Why Real Estate is Cool

By CHUCK DANNIS | October 3rd, 2011 10:52am


Chuck Dannis

This week I have the distinct privilege of addressing the incoming class of BBA Scholars at SMU's Cox School of Business. These are the brightness of the bright; the top of their classes from all over the world. My task is to introduce them to the Real Estate Finance program at Cox. I view my goal as being fairly simple: Recruit these top students into a profession that I have enjoyed for almost 40 years since I graduated from SMU. I tell them that the real estate program at SMU was one of the first at the university level in the United States.

What I have learned from my experiences with young students is that the "real estate" profession is a rather vague concept. When someone says "I'm in real estate", usually people assume that he or she sells houses for a living. Nothing could be farther from reality and the complexity—or depth—of "real estate" as a profession.
So, to illustrate why I think real estate is a cool profession to consider, and why I promote it, I use the development of an office building as an example of what being in real estate can really encompass.

Here's the way my 10-step example works:

Step 1. Long before major highways are built, a real estate speculator decides to invest in a tract of vacant land, usually farm land, somewhere in the path of the growth of the city.

Step 2. A real estate broker finds the speculator a suitable tract of vacant land to buy. The investor waits.

Step 3. The city grows and before long streets are built, homes get occupied and the need arises for employment centers—office buildings.

Step 4. A creative, risk-taking office developer decides it is time to construct an office building.

Step 5. A real estate broker sells the developer the tract: a commission is paid to the broker and the speculative investor smiles.

Step 6. The developer goes on a hiring spree: real estate attorney, architects, interior designers, contractors, appraisers, and, financial brokers.

Step 7. The developer also hires a project leasing firm: they are responsible for filling the building with tenants. These tenants are most likely represented by their own broker (tenant reps).

Step 8. The building gets filled up with tenants—all represented on both sides by real estate brokers. The developer hires an experienced real estate management company to oversee operation of the building.

Step 9. Ultimate value has been created when this well-located, well-designed, well -financed and well -tenanted office building is completed. The developer hires a real estate broker to market and sell the building.

Step 10. A real estate investment firm (could be private, public, a pension fund, either domestic or international), represented by a real estate broker, negotiates and buys the building—after they have hired more attorneys, engineers, appraisers, and financial brokers for its due diligence. The developer smiles.

Look at all the real estate professionals that are needed as this real estate asset comes to life. There are multiple levels of risk—and reward—that can be assumed at any point of this process. And, for the most part, the economic system works well: the more risk you take, the more reward (read: money) you can make. The whole process is intellectual, fast-paced, ever-changing, creative, and ultimately extremely rewarding for those professionals who can meet these challenges.

So I ask you, how cool is that?

Chuck Dannis is co-founder of Crosson Dannis Inc., which provides real estate appraisal and consultation services for many of the nation's largest real estate lenders and owners. Contact him at cdannis@crossondannis.com.

Like 4

3 comments

"Step 5. A real estate broker sells the developer the tract: a commission is paid to the broker and the speculative investor smiles."

The missing Link in today's process.

[...] D Magazine [...]

Inland Real Estate Stock Hits New 52-Week Low (IRC) – TheStreet.com

[...] partnership perspective that seems missing as I read Chuck Dannis' Oct. 3 RealPoints blog, "Why Real Estate is Cool." Mr. Dannis offers to incoming SMU Cox School of Business Scholars a simple 10-step example of how [...]

Real Points » Blog Archive » Don Powell: Bending the Real Estate Risk and Reward Curve

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Real

DAILY REPORTS ON DALLAS COMMERCIAL REAL ESTATE

Chuck Dannis: This Just Might Be as Good as it Gets

By CHUCK DANNIS | July 11th, 2011 9:32am

Chuck Dannis

I am gearing up to start my 24th year of teaching real estate at Southern Methodist University's Cox School of Business. It's time to update lectures, line up guest speakers, and start visiting with students about what they might like to do when they graduate. Because most of my students are seniors, their future career plans—for them and their parents!—are first and foremost on their minds. As I start this process, I have begun to realize what an incredible opportunity these students have in front of them, if they ultimately chose a career in real estate, especially here in Texas. Here's where I'm headed with this premise, and what I think I will share with them during our first class.

• The United States is coming out of what arguably may be the worst real estate collapse in a generation. The decline in values was fast, deep, and spared few. But that was then and this is now: Money is coming back in droves—both debt and equity. Sure, deals are tough to make and the days of high leverage have waned, but the market has clearly turned around. Real estate is still on sale and investors throughout the world like what they see.

• It is a tenant rep's dream out there—retail, office, industrial, take your pick. When the U.S. economy lost some 8 million jobs, building vacancies shot up everywhere, virtually overnight. Landlords are begging for tenants and will readily pay dearly for those brokers who can lead any healthy tenant through the door. Except in select submarkets, double-digit vacancies and soft rents should keep hard-working tenant reps in strong demand over the next several years.

• This generation is smart, connected, technically armed and, from my perspective (that is, at SMU Cox), have a great sense of community. These students just seem to want to "do the right thing." They will be involved in the social fabric of the neighborhoods in which they live. They will think green and sustainable. They will earn enough money to make them happy, but it will not be No. 1 on their to do list. To put this personal observation into real estate terms, students today just seem to have "a sense of place."

• And speaking of place, I am also immensely grateful I am writing this blog at my desk in Dallas. From the Super Bowl, our NBA Championship, and the World Series, to being in a job-creating machine like Texas, with the third highest concentration of Fortune 500 companies in the nation —Dallas is on a roll. From a pure real estate perspective, no matter how you look at our area, the triangle created by Dallas-Fort Worth/Houston/San Antonio is about as close to being the center of free world capitalism as one can get. Students who once thought of their time at SMU as a temporary stop-over, now consider Texas as the best place for them to get the career they want.

I am genuinely excited about the beginning of this semester because I see such great opportunities for these students entering the real estate market, at this time, in Dallas. In fact, for some of these students, this just might be

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FROM D CEO *More From D CEO »*

Culinary Capitalists

Bill Moore's Good Fight

North Texas CEOs: What 2012 Will Bring

Amend 2.0

DEALS *More Deals »*

TNT Crane & Rigging Inc. has leased a 14,674-square-foot industrial building on 7 acres of land at 1315 Riverside Drive in Fort Worth. More »

Hearthstone Properties has acquired a 14,674-square-foot industrial facility on seven acres of land at 1315 Riverside Drive in Fort Worth. More »

Service First Mortgage has renewed and expanded its 2,616-square-foot office lease at Cordovan Park in Arlington. More »

The Soccer Corner has leased 2,908 square feet of retail space in Southlake Corners Shopping Center in Southlake. More »

as good as it gets.

