8 - Valuation of Income Properties - ch. 10

course	MGMT 170
area	ucla
created	@April 23, 2023 11:23 PM
updated	@June 15, 2023 10:07 AM
✅ tasks	
📕 courses	🏠 MGMT 170: Real Estate Finance
URL	
tags	

▼ Supplemental

▼ Lecture

- ▼ market value
  - ▼ price at which buyr and sller agree on at a particular time
- ▼ appraised. vaalue
  - ▼ an stimate or. opinion onproperty value for a particular purpose for a particular date, by an appraiser
- ▼ three methods of valuation:
  - ▼ Sales comparison

Resources

https://s3-us-west-2.amazonaws.com/secure.notion-static.com/f6b45147-cb59-4979-9920-09495098e632/VALUATION_OF_INCOME_PROPERTIES_-_APPRAISAL_-_Chapter_10.pdf

            - compares recent sales of highly comparable properties similar in location, size, age, construction quality
            - generally only method used for residential properties
            - one of three used for commercial properties
        - capitalization of income
            - gross rent multiplier (GRM)
                - annual rental income X gross rent multiplier = price (or value)
                - gross rent multiplier must bederived from the GRMs on sales of comparable properties
                - i.e. GRM = price / rental income (of comparable properties) then apply to subject property
                - simple method often used for apartment appraisal
            - capitalization of net operating income NOI
                - cap rate = NOI / Price (derived from

comparable sales)

- NOI / cap rate = price (or value)
- capitalization (cap) raate derived from recent sales of comparable proprties - affected by market conditions
  - falling interest rates → lower cap rates and vv.
  - increase in demand relative supply → lower cap rates and vv.
- Discounted present value (DCF) of projected future NOI
  - a 10yr cash flow model
  - dicount rate (or required internal rate of return) based on byer's assessment of risk of achieving projected NOI and projected future sale price
  - relative to current alternative investment and capital market benchmarks
- replacment cost

- ▼ sum of land value + depreciated replacment cost of improvements
- ▼ dpreeciation of building can com from physical deprciation, functional obsolescnce, and extrnal obsolescence (effects of others i.e. sewage plants nearby, train stations, etc)
- ▼ land value is derived from comparable sales analysis of similar land plots
- ▼ replacment cost is more reliable when improvements are relatively new
- ▼ may be vastly different from reality due to cost of time, unknown future market conditions on both properties and cost of materials to build a property
- ▼ i.e. find cost of a comparable land plot + cost to construct new property = price (or value)

▼ land value

- ▼ a highest and best use analysis to determine value of particular land site
- ▼ regardless of whteher land is vacant or improved

▼ particular land plot may be worth more if the existing improvements are demolished and removed

▼ Discussion

📌 **SUMMARY**