

SIOR 2013 Spring World Conference

Creating Reliable Valuations

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Polon Consulting
www.polonconsulting.com

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Two Case Studies

<\$2.5 Million
Minor Metro

+ \$20 Million
Major Metro

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Value

- Comparable Sales
- Capitalization Rates
- Discount Rates
- Discounted Cash Flow
- Band of Investment
- Return on Investment
- Cash on Cash
- Opinion of Value
- Certified Appraisal
- Real Time Supply/Demand

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Historical Data

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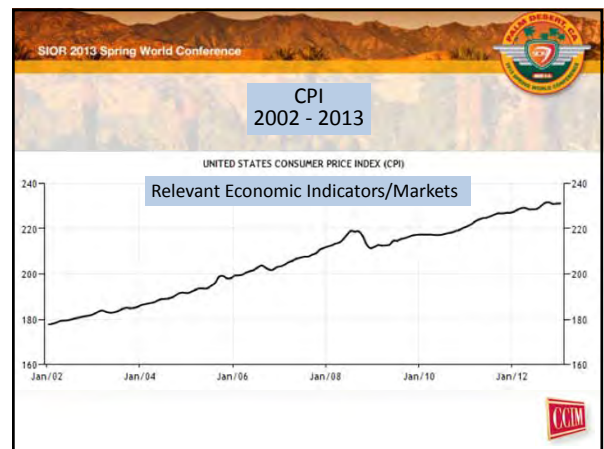
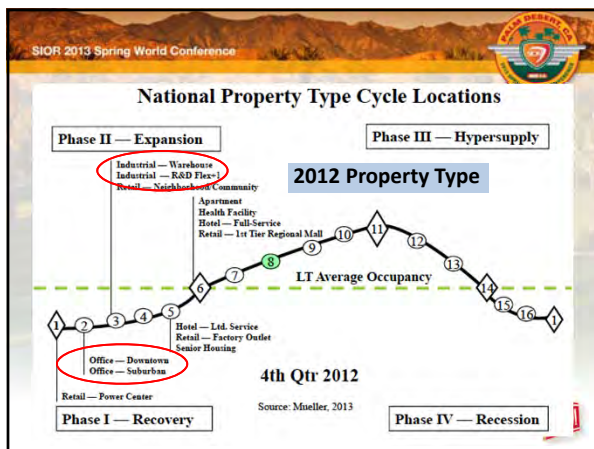
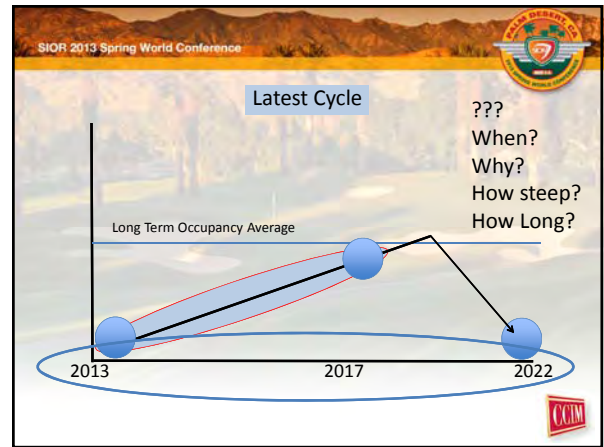
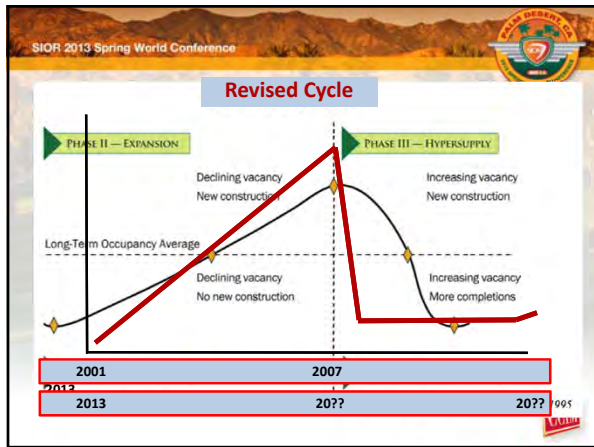
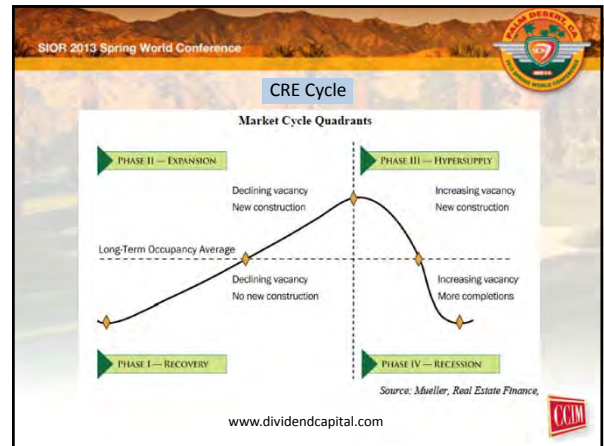
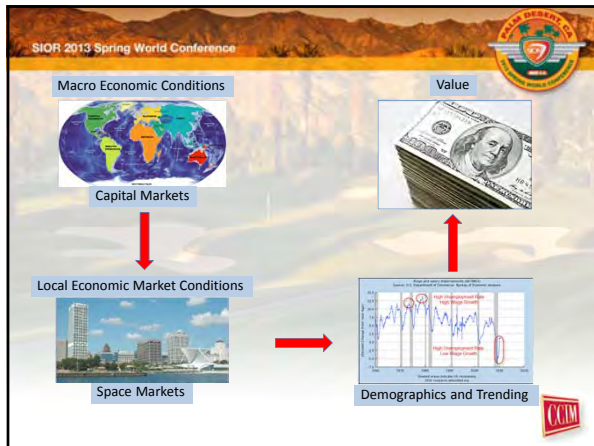
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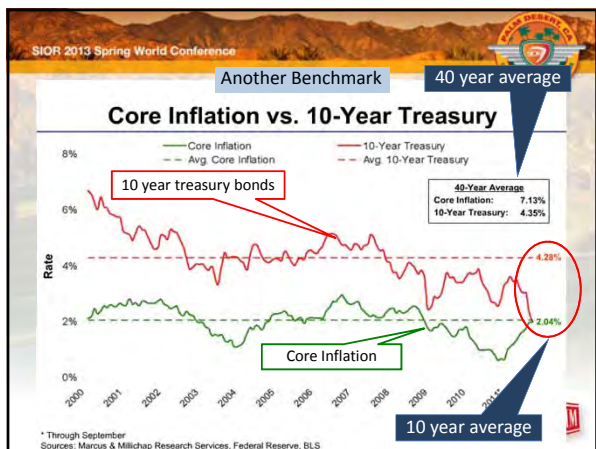
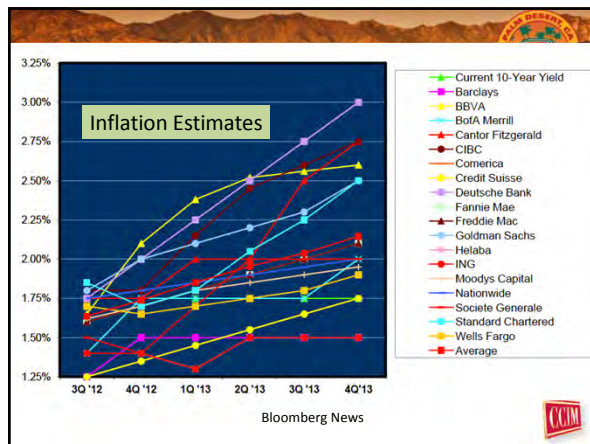
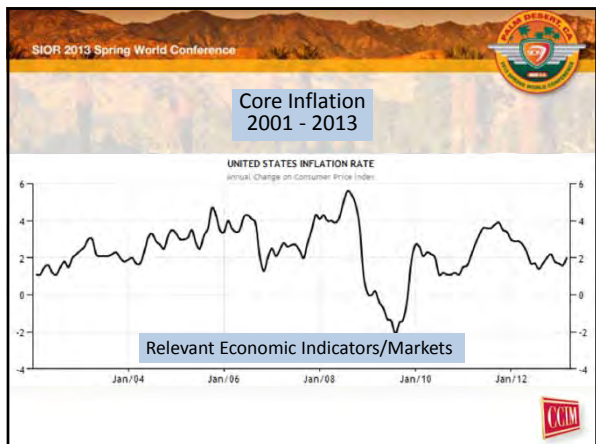
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Current Data