Chuck Dannis is co-founder of Crosson Dannis Inc., which provides real estate appraisal and consultation services for many of the nation's largest real estate lenders and owners. Contact him at cdannis@crossondannis.com.

Like 11

1 comment

Can't wait for class!

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CURRENT ISSUE

-Mark Cuban: The Ultimate Maverick
-CEOs Give 2012 Outlook
-François Fournier's French Connection
-Area Culinary Capitalists

Table of Contents

UPCOMING EVENTS *More Events »*

12/08 NTCAR–Uptown/CBD Virtual Bus Tour

12/09 CREW–2011 Awards Brunch

12/14 DREM–Encounter Breakfast

12/15 NTCAR–MCE Class: Increasing Fees Through Market Analysis

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Category:
Author:
By Chuck Dannis
Post date:
April 23rd, 2013 11:14pm

Chuck Dannis

For my fellow bloggers in this column—and most certainly for its loyal readers—when I write that Dallas is "a real estate town," everyone knows what I'm talking about. and everyone will agree with me.

Many of this country's great real estate developers, brokers, investors and lenders are domiciled within 30 miles of D Magazine's downtown Dallas headquarters: Crow, Lincoln, Hunt, DR Horton, Perot, Fraker, O'Boyle, Grunnah, HFF, and Beal, to name just a few. Couple these national industry leaders with an economy that puts Dallas-Fort Worth at or near the top of job growth, in migration and building starts, creates local real estate nirvana.

Given this ready access to both superb human real estate capital and robust real estate economic drivers, the timing was perfect for the announcement concerning Southern Methodist University's initiative to create a world class institute in real estate education, research, and leadership. At last Wednesday's spring meeting of the SMU Real Estate Society, the Dean of the Cox School of Business, Dr. Al Niemi Jr., announced to the more than 300 attendees that the school is "gassing-up" the Robert and Margaret Folsom Institute for Real Estate to create a real estate institute that will rival those found anywhere else in the country.

The Folsom Institute for Real Estate, for those of you who may not know, was created almost 30 years ago by a generous endowment from Bobby Folsom—SMU's last three-sport letterman, former Mayor of Dallas, and the real estate developer widely credited with creating what is known today as the "Golden Corridor" (that land north of Interstate 635 between Preston Road and the Tollway).

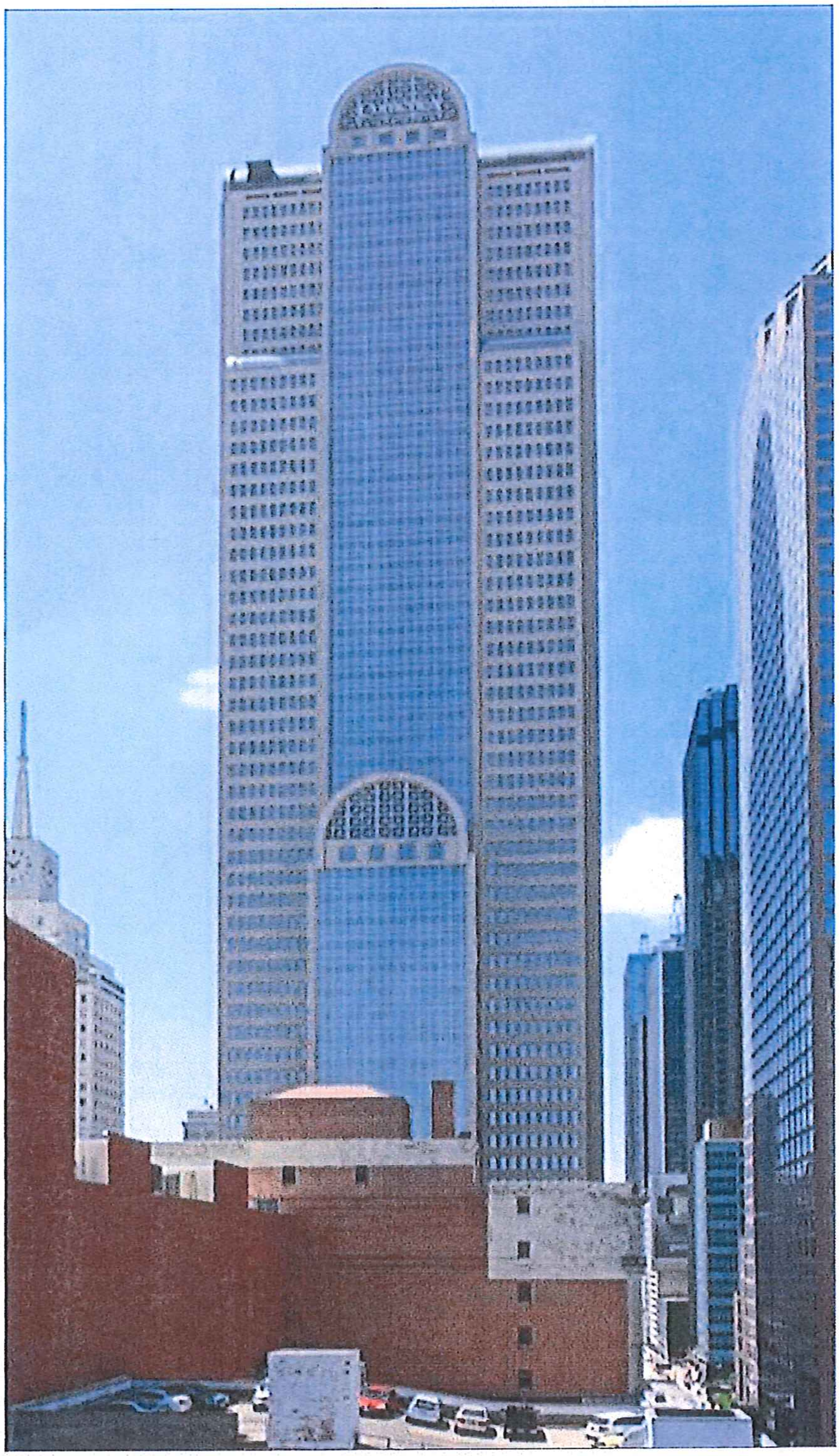
Dean Niemi announced that a search committee has been formed to find an experienced and proven leader for the institute, and that Dr. Bill Brueggeman, co-author of the most widely used real estate finance text book in the world, will remain academic chair of Cox's Real Estate Department.

In his comments, the dean highlighted what I noted above about Dallas being a real estate town. But it is also important to emphasize SMU has deep roots in the real estate community as well. Indeed, in the early 1950's SMU was one of the first universities in the world to offer real estate education at the university level. Just look at the names on many of SMU's buildings, departments, chairs and endowed gifts, and it reads like a who's who of real estate: Crow, Dedman, Hunt, Corrigan and Miller, just to name a few.

And, as evidenced by the membership size of the SMU Real Estate Society, now the largest alumni group at Cox, with more than 700 members, many of the leading real estate companies in North Texas are owned or led by SMU alums, including Ebby Halliday Realtors, Northmarq Capital, L&B Realty Advisors, CB Richard Ellis—Americas, Capital Title, and all the other family companies mentioned above, again to cite just a few.

Of course there will be cycles, and things will change, but right now Dallas sure seems to be in the sweet spot of our country's improving real estate market. And right here in the heart of Dallas is SMU: We are real estate.

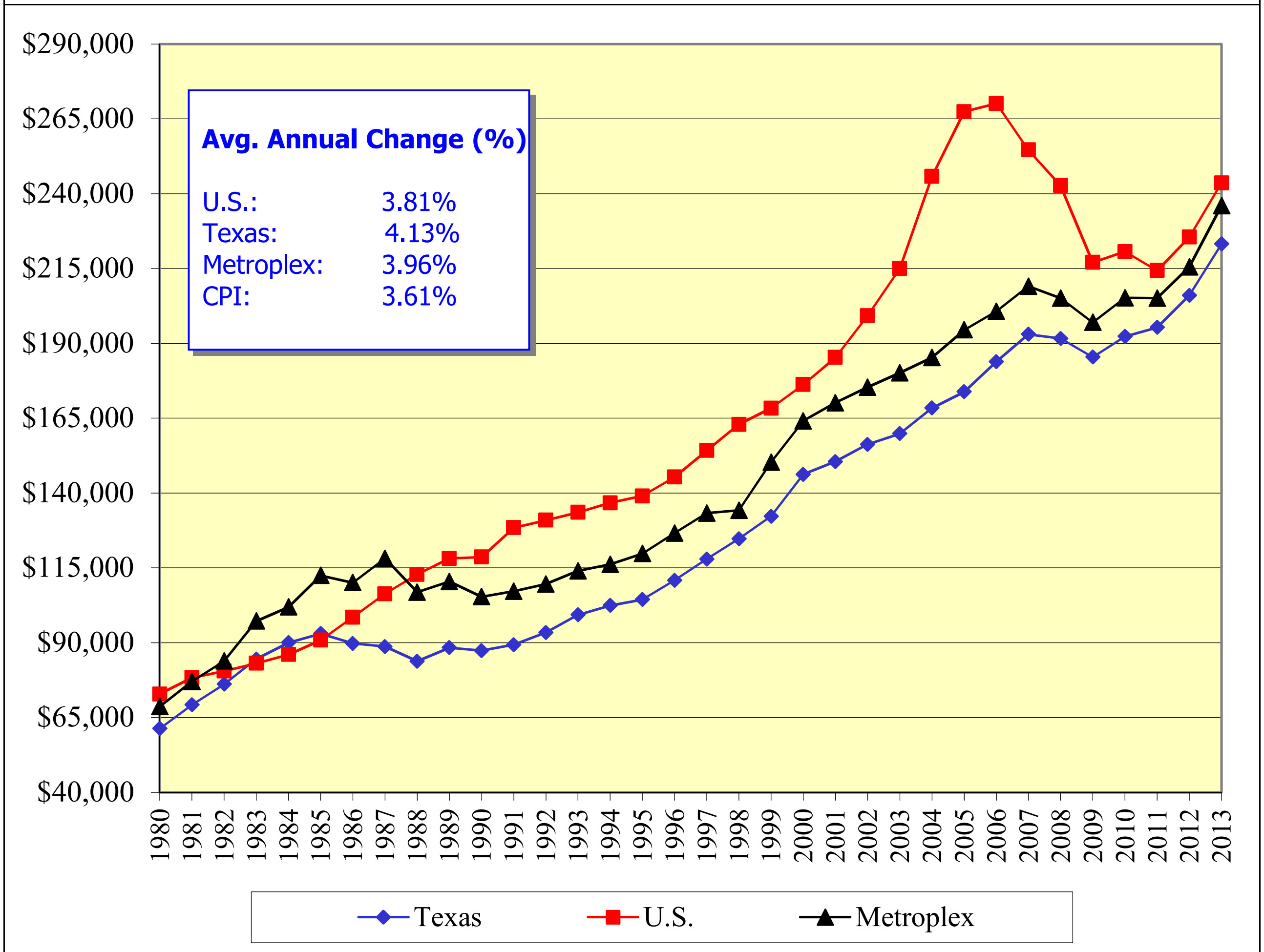
1717 Main St