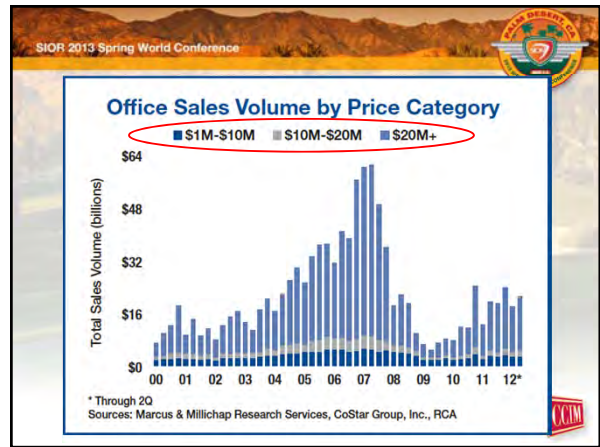
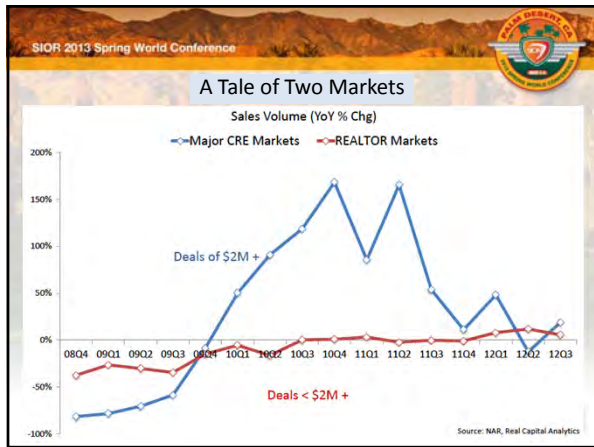
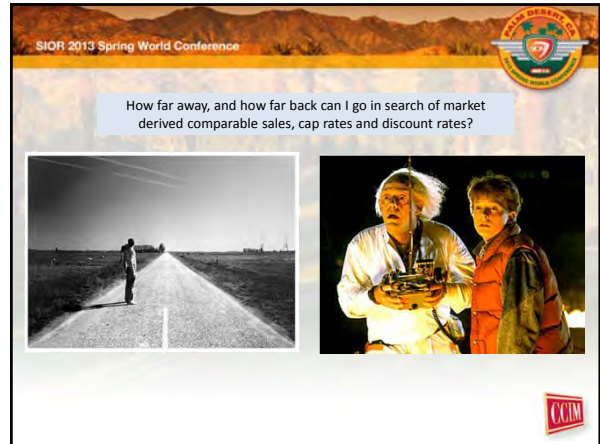
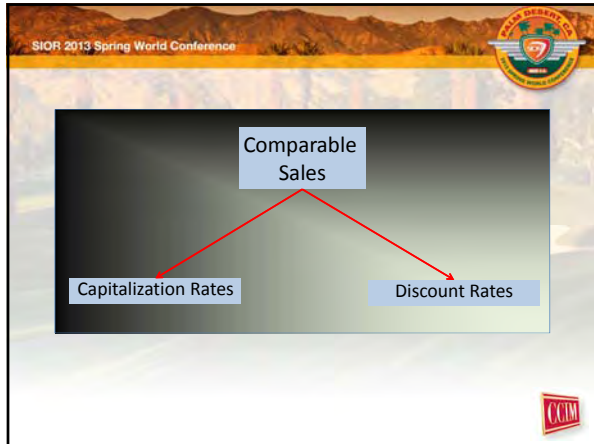
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Key Questions

How do I get a reliable, defensible valuation without ample historical data?

How much data is enough data?

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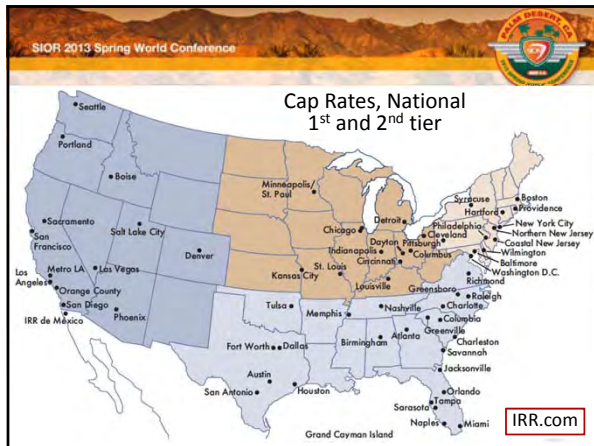
Valuation Methodologies

Capitalization Rates

The relationship between a property's NOI and its price.

Derived from the marketplace, used as an indicator of value.

Based in comparable sales



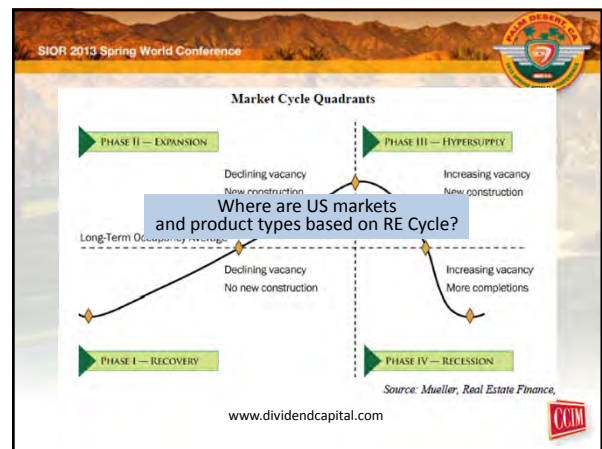
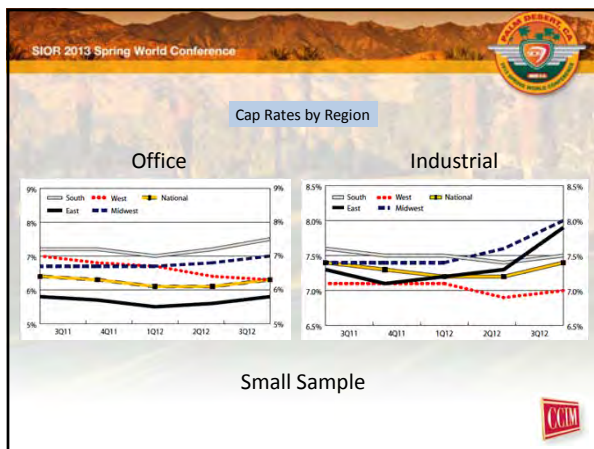
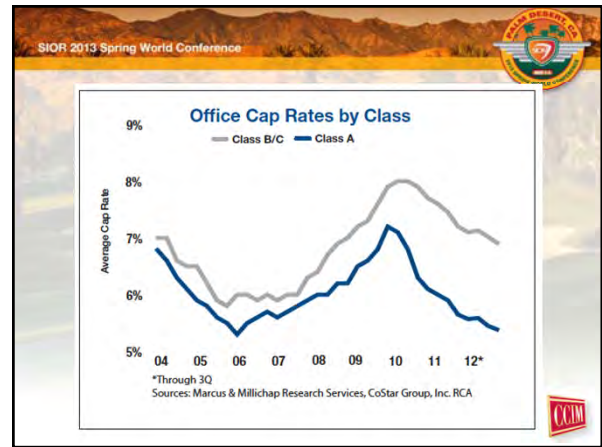
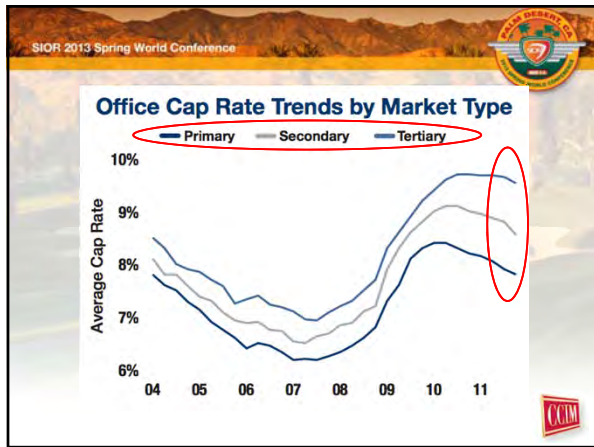
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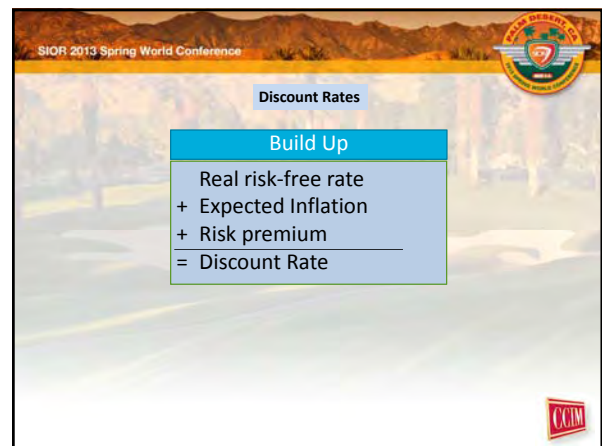
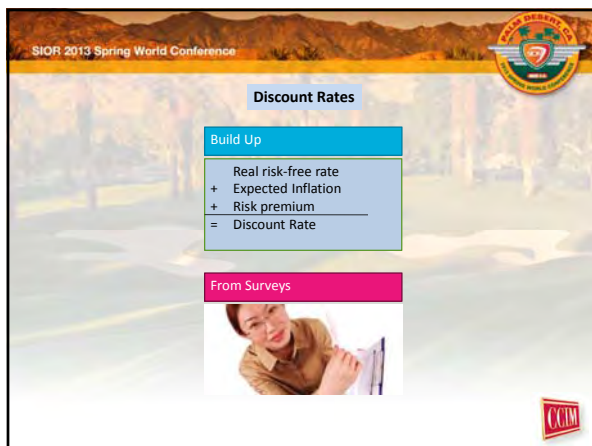
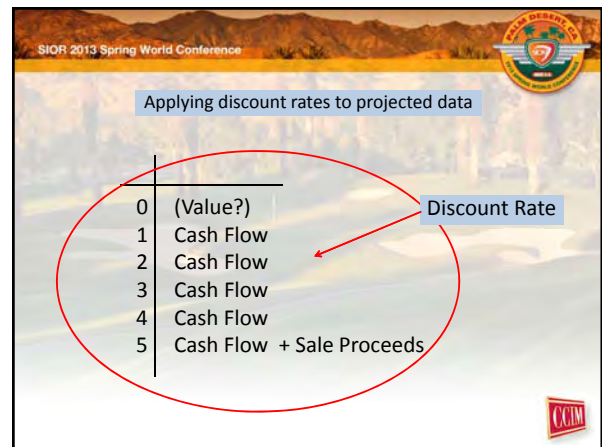
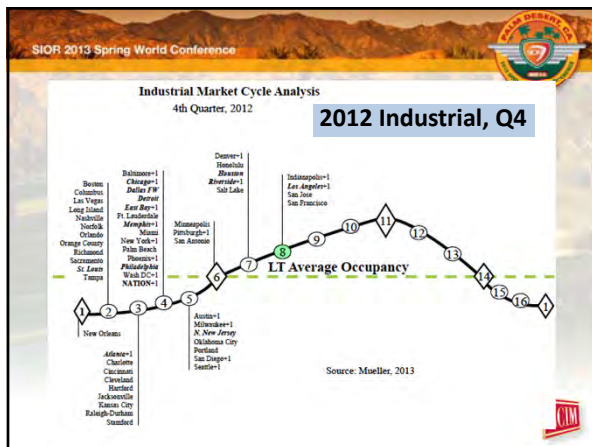
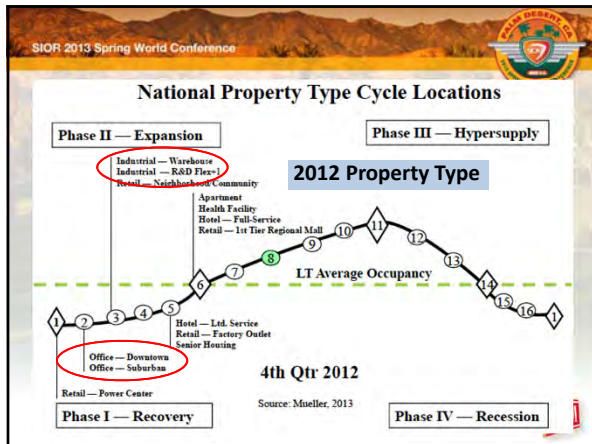
Cap Rates, National Large sample, 1st and 2nd tier