Comerica Bank Tower



SEGMENT 1: BRIEF OVERVIEW OF THE REAL ESTATE MARKET

A. Single-family Housing:
Good long-term trends – and looks like we are back on track

Average Single-Family Residential Sales Price
U.S. v. TEXAS v. METROPLEX

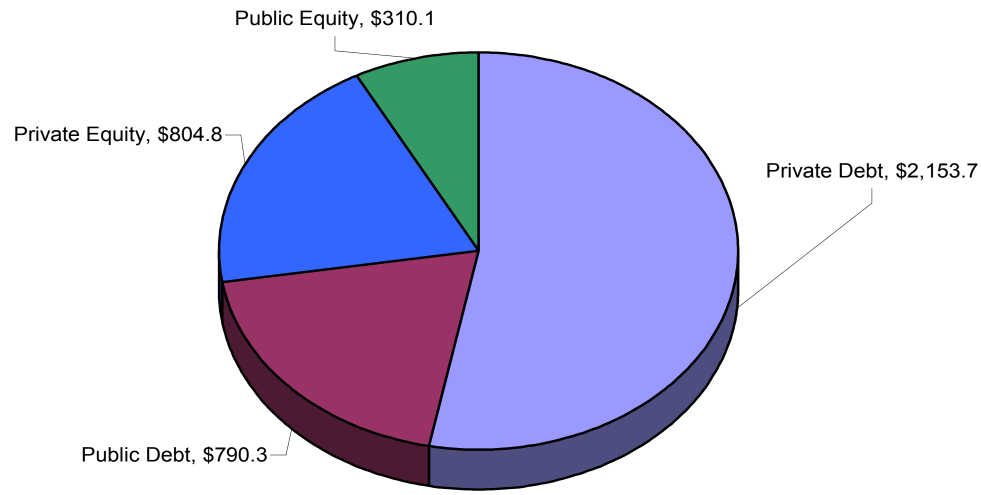


4Q 2012

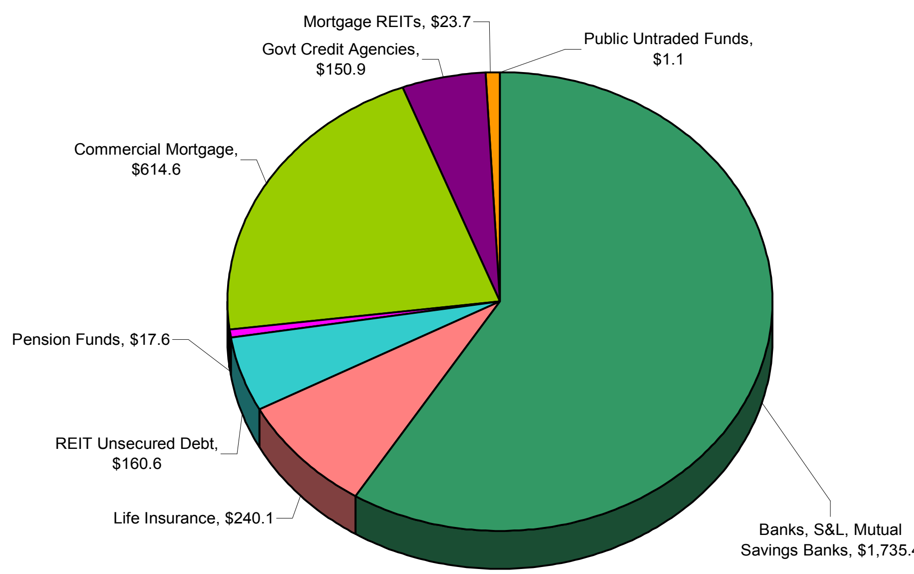
B. Commercial Real Estate: Cornerstone of the Economy

1. Institutional Real Estate Market

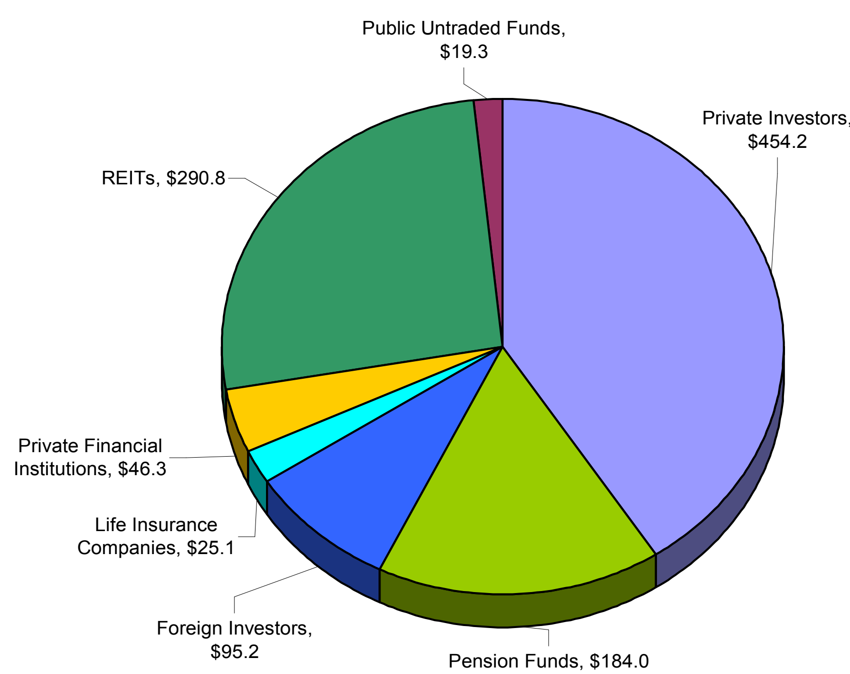
U.S. Real Estate Capital: ($4,058.9 Billion)



Debt Capital: ($2,994.0 Billion)



Equity Capital: ($1,114.9 Billion)



B. Commercial Real Estate: The 21st Century Investment

2. See following charts/graphs on commercial real estate returns

MOODY'S INVESTORS SERVICE

SPECIAL COMMENT

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Moody's/RCA CPPI: Tale of Two CBDs - Midtown Manhattan's Office Price Recovery Outpaces that of London's West End

June 2013

Table of Contents:

Analyst Contacts:

NEW YORK +1.212.553.1653

Kevin Fagan +1.212.553.7833
Analyst
kevin.fagan@moodys.com

Tad Philipp +1.212.553.1992
Director – CRE Research
tad.philipp@moodys.com

Nick Levidy +1.212.553.4595
Managing Director – Structured Finance
nick.levidy@moodys.com

» *contacts continued on the last page*

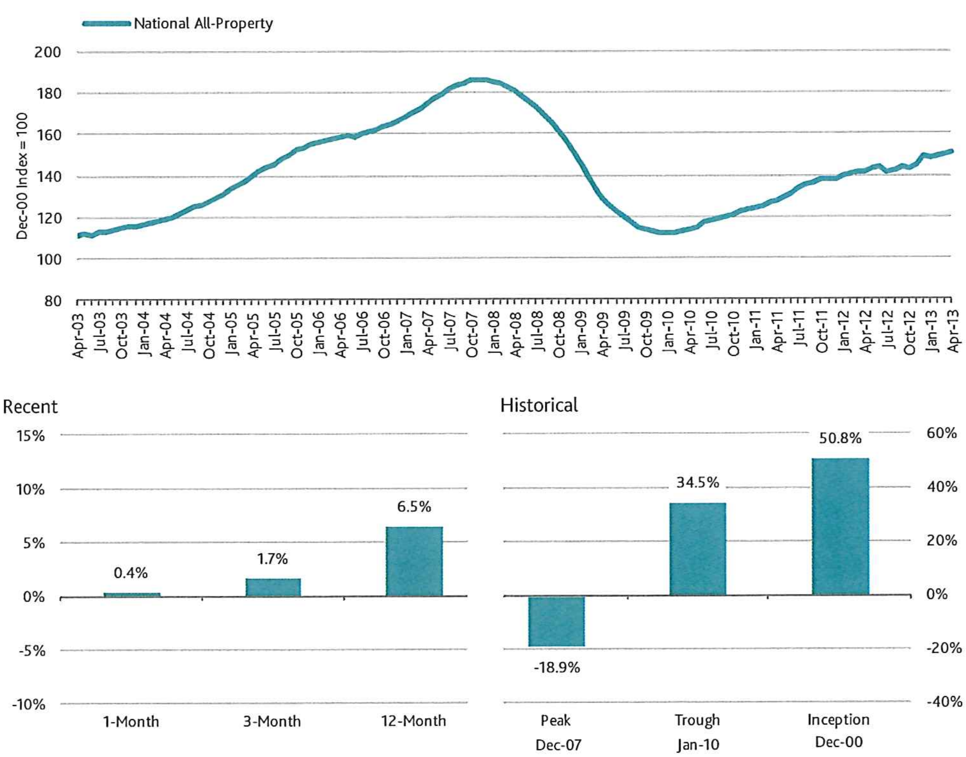
Highlights

The Moody's/RCA Commercial Property Price Indices (CPPI) national all-property composite index increased by 0.4% in April. Both of its components increased, apartment by 1.0% and core commercial by 0.2%.

Our spotlight on key office sub-markets in two global gateway cities shows that, following the financial crisis, prices in midtown Manhattan have recovered much more strongly than in London's West End.

EXHIBIT 1

Moody's/RCA CPPI – National All-Property Composite Index



Based on data through the end of April 2013.
Source: RCA and Moody's Investors Service

Appendix I: Recovery Profile of 20 Sub-Indices

Exhibit 9 ranks all 20 CPPI sub-indices by the percentage of nominal peak-to-trough value loss recovered.

» After a strong run over the last few years, the Major Market Apartment index is up 41.2% from its December 2009 trough and is now 8.1% above its prior peak.

» The post-crisis price performance of the commercial real estate sectors remains widely divergent: five of the 20 CPPI index sectors have reversed less than 30% their post-crisis value loss, while six have reversed 70% or more.

EXHIBIT 9

Summary – Moody's/RCA CPPI Sub-Indices Peak-to-Trough Detail*

Index	Peak to Trough	Peak to Current	Percentage Peak-to-Trough Loss Recovered**	Peak Month	Trough Month
Apartment – Major	-23.4%	8.1%	134.4%	Jan-08	Dec-09
CBD Office – Major	-46.8%	-2.2%	95.2%	Dec-07	Sep-09
Apartment	-38.8%	-3.7%	90.5%	Dec-07	Nov-09
Office CBD	-47.5%	-9.1%	80.9%	Dec-07	Sep-09
Major Markets Aggregate	-37.9%	-8.6%	77.4%	Dec-07	Jan-10
Apartment – Non-Major	-47.3%	-11.8%	75.1%	Sep-07	Nov-09
Office	-44.9%	-21.3%	52.5%	Dec-07	Nov-09
National All-Property	-39.7%	-18.9%	52.5%	Dec-07	Jan-10
Retail – Major	-39.1%	-20.2%	48.4%	Aug-07	May-10
Suburban Office – Major	-46.9%	-26.9%	42.8%	Oct-07	Jun-10
Industrial – Major	-34.7%	-20.2%	41.7%	Nov-07	Feb-10
Core Commercial	-40.1%	-24.0%	40.1%	Dec-07	Jan-10
CBD Office – Non-Major	-50.7%	-31.5%	38.0%	Dec-07	Sep-09
Non-Major Markets Aggregate	-41.4%	-27.2%	34.3%	Oct-07	Dec-09
Retail	-42.4%	-29.4%	30.6%	Aug-07	Sep-10
Retail – Non-Major	-44.2%	-33.6%	24.1%	Aug-07	Oct-10
Office Suburban	-44.4%	-33.8%	23.9%	Oct-07	Apr-10
Industrial	-33.1%	-28.5%	14.1%	Jan-08	Jan-10
Suburban Office – Non-Major	-43.4%	-39.7%	8.6%	Oct-07	Dec-09
Industrial – Non-Major	-35.2%	-34.8%	1.4%	Mar-08	Apr-11

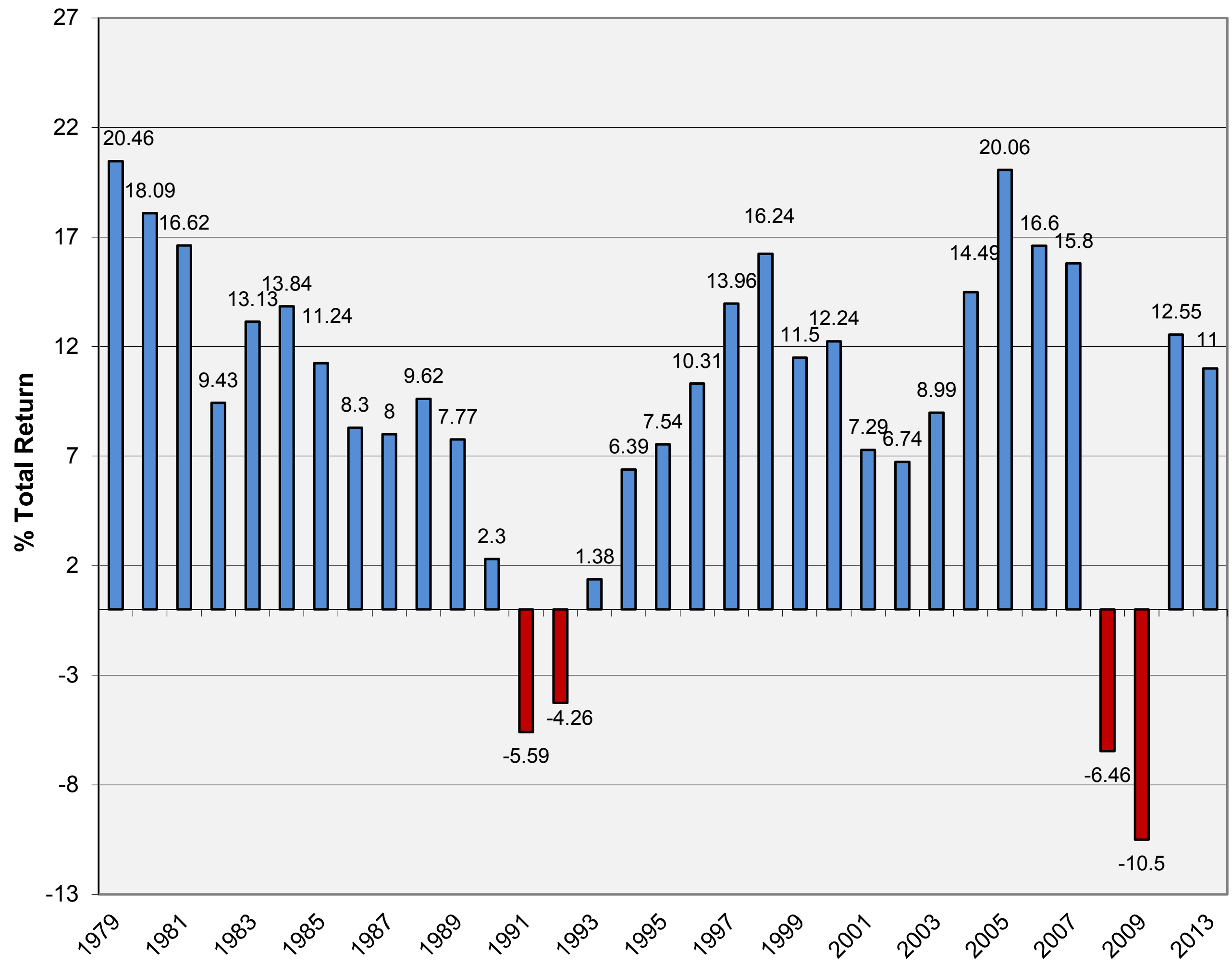
* In this table, peaks are pre-crisis (2007-2008), and troughs, post-crisis (2009-2010). Major market apartments reached a new peak in February 2012.