Class A Cap Rate Rankings (Fig. 9)

2012 Rank	Property Type	2012 Range	2012 Median	2012 Average
1	Urban Multifamily	4% - 8.75%	6.00%	5.91%
2	Suburban Multifamily	4.25% - 8%	6.00%	6.08%
3	Regional Mall	6% - 8.5%	7.25%	7.28%
4	Community Mall	6% - 8.75%	7.75%	7.60%
5	CBD Office	5% - 10.5%	7.75%	7.65%
6	Neighborhood Strip	6% - 9%	7.50%	7.66%
7	Industrial	6% - 9.75%	7.88%	7.75%
8	Suburban Office	6% - 9%	8.00%	7.91%
9	Flex Industrial	6.75% - 9.5%	8.50%	8.30%
10	CBD Lodging	6.5% - 10.25%	8.75%	8.58%
11	Airport Lodging	7% - 10.5%	9.00%	8.95%
12	Suburban Lodging	7% - 10.5%	9.00%	9.03%

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Discount Rates

Build Up

Real risk-free rate
 + Expected Inflation
 + Risk premium
 = Discount Rate

10 year treasury

CPI/Inflation

Spread/cap rate and 10 year Hurdle Rate Investor Requirement

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Case Study One

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Industrial Case Study + \$20 M, Major Metro

JONES LANG LASALLE
Real value in a changing world

Approximately 270,000 s.f. available mid-2014
 Alondra 270
 14555 Alondra Blvd, La Mirada, CA 90638

Planned for 3rd Quarter 2013 start date in a prime Mid-Counties location

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- 44 dock high loading doors
- 30' warehouse clearance
- ESFR sprinkler system
- 185' truck turning radius
- Fenced truck yard with 80 trailer stalls
- Office space to-suit, can accommodate up to 10,000 s.f. of second story office
- Major street frontage
- Excellent south Mid-Counties location with immediate access to 5 and 91 freeways
- Can be divided
- Price: TBD

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JONES LANG LASALLE **Voit**
REAL ESTATE SERVICES

Approximately 270,000 s.f. available mid-2014
 Brand new state-of-the-art distribution facility
 14555 Alondra Blvd, La Mirada, CA 90638

TOTAL BUILDING AREA 273,816 S.F.

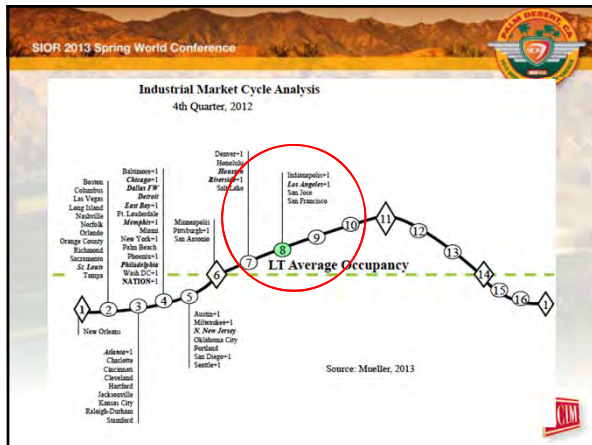
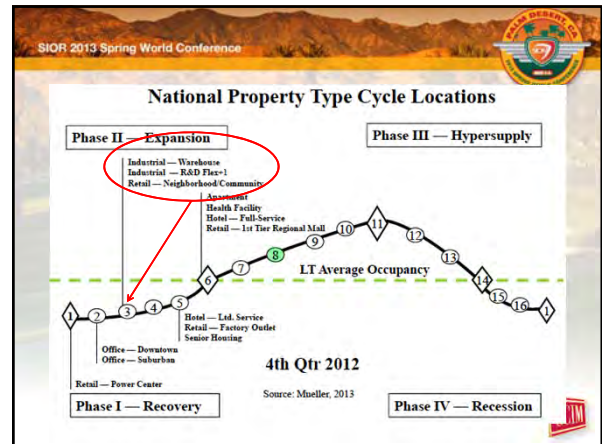
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Key Methodologies

DEVELOPER
Cost to Build
+ Profit

USER
Market Trends
Comparable Sales

INVESTOR
Cap Rates
Spreads to Treasuries



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DEVELOPER
Cost to Build +
Profit

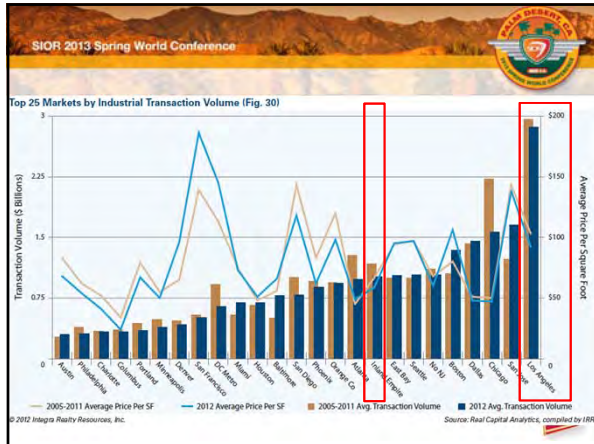
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USER
Market Trends
Comparable Sales

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ITQ, Q1, 2013

INDUSTRIAL	2013 I	2013 II	2013 III	2013 IV	2014 I	2014 II	2014 III	2013	2014
Vacancy Rate	9.6%	9.5%	9.5%	9.4%	9.2%	9.0%	9.0%	9.5%	9.0%
Net Absorption ('000 sq. ft.)	24,354	21,919	38,966	36,531	20,695	18,625	33,112	121,770	103,475
Completions ('000 sq. ft.)	12,643	13,448	8,787	8,362	18,849	20,050	13,101	43,241	64,467
Inventory ('000,000 sq. ft.)	8,421	8,435	8,444	8,452	8,471	8,491	8,504	8,452	8,517
Rent Growth	0.5%	0.6%	0.5%	0.7%	0.6%	0.7%	0.7%	2.3%	2.6%



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Sales highlights

Los Angeles

- 16325 South Avalon Boulevard**
Buyer: TAA-CREF
Seller: Trammell Crow
\$25.7M | 210,710 s.f. | \$122 p.s.f.
- 2625-2831 S Santa Fe Avenue**
Buyer: Morgan Stanley
Seller: IDS
\$15.3M | 149,145 s.f. | \$102 p.s.f.
- 6550-6560 Washington Boulevard**
Buyer: Wine Warehouse
Seller: Myerson Properties LLC
\$13.3M | 132,800 s.f. | \$100 p.s.f.