** "Percentage Peak-to-Trough Loss Regained" is the percentage of the nominal post-crisis loss of value that has since been recovered, which we calculate as Peak-to-Current divided by Peak-to-Trough, minus 1. For example, if the peak-to-trough loss was 50% and the price is currently 10% below peak values, the percentage regained is 80%.

Based on data through the end of April 2013.

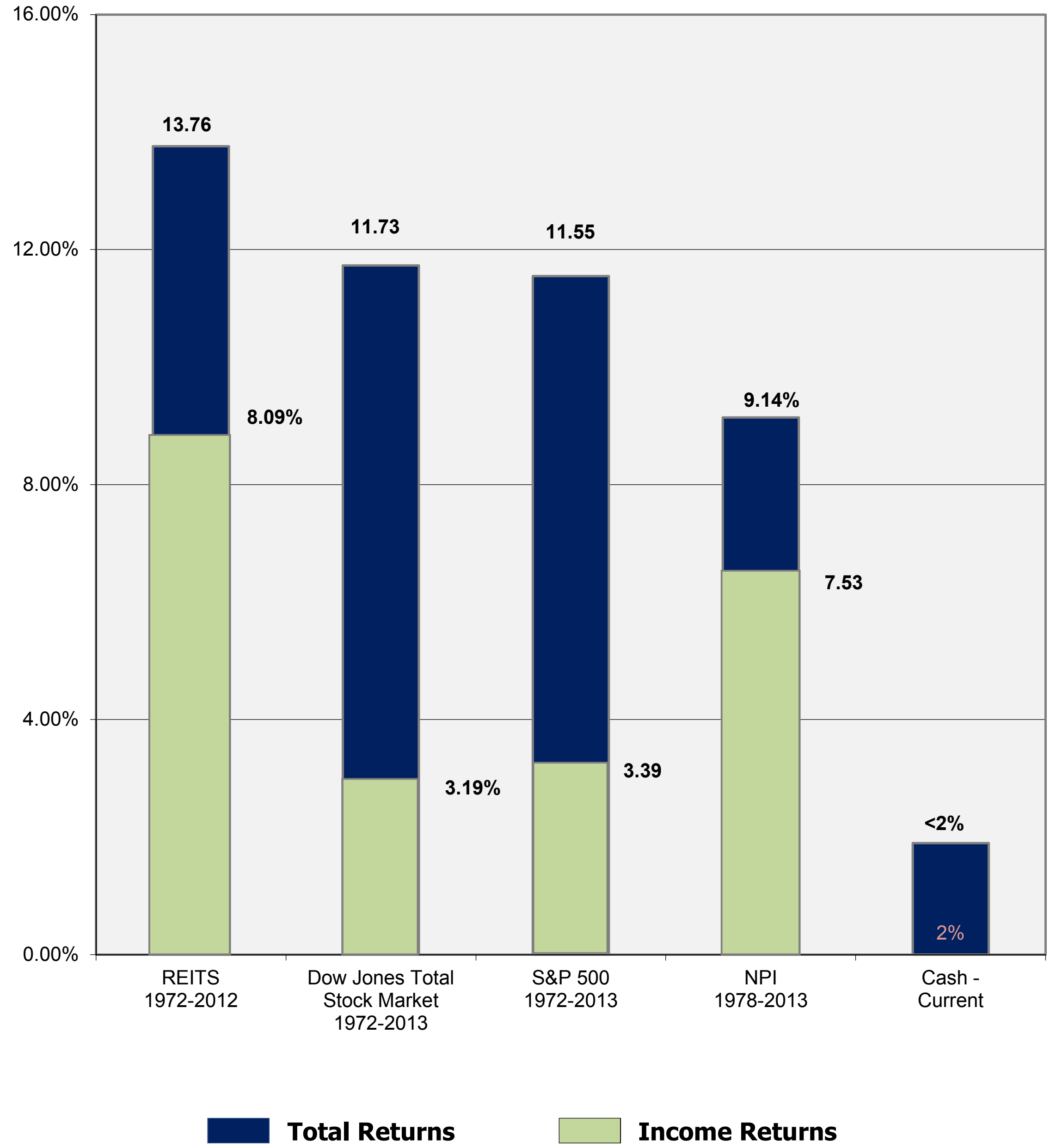
Source: RCA and Moody's Investors Service

US NATIONAL RETURNS – ANNUAL NPI DATA



"NPI": An index that currently tracks the performance of over 7,200 properties valued at over $310 billion, owned by major U.S. Pension funds. Commonly referred to as "Direct" investment in institutional quality real estate, unleveraged. 2013 is 3Q 2013 trailing.

TOTAL ANNUAL RETURNS VS. INCOME RETURNS



Sources: NAREIT; NCREIF, 3Q 2013
NPI: NCREIF Property Index – Direct Investment in Institutional Real Estate
REITS: Composite index of all equity real estate investment trusts

3. So, why real estate – now?

   a. We have bounced off the bottom and all trends are upward.

   b. Significant portion of total return from real estate is from income.

   c. Good track record of positive returns.

SEGMENT 2: INTRODUCTION

A. Brief Commentary on the Appraiser/Appraisal:

- Opinion
- Unbiased and Professional
- Strict Standards

B. Real Estate and Real Property:

1. "Real Estate" is the physical land and appurtenances affixed to the land – e.g., buildings. Real Estate is immobile and tangible:

   - Land
   - Natural parts of the land – trees, etc.
   - Things that are attached by man, such as buildings

2. "Real Property" is the interests, benefits, and rights inherent in the ownership of real estate:

   - Fee Simple
   - Leased Fee
   - Leasehold

   (More detail by Ms. Beasley)

C. Distinctions between Real Estate, Personal Property, and Trade Fixtures:

Real Estate Characteristics:	**Examples:**
Items that have been installed or attached to the land or building in a rather permanent manner. All real estate improvements were once personal property; when attached to the land, they become real estate.	• Land • Buildings • Fixtures – e.g., plumbing, lighting, heating and air-conditioning in a residential property

Personal Property Characteristics:	**Examples:**
Movable items of property that are not permanently affixed to, or part of, the real estate. Personal property is not endowed with the rights of real property ownership.	• Furniture and furnishings not built into the structure such as refrigerators and freestanding shelves • Items such as bookshelves and window treatments installed by a tenant that, under specific lease terms, may be removed at the termination of the lease

Trade Fixtures Characteristics:	**Examples:**
Unlike fixtures, which are regarded in law as part of the real estate, trade fixtures are not real estate endowed with the rights of real property ownership. They are personal property regardless of how they are affixed. A trade fixture is to be removed by the tenant when the lease expires unless this right has been surrendered in the lease. Also known as a *chattel fixture*.	• Restaurant booths • Gasoline station pumps • Storage tanks • Fitness equipment in a health club • Plumbing, lighting, heating and air-conditioning in an industrial building • Industrial equipment such as air hoses, water pipelines, craneways and bus ducts

Criteria for Distinguishing Between Personal Property and Fixtures

Criteria:	Explanation:
• The manner in which the term is affixed • The character of the item and its adaptation to the real estate • The intention of the party who attached the item	Generally the item is considered personal property if it can be removed without serious injury to the real estate or to itself. There are exceptions to this rule. Items that are specifically constructed for use in a particular building or installed to carry out the purpose for which the building was erected are generally considered permanent parts of the building. Frequently the terms of the lease reveal whether the item is permanent or is to be removed at some future time.
Source: Raymond J. Werner and Robert J. Kratovil, *Real Estate Law,* 10th ed. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1993), 11-17.	

SEGMENT 3: REAL PROPERTY AND ITS VALUE

A. Lawyers, economists, sociologists an geographers have a common understanding of the attributes of land:

- Each parcel of land is unique in its location and composition
- Land is physically immobile
- Land is durable
- The supply of land is finite
- Land is often useful to people (“often”?)

These attributes form the basis for real property value.

B. **Concepts of land** (from text excerpts):

1. Geographical and Environmental

- Uses
- Factors influencing use

2. Legal

- What do you actually own?
- Easements
- Zoning
- Land use restrictions

3. Economic

- Land has value, when put to use

4. Social

- Private use vs. Public good
- The right(s) of government to restrict private property for the public good.

C. Forms of Ownership

- Ms. Beasley to cover

D. Four Factors of Value (from text excerpts):

5. **Utility** – ability to satisfy a human want, need or desire.

6. **Scarcity** – Present anticipated supply of an item relative to demand

7. **Desire** – A purchaser's wish for an item to satisfy human needs; or, an individuals wants beyond the essentials to support life.

8. **Effective Purchasing Power** – The ability of an individual or group to participate in a market.

SEGMENT 4: REAL ESTATE VALUATION TERMINOLOGY

- **Price**

  A price represents the amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction.

- **Cost**

  Applies to production, not exchange; it may be either an accomplished fact or a current estimate.

- **Market Value** - The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

  1) buyer and seller are typically motivated;

  2) both parties are well informed or well advised and each acting in what he considers his own best interest;

  3) a reasonable time is allowed for exposure in the open market;

  4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

  5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

HOW THEY DIFFER

• **Price** - **Historical Fact**	• **Cost** - **Production, not exchange**	• **Market Value** - **Most Probable Price** - **Open Market** - **Parties knowledgeable** - **No Undue Stimulus** - **Cash** - **Parties well informed** - **Reasonable Exposure**

- **Investment Value**

  Investment value is the value of an investment to a particular investor based on his or her investment requirements. In contrast to market value, investment value is value to an individual, not value in the marketplace.

- **Insurable Value**

  Insurable value is that portion of the value of an asset or asset group that is acknowledged or recognized under the provisions of an applicable loss insurance policy.

- **Assessed Value**

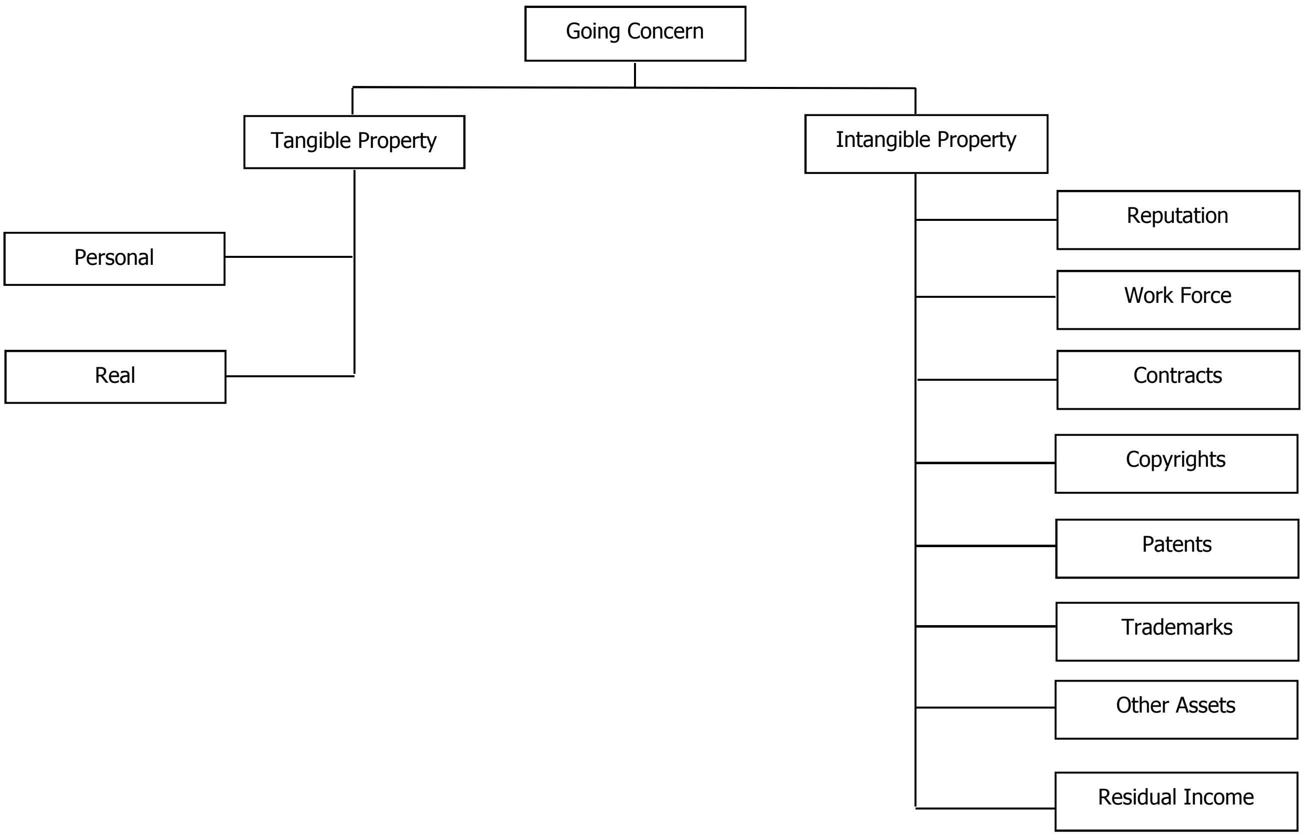
  Assessed value applies in ad valorem taxation and refers to the value of a property according to the tax rolls.