Inland Empire

- Two San Bernardino Warehouses**
Buyer: Rental Kennedy LP
Seller: KTR Capital Partners LP
\$68.5M | 1,025,324 s.f. | \$67 p.s.f.
- 4378 N Perris Boulevard**
Buyer: JMM Management
Seller: TA Associates Realty
\$43.7M | 694,274 s.f. | \$63 p.s.f.
- 10825 Beech Avenue**
Buyer: Coaster Company of America
Seller: Overton Moore Properties
\$28.6M | 419,123 s.f. | \$71 p.s.f.

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LA and Inland Empire \$/SF

- \$122.00
- \$102.00
- \$100.00
- \$ 67.00
- \$ 63.00
- \$ 71.00

Average \$SF = \$87.50

\$87.50 X 270,000 SF = \$23,625,000

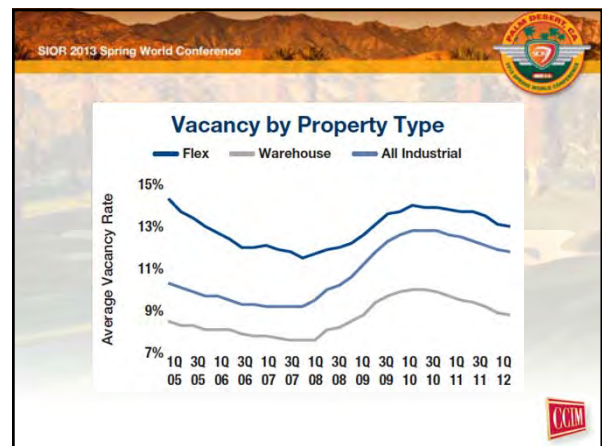
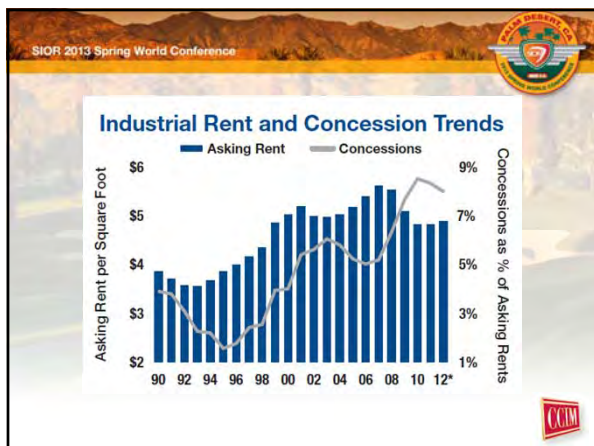
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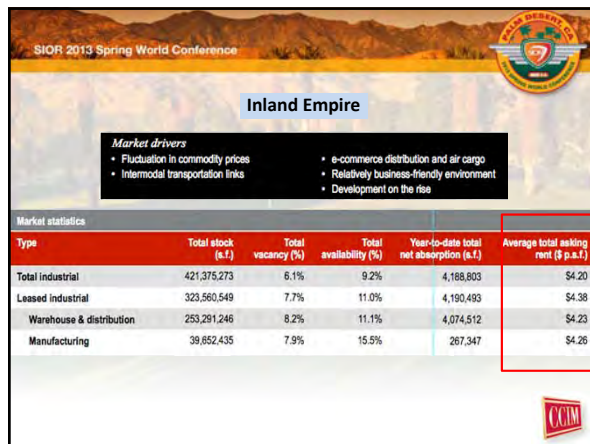
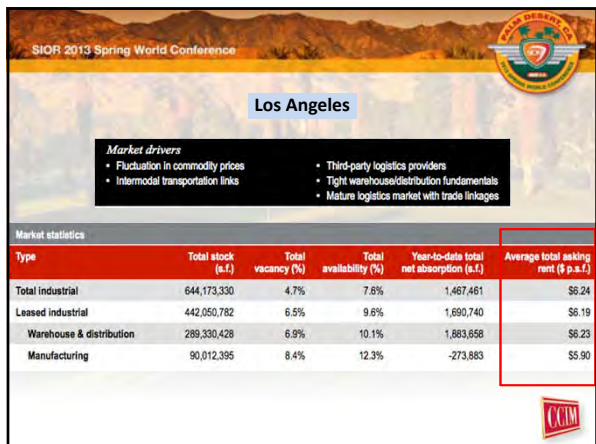
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INVESTOR

- Market Cycle
- Cap Rates
- Treasury Spreads
- Rental Rates
- Vacancies

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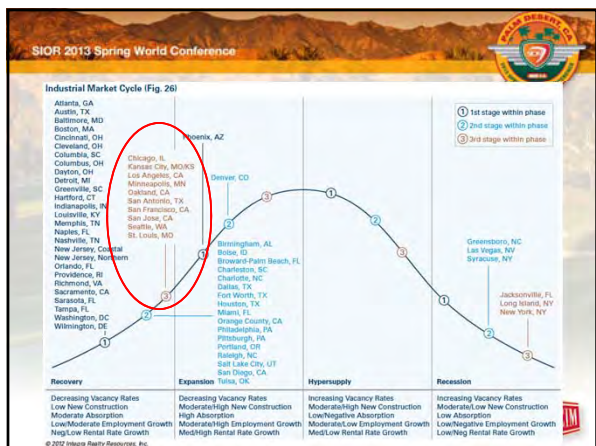




Regional Rates Comparison - Industrial (Fig. 28)

	Avg. Cap Rate	Avg. Discount Rate	Avg. Reversion Rate	Avg. Cap to Discount Spread
Southeast Region				
Industrial	8.03%	9.22%	8.48%	+119 bps
Flex Industrial	8.55%	9.77%	8.99%	+122 bps
Northeast Region				
Industrial	7.44%	8.62%	7.77%	+117 bps
Flex Industrial	8.06%	9.15%	8.35%	+110 bps
Midwest Region				
Industrial	8.32%	9.34%	8.84%	+102 bps
Flex Industrial	8.75%	9.77%	9.18%	+102 bps
West Region				
Industrial	7.13%	8.50%	7.75%	+138 bps
Flex Industrial	7.75%	9.09%	8.32%	+134 bps
National Averages / Spreads				
Industrial	7.75%	8.95%	8.24%	+120 bps
Flex Industrial	8.30%	9.49%	8.75%	+119 bps

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Average Rent \$4.23 - \$6.23