- **Liquidation Value**

  Same as "market value", except:
  - Quick Sale
  - Seller extremely motivated

- **Going-Concern Value**

  Going-concern value is the value created by a proven property operation; it is considered a separate entity to be valued with an established business.



- Brief note on Classical vs. New Classical Theories of Value. Adam Smith versus Alfred Marshall: Cost may or may not equal value.

SEGMENT 5: THE REAL ESTATE APPRAISAL PROFESSION: A BRIEF HISTORICAL PERSPECTIVE

1920-30's

- Post 1920's real estate boom
- Depression led to massive bankruptcies and foreclosures revealing misleading and/or inaccurate appraisals
- Frederick Babcock's book "The Appraisal of Real Estate, 1932," first major text on appraisal
- The American Institute of Real Estate Appraisers was established in 1932 with its primary purpose being
  - ◊ The advancement of the "science" of appraising
  - ◊ The selection and identification of competent individuals for membership
  - ◊ The control of its members through disciplinary powers
- During the Depression, appraisers were plagued by
  - ◊ Lack of comparable, open market sales
  - ◊ Erratic economic conditions that weakened the forecasting process

1940's

- Business as usual

1950's–60's

- Moderate, economic growth, low inflation
- Little, if any, need to forecast: PV = FV
- Federally funded interstate highway program
    - ◊ Large increase in appraisal volume, primarily rural-type condemnation; legal and public acceptance of appraisers enhanced
    - ◊ Advances in the Sales Comparison technique
- Urban Renewal programs in major cities
- Learned academicians/appraisers begin to promulgate appraisal education
    - ◊ 1954, Fisher said ". . . real estate is an economic and social resource deserving to be in the collegiate curricula".
    - ◊ 1964, Barnard said ". . . Colleges and Universities (not the appraisal groups) must recognize that it is their responsibility for basic education in any profession".
- Introduction of the Ellwood capitalization methodology and market value is specifically "the present worth of all right to future benefits of ownership". Curiously, this is the same basic concept set forth by Irving Fisher in 1906: ". . . value is simply the present worth of the future income from the specified capital . . .".

1970's

- Total volatility of the credit and real estate markets
- REIT's: Boom-to-Bust
- Book Value vs. Market Value for balance sheet accounting
- Computer based forecasting and capitalization techniques evolve

1980's

- Continued economic expansion and inflation
- Syndications
- Implementation of sophisticated computer aided investment analysis
- Boom/Bust cycle
- Federal intervention and regulation
- RTC
- FIRREA

1990's

- Regional comebacks
- REIT's
- Research-driven investment

21st Century

- Information becomes a commodity
    - Relationship – driven service business
- Exceptional boom 2003-2007
- Exceptional bust 2007 - 2010
- "Credit Crisis" crashes both residential and commercial real estate markets 2007 - ?
- 2012-2013: Possibly one of the greatest opportunities to buy commercial real estate in a generation ?!

SEGMENT 6: THE APPRAISAL PROCESS

THE APPRAISAL PROCESS

DEFINITION OF THE PROBLEM

Identification of	Appraisal Function and Purpose	Definition Of Value	Date of Value	Scope of Appraisal	Assumptions and Limiting Conditions
• Real Estate • Property Rights					

DATA SELECTION, COLLECTION AND ANALYSIS

General (Region, city, neighborhood)	Specific (Subject)	Competitive Supply/Demand (Market Area)
• Social • Economic • Governmental • Environmental	• History of ownership and use of property • Site and improvements • Cost and depreciation • Income/expense history	• Inventory of competitive properties • Sales and listings • Vacancies and offerings • Absorption rates • Demand studies

HIGHEST AND BEST USE ANALYSIS

- Site as though vacant
- Site as improved

Tests

1. Physically possible
2. Legally permissible
3. Financially feasible
4. Maximally productive

APPLICATION OF THE THREE APPROACHES

Cost | Sales Comparison | Income Capitalization

LAND VALUE ESTIMATE

1. Sales Comparison
2. Allocation
3. Extraction
4. Land residual
5. Ground rent capitalization
6. Subdivision method

RECONCILIATION OF VALUE INDICATIONS AND FINAL VALUE ESTIMATE

- Exposure Period
- Marketing Period

CERTIFICATION OF VALUE

Next Class Assignment

Using whatever frame of reference and/or knowledge you have from past experience (if any!), please list the pros and the cons in investing in the following property types:

Property Type	Pros – why would you buy one of these?	Cons – why wouldn't you buy one of these?
Apartments – any rental types, like those around campus and in Uptown.		
Industrial – big, clean warehouses used for storage, manufacturing, assembly, etc.		
Office – typical office building you would see along Central Expressway or downtown Dallas.		
Retail – different types of shopping-related buildings: malls, standalone single tenant buildings; power centers; small, "strip centers."		