$\$6.00 \times 270,000 = \$1,620,000$

$\$1,620,000 / .0713 = \$22,900,000$


User Value \$23,625,000
Investor Value \$22,900,000



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Office Case Study

Building is real,
Characters are fictional



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Office Case Study



Building is real,
Characters are fictional



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Office Case Study



20,000 SF
Purchased in 2007
\$1,680,000



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Case Study



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Discounted Cash Flow

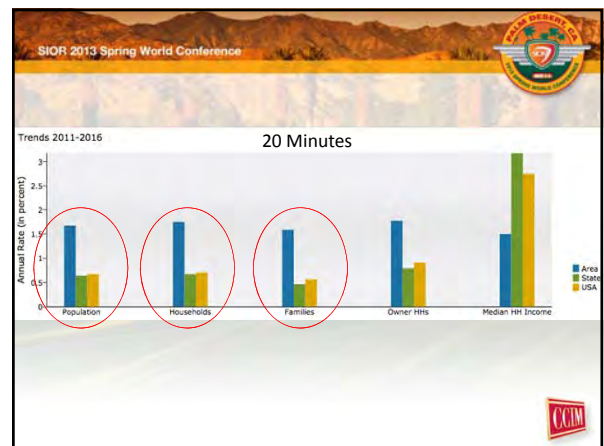
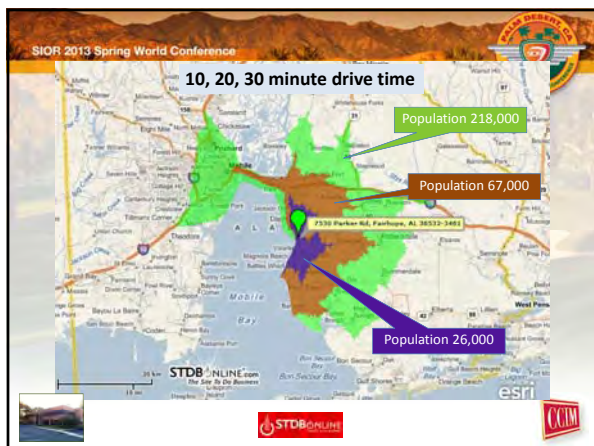
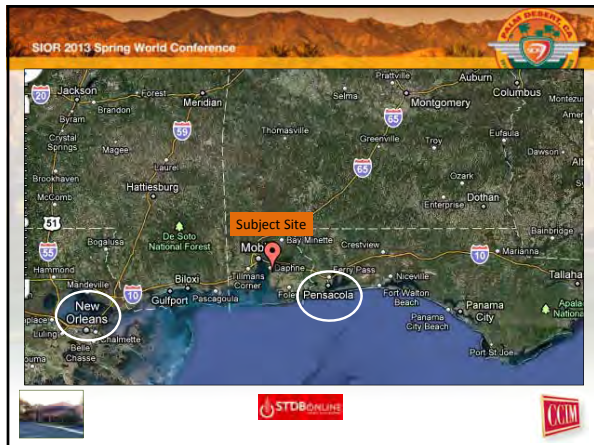
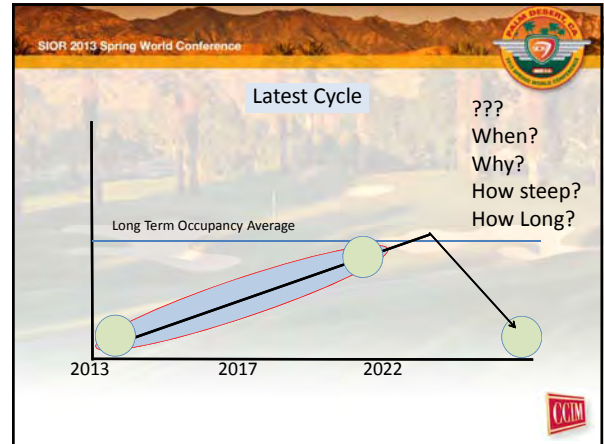
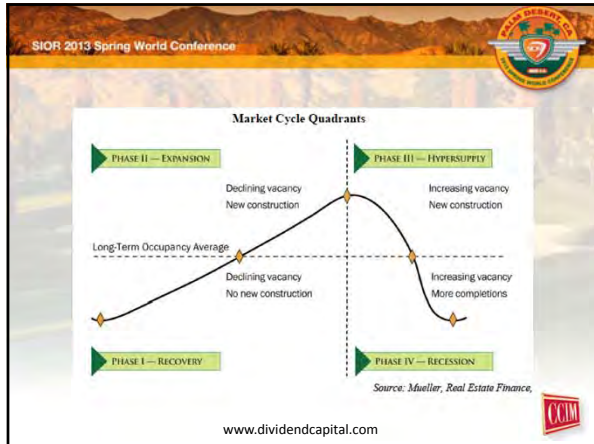
Local Economic Market Conditions

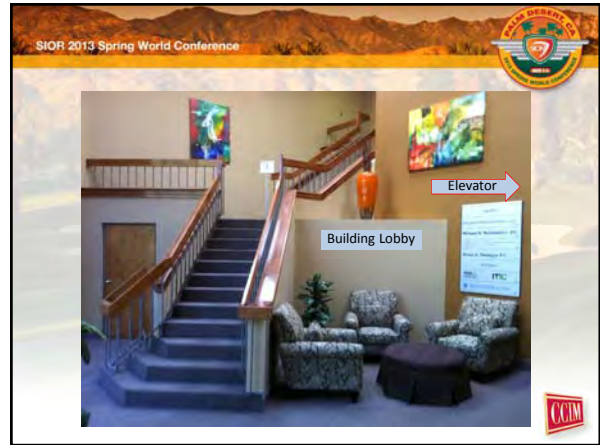
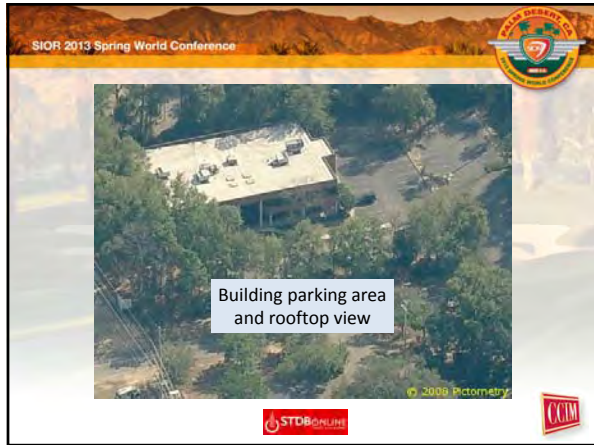
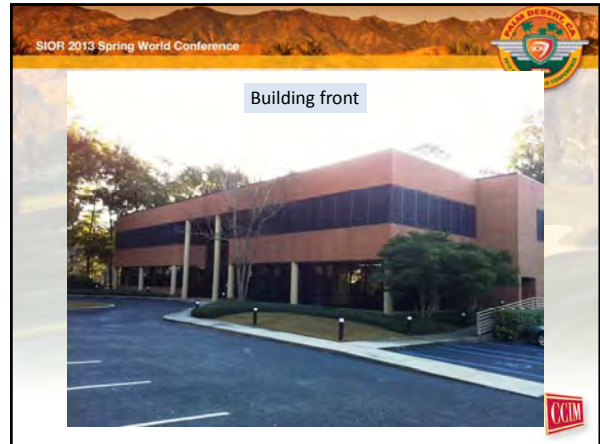
Macro Economic Conditions



Demographics and trending







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20,000 SF
4 tenants downstairs
2 tenants upstairs



Tenant 1	2500 SF	Financial Services
Tenant 2	2500 SF	Accountants
Tenant 3	2500 SF	Attorneys
Tenant 4	2500 SF	Attorneys
Tenant 5	7500 SF	Website Services
Tenant 6	2500 SF	General Contractor

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Is there enough data?
Can I use survey data?

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20,000 SF
4 tenants downstairs
2 tenants upstairs




Tenant 1	2500 SF	Financial Services
Tenant 2	2500 SF	Accountants
Tenant 3	2500 SF	Attorneys
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Tenant 5	7500 SF	Website Services
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20,000 SF
4 tenants downstairs
2 tenants upstairs

	NNN Rent	Years Left
Tenant 1 Annual Rent	\$25,000	3
Tenant 2 Annual Rent	\$22,500	4
Tenant 3 Annual Rent	\$22,500	1
Tenant 4 Annual Rent	\$20,000	4
Tenant 5 Annual Rent	\$45,000	7
Tenant 6 Annual Rent	\$15,000	3
Total Annual Net Rent	\$150,000	
Additional Expenses	20,000	
NOI	\$130,000	



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Comparable Sales

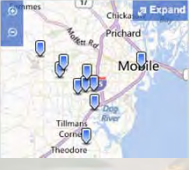
Based on the concept that the sale price of one asset can be used as a determinant of value for another asset.





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	Sold Sep 2011 for \$200,000 - \$250,000 Mobile, AL \$40 - \$45/SF	Office Building 6,000 SF Bldg
	Sold Dec 2011 for \$750,000 - \$800,000 Mobile, AL \$45 - \$50/SF	Office Building 15,000 SF Bldg
	Sold Dec 2012 for \$400,000 - \$450,000 Mobile, AL	Office Building 9,500 SF Bldg Built 1977

Mobile, AL

Average price per SF range = \$40 - \$50

20,000 sf building price range is \$800,000 - \$1,00,000

Value range = 25%



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Baldwin County

Sold Dec 2012 for \$500,000 - \$550,000 Loxley, AL \$55 - \$60/SF	Office Building 9,000 SF Bldg Built 2000
Sold Oct 2012 for \$300,000 - \$350,000 Fairhope, AL \$55 - \$60/SF	Office Building 6,000 SF Bldg Built 1994
Sold May 2011 for \$400,000 - \$450,000 Daphne, AL	Office-Warehouse 10,000 SF Bldg Built 2006
Sold Aug 2012 for \$200,000 - \$250,000 Spanish Fort, AL \$35 - \$40/SF	Office-Warehouse 6,500 SF Bldg

Average price per SF range = \$35 - \$60

20,000 sf building price range is \$700,000 - \$1,200,000

Daphne, AL Built 2006 \$50 - \$55/SF

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Comparable Sales Building Value - \$700,000 - \$1,200,000

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Valuation Methodologies



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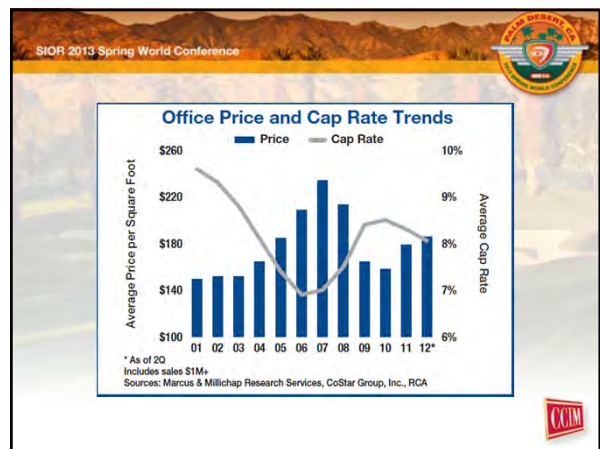
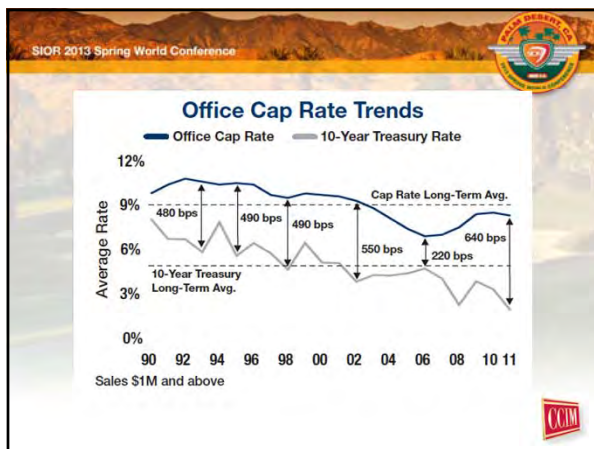
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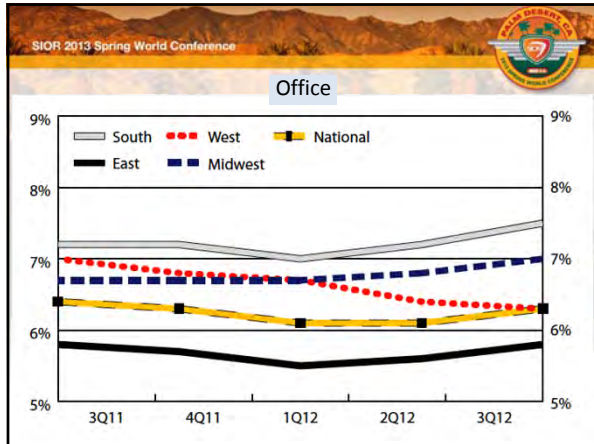
Capitalization Rates

Drawn from the market (based on Comps)

Extrapolated from Regional and National Data

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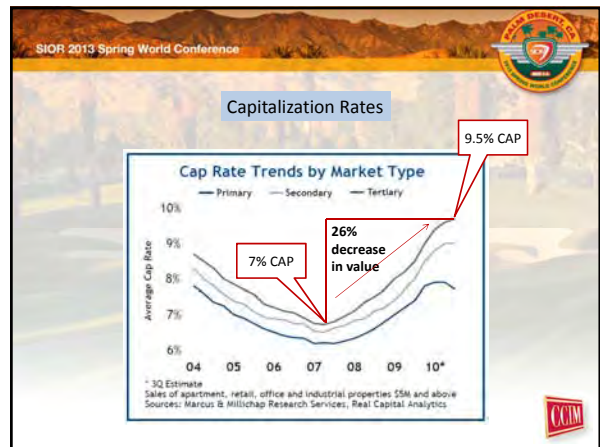
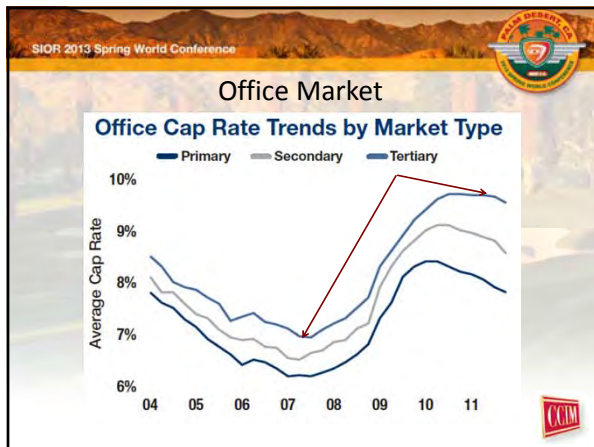
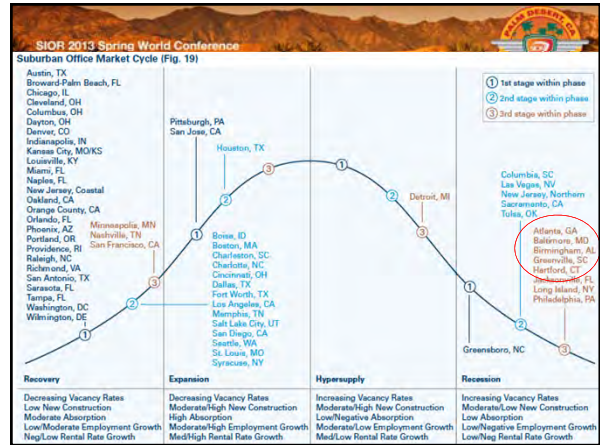


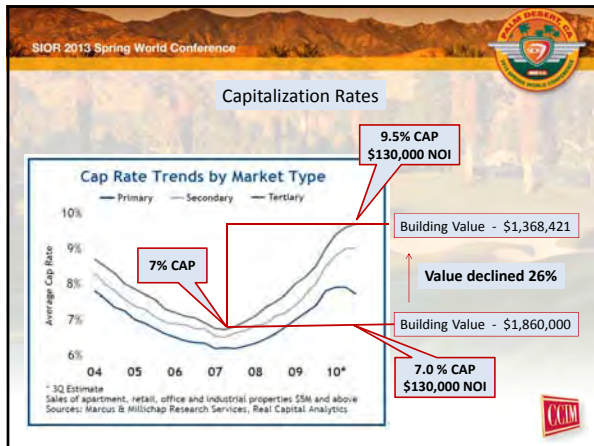
Capitalization Rates

Property Type	2012 data			
	Atlanta, GA	Austin, TX	Baltimore, MD	Birmingham, AL
CBD Office	7.75	7.00	7.00	8.50
Suburban Office	8.25	7.50	7.00	8.50
Regional Mall	7.50	7.50	6.50	8.00
Community Retail	8.00	7.50	6.75	8.25
Neighborhood Retail	7.50	7.50	6.75	8.00
Industrial	7.00	8.00	6.25	8.50
Flex Industrial	7.75	8.50	7.50	9.00
Urban Multifamily	5.50	5.75	5.50	6.50
Suburban Multifam.	6.00	6.25	5.50	6.25
CBD Lodging	8.00	8.25	8.00	9.50
Suburban Lodging	8.50	8.50	8.00	10.00
Airport Lodging	8.50	8.50	8.00	10.50

Discount Rates

Property Type	2012 data			
	Birmingham	Atlanta, GA	Austin, TX	Baltimore, MD
CBD Office	9.00	8.50	8.25	9.50
Suburban Office	9.25	9.00	8.25	9.50
Regional Mall	9.00	9.00	8.00	9.50
Community Retail	9.25	9.00	7.50	9.25
Neighborhood Retail	9.00	9.00	7.50	9.25
Industrial	8.00	8.75	7.50	9.50
Flex Industrial	8.75	9.00	8.75	10.00
Urban Multifamily	6.50	8.25	7.00	7.75
Suburban Multifam.	7.00	8.00	7.00	7.50
CBD Lodging	9.50	10.25	9.50	11.50
Suburban Lodging	10.00	10.50	9.50	12.00
Airport Lodging	10.00	10.50	9.50	12.00



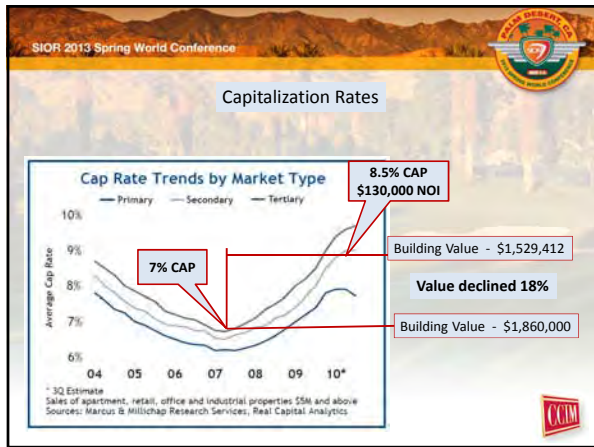


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GOING IN CAP RATE (%)

Property Type	Atlanta, GA	Austin, TX	Baltimore, MD	Birmingham, AL
CBD Office	7.75	7.00	7.00	8.50
Suburban Office	8.25	7.50	7.00	8.50
Regional Mall	7.50	7.50	6.50	8.00
Community Retail	8.00	7.50	6.75	8.25
Neighborhood Retail	7.50	7.50	6.75	8.00
Industrial	7.00	8.00	6.25	8.50
Flex Industrial	7.75	8.50	7.50	9.00
Urban Multifamily	5.50	5.75	5.50	6.50
Suburban Multifam.	6.00	6.25	5.50	6.25
CBD Lodging	8.00	8.25	8.00	9.50
Suburban Lodging	8.50	8.50	8.00	10.00
Airport Lodging	8.50	8.50	8.00	10.50

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- SIOR 2013 Spring World Conference
- Comparable Sales Building Value - \$700,000 - \$1,200,000
 - Capitalization Rates Building Value Range - \$1,368,421 - \$1,529,412
 - Discount Rates
 - Discounted Cash Flow
 - Band of Investment
 - Return on Investment
 - Cash on Cash
 - Opinion of Value
 - Certified Appraisal
 - Real Time Supply/Demand
- CCIM

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Discount Rates

Based on the concept that the Present Value of an asset is based on the income to be derived in the future from cash flows from operations and sale proceeds.

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Assumptions for Future Cashflows from Rent

- All cash
- Before tax
- 5 year hold

Income	+2%/year
OpEx	13.33% of GOI
Disp Cost	2%

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2012 Data

Birmingham, AL

Discount Rates

Reversion Cap Rates

Property Type	8.50	9.00	9.00
CBD Office	8.50	9.00	9.00
Suburban Office	8.50	10.00	9.00
Regional Mall	8.00	9.50	8.50
Community Retail	8.25	9.75	8.75
Neighborhood Retail	8.00	10.00	8.50
Industrial	8.50	9.75	8.75
Flex Industrial	9.00	9.75	9.25
Urban Multifamily	6.50	8.25	7.00
Suburban Multifam.	6.25	8.50	6.75
CBD Lodging	9.50	11.00	10.00
Suburban Lodging	10.00	11.25	10.50
Airport Lodging	10.50	11.25	11.00

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Class A Cap Rate Rankings (Fig. 9)

2012 Rank	Property Type	2012 Range	2012 Median	2012 Average
1	Urban Multifamily	4% - 8.75%	6.00%	5.91%
2	Suburban Multifamily	4.25% - 8%	6.00%	6.08%
3	Regional Mall	6% - 8.5%	7.25%	7.28%
4	Community Mall	6% - 8.75%	7.75%	7.60%
5	CBD Office	5% - 10.5%	7.75%	7.65%
6	Neighborhood Strip	6% - 9%	7.50%	7.66%
7	Industrial	6% - 9.75%	7.88%	7.75%
8	Suburban Office	6% - 9%	8.00%	7.91%
9	Flex Industrial	6.75% - 9.5%	8.50%	8.30%
10	CBD Lodging	6.5% - 10.25%	8.75%	8.58%
11	Airport Lodging	7% - 10.5%	9.00%	8.95%
12	Suburban Lodging	7% - 10.5%	9.00%	9.03%

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Class A Discount Rate Rankings (Fig. 11)

2012 Rank	Property Type	2012 Range	2012 Median	2012 Average
1	Urban Multifamily	6% - 9.75%	7.50%	7.73%
2	Suburban Multifamily	6.75% - 9%	7.75%	7.82%
3	Regional Mall	7% - 10.25%	9.00%	8.76%
4	Community Mall	7% - 10.5%	9.00%	8.82%
5	CBD Office	6.5% - 12%	9.00%	8.85%
6	Neighborhood Strip	7% - 10.5%	9.00%	8.88%
7	Industrial	7.5% - 11.25%	9.00%	8.95%
8	Suburban Office	7% - 10.75%	9.25%	9.05%
9	Hex Industrial	8% - 11%	9.50%	9.49%
10	CBD Lodging	7.5% - 12%	10.00%	10.15%
11	Airport Lodging	8.75% - 12%	10.50%	10.51%
12	Suburban Lodging	8.75% - 12%	10.75%	10.63%

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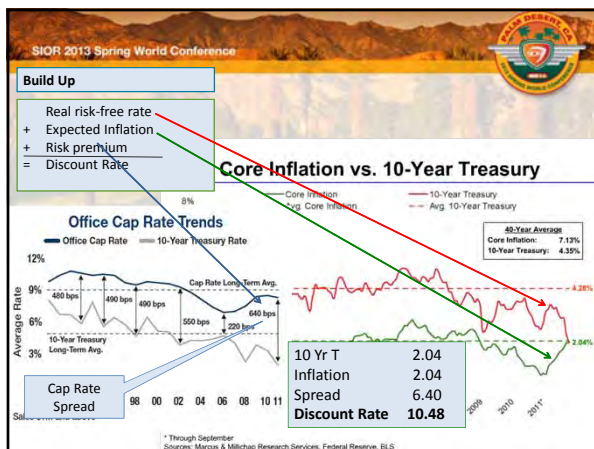
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Discounted Cash Flow

Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

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Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

Current

Future

Real risk-free rate	2.04
+ Expected Inflation	2.04
+ Risk premium	5.90
= Discount Rate	9.98

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

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Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

Future?

Real risk-free rate 3.0
+ Expected Inflation 3.5
+ Risk premium 7
= Discount Rate 13.5

More inflation, greater risk

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Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

Future?

Real risk-free rate 3.0
+ Expected Inflation 3.5
+ Risk premium 7
= Discount Rate 13.5

More inflation, greater risk

Real risk-free rate 3.0
+ Expected Inflation 3.5
+ Risk premium 5
= Discount Rate 11.5

More inflation, less risk

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Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

Current or future?

Real risk-free rate 2.04
+ Expected Inflation 2.04
+ Risk premium 5.90
= Discount Rate 9.98

Real risk-free rate 4.28
+ Expected Inflation 2.04
+ Risk premium 4.90
= Discount Rate 11.22

10 year average
10 year average
Long term average

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Build Up

Real risk-free rate
+ Expected Inflation
+ Risk premium
= Discount Rate

Current or future?

Real risk-free rate 2.04
+ Expected Inflation 2.04
+ Risk premium 5.90
= Discount Rate 9.98

Real risk-free rate 4.35
+ Expected Inflation 7.13
+ Risk premium 4.90
= Discount Rate 16.38

40 year average
40 year average
Long term average

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Discount Rate Spread

9.98% - 16.38%

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Office Cash Flows by Contract

EOY	Cash Flows	+	Sale Proceeds
0			
1	\$130,005.00	+	
2	\$132,605.00	+	
3	\$135,257.00	+	
4	\$137,692.00	+	
5	\$140,722.00	+	
6	\$143,536.00	+	
7		+	
8		+	
9		+	
10		+	

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Data Sets

National Survey	
Cap Rates	6.0% - 9.0%
Discount Rates	7.0% - 10.5%
Birmingham	
Cap Rates	8.5% - 9.0%
Discount Rates	10.0%
Build Up	
Discount Rates	10.3% - 13.5%



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Adjustments based on
Tenant Mix, Local Area Knowledge

Best Case/Worst Case	
Cap Rates	8.0% - 9.5%
Discount Rates	9.0% - 13.5%




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Best Case – 8% Cap / 9% DR

EOY	Cash Flows	+	Sale Proceeds
0			
1	\$130,005.00	+	
2	\$132,605.00	+	
3	\$135,257.00	+	
4	\$137,692.00	+	
5	\$140,722.00	+	\$1,794,200.00
6		+	
7		+	
8		+	
9		+	
10		+	

NPV Discount Rate	9.00%
Net Present Value	\$1,690,435.86
Internal Rate of Return	




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Worst Case – 9.5% Cap / 13.5% DR

EOY	Cash Flows	+	Sale Proceeds
0			
1	\$130,005.00	+	
2	\$132,605.00	+	
3	\$135,257.00	+	
4	\$137,692.00	+	
5	\$140,722.00	+	\$1,510,905.00
6		+	
7		+	
8		+	
9		+	
10		+	

NPV Discount Rate	13.50%
Net Present Value	\$1,269,820.20
Internal Rate of Return	



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Value range based on all previous assumptions

\$1,269,820 - \$1,690,000



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Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Discount Rates	9.00 and 13.50% BT
Discounted Cash Flow	Building Value Range - \$1,269,820 - \$1,690,000
Band of Investment	
Return on Investment	
Cash on Cash	
Opinion of Value	
Certified Appraisal	
Real Time Supply/Demand	



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Key Issues

Market conditions when sold

End of Year	1	2	3	4	5
1. POTENTIAL RENTAL INCOME	\$150,000				
2. Vacancy & Credit Losses					
3. EFFECTIVE RENTAL INCOME	\$150,000				
4. +/- Other Income (collectibles)					
5. GROSS OPERATING INCOME		20,000 SF			
6. TOTAL OPERATING EXPENSES	\$20,000	4 tenants downstairs			
7. NET OPERATING INCOME	\$130,000	2 tenants upstairs			
Interest First Mortgage					
8. Interest Second Mortgage		Tenant 1 Annual NNN Rent \$25,000	3 years		
9. Cost Recovery Improvements		Tenant 2 Annual NNN Rent \$22,500	4 years		
10. Cost Recovery Improvements		Tenant 3 Annual NNN Rent \$22,500	1 year		
11. Cost Recovery Improvements		Tenant 4 Annual NNN Rent \$20,000	4 years		
12. Loan Costs Amortization		Tenant 5 Annual NNN Rent \$45,000	7 years		
13. Loan Costs Amortization		Tenant 6 Annual NNN Rent \$15,000	5 years		
14. Loan Costs Amortization					
15. REAL ESTATE TAXABLE INCOME	\$130,000				
16. Tax Liability (Example at 9%)					
		Total Annual NNN Rent	\$150,000		

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Apply Market Vacancy and Rollover by Tenant


	Tenant 1	T2	T3	T4	T5	T6
0	0	0	0	20,000 SF		
1	CF	CF	CF	4 tenants downstairs 2 tenants upstairs		
2	CF	CF	CF	Tenant 1 Annual NNN Rent \$25,000 3 years Tenant 2 Annual NNN Rent \$22,500 4 years Tenant 3 Annual NNN Rent \$22,500 1 year Tenant 4 Annual NNN Rent \$20,000 4 years Tenant 5 Annual NNN Rent \$45,000 7 years Tenant 6 Annual NNN Rent \$15,000 5 years		
3	CF	CF	CF	Total Annual NNN Rent	\$150,000	
4	CF	CF	CF	CF	CF	CF
5	CF	CF	CF	CF	CF	CF

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Valuation Methodologies

Band of Investment



Financing is the typical form of purchase.

Based on the concept that a capitalization rate can be built by taking into account the required cash returns for all parties to the transaction (debt and equity).

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Band of Investment

Equity % x Cash on Cash %	=	X.XX%
Debt % x Mtg Constant %	=	X.XX%
Capitalization Rate by BOIM		X.XX%

Step 1: Calculate weighted portions for debt and equity
Step 2: Add the weighted portions to derive Cap Rate by BOIM

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Mortgage Constant

Mortgage Amortization Annual Summary	
Payments Per Year	12
Amortization Period (Years)	25
Loan Amount	\$100,000
Annual Interest Rate	7.00%
Periodic Payment	\$706.78
Annual Debt Service	\$8,481

$8,481 / 100,000 = 8.48\%$

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Band of Investment


30% Equity x 11.90%	=	0.0357
70% Debt x 8.48%	=	0.0594
Capitalization Rate by BOIM		0.0951

$\$130,000 / 9.51\% = \$1,367,000$

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Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Discount Rates	9.00 and 13.50% BT
Discounted Cash Flow	Building Value Range - \$1,269,820 - \$1,690,000
Band of Investment	Building Value - \$1,367,000
Return on Investment	
Cash on Cash	
Opinion of Value	
Certified Appraisal	
Real Time Supply/Demand	



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Valuation Methodologies



Return on Investment

The relationship of NOI to purchase price over time




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Best Case All Cash

Before Tax	
EOY	\$
0	(\$1,690,435)
1	\$112,675
2	\$114,929
3	\$117,227
4	\$119,572
5	\$121,963
+ \$1,758,120	
IRR = 7.61%	

Return on Asset	6.67%	6.80%	6.93%	7.07%	7.21%
Before Tax Cash on Cash	6.67%	6.80%	6.93%	7.07%	7.21%

End of Year	1	2
Value Using Acquisition Cap Rate	\$1,724,000	\$1,759,000
Loan Balance		
Loan to Value		
Debt Service Coverage Ratio		
Return on Asset	6.67%	6.80%
Before Tax Cash on Cash	6.67%	6.80%
After Tax Cash on Cash	4.35%	4.42%
Acquisition Cap Rate	6.67%	
Gross Rent Multiplier	13.00	
Effective Tax Rate	32.74%	




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Best Case With Financing

Before Tax	
EOY	\$
0	(\$660,000)
1	\$25,281
2	\$27,534
3	\$29,833
4	\$32,177
5	\$34,569
+ \$818,753	
IRR = 8.53%	

Return on Asset	6.67%	6.80%	6.93%	7.07%	7.21%
Before Tax Cash on Cash	3.63%	4.17%	4.52%	4.88%	5.24%

End of Year	1	2
Value Using Acquisition Cap Rate	\$1,724,000	\$1,759,000
Loan Balance	\$1,014,671	\$997,768
Loan to Value	58.86%	56.72%
Debt Service Coverage Ratio	1.29	1.32
Return on Asset	6.67%	6.80%
Before Tax Cash on Cash	3.63%	4.17%
After Tax Cash on Cash	1.65%	1.82%
Acquisition Cap Rate	6.67%	
Gross Rent Multiplier	13.00	
Effective Tax Rate	30.15%	




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Worst Case All Cash

Before Tax	
EOY	\$
0	(\$1,269,820)
1	\$112,675
2	\$114,929
3	\$117,227
4	\$119,572
5	\$121,963
+ \$1,480,780	
IRR = 11.82%	

Return on Asset	8.87%	9.05%	9.23%	9.42%	9.60%
Before Tax Cash on Cash	8.87%	9.05%	9.23%	9.42%	9.60%

End of Year	1	2
Value Using Acquisition Cap Rate	\$1,295,000	\$1,321,000
Loan Balance		
Loan to Value		
Debt Service Coverage Ratio		
Return on Asset	8.87%	9.05%
Before Tax Cash on Cash	8.87%	9.05%
After Tax Cash on Cash	5.77%	5.86%
Acquisition Cap Rate	8.87%	
Gross Rent Multiplier	9.77	
Effective Tax Rate	29.16%	




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Worst Case With Finance

Before Tax	
EOY	\$
0	(\$239,385)
1	\$25,281
2	\$27,534
3	\$29,833
4	\$32,177
5	\$34,569
+ \$541,413	
IRR = 26.86%	

Return on Asset	8.87%	9.05%	9.23%	9.42%	9.60%
Before Tax Cash on Cash	10.56%	11.50%	12.46%	13.44%	14.44%

End of Year	1	2
Value Using Acquisition Cap Rate	\$1,295,000	\$1,321,000
Loan Balance	\$1,014,671	\$997,768
Loan to Value	78.35%	75.53%
Debt Service Coverage Ratio	1.29	1.32
Return on Asset	8.87%	9.05%
Before Tax Cash on Cash	10.56%	11.50%
After Tax Cash on Cash	4.56%	5.00%
Acquisition Cap Rate	8.87%	
Gross Rent Multiplier	9.77	
Effective Tax Rate	24.20%	




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Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Discount Rates	9.00 and 13.50% BT
Discounted Cash Flow	Building Value Range - \$1,269,820 - \$1,690,000
Band of Investment	Building Value - \$1,474,000
Return on Investment	6.67% - 8.87%, Year 1
Cash on Cash	
Opinion of Value	
Certified Appraisal	
Real Time Supply/Demand	




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Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Discount Rates	9.00 and 13.50% BT
Discounted Cash Flow	Building Value Range - \$1,269,820 - \$1,690,000
Band of Investment	Building Value - \$1,472,050
Return on Investment	6.67% - 8.87%, Year 1
Cash on Cash	3.83% - 10.56%, Year 1
Opinion of Value	
Certified Appraisal	
Real Time Supply/Demand	




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Valuation Methodologies



Opinion of Value

- Comparable Sales
- Capitalization Rates
- Cash on Cash
- Band of Investment



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Valuation Methodologies

- Comparable Sales
- Capitalization Rates
- Cash on Cash
- Band of Investment

Opinion of Value

Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Cash on Cash	3.83% - 10.56%
Band of Investment	Building Value - \$1,367,000

Indicated Value by Averaging = \$1,232,967




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Comparable Sales	Building Value - \$700,000 - \$1,200,000
Capitalization Rates	Building Value Range - \$1,368,421 - \$1,529,412
Discount Rates	9.00 and 13.50% BT
Discounted Cash Flow	Building Value Range - \$1,269,820 - \$1,690,000
Band of Investment	Building Value - \$1,367,000
Return on Investment	6.67% - 8.87%, Year 1
Cash on Cash	3.83% - 10.56%, Year 1
Opinion of Value	Building Value - \$1,232,967
Certified Appraisal	
Real Time Supply/Demand	




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Valuation Methodologies



Certified Appraisal

- Comparable Sales
- Capitalization Rates
- Discount Rates
- Discounted Cash Flow
- Band of Investment
- Reproduction Cost



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Valuation Methodologies

- Comparable Sales: Building Value - ~~\$700,000~~ - \$1,200,000
- Capitalization Rates: Building Value Range - \$1,368,421 - \$1,490,127
- Cash on Cash: 3.83% - 10.56%
- Band of Investment: Building Value Range - \$1,367,000
- Discounted Cash Flow: Building Value Range - \$1,269,820 - \$1,690,000

Appraisal

Indicated Value = \$1,442,000
Based on BOI and DCF

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- Comparable Sales: Building Value - \$700,000 - \$1,200,000
- Capitalization Rates: Building Value Range - \$1,368,421 - \$1,529,412
- Discount Rates: 9.00 and 13.50% BT
- Discounted Cash Flow: Building Value Range - \$1,269,820 - \$1,690,000
- Band of Investment: Building Value - \$1,367,000
- Return on Investment: 6.67% - 8.87%, Year 1
- Cash on Cash: 3.83% - 10.56%, Year 1
- Opinion of Value: Building Value - \$1,232,967
- Certified Appraisal: Building Value - \$1,442,000
- Real Time Supply/Demand

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Real Time Data

Based on the concept that with or without usable historical data, real time supply and demand parameters can yield good indications of value.

Existing Bid/Ask data can be used in conjunction with other data to establish value

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Valuation Methodologies

Real Time Supply/Demand

Sources of Data

- MLS
- LoopNet
- CoStar
- CCIM Mailbridge
- Commercial Offices

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Mobile and Baldwin Counties

STDB ONLINE

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- 911 Dauphin Street**
Mobile, AL
Prime Historical Property for sale in downtown Mobile. Site was formerly the Prison.
\$81/SF
- 3 BUILDINGS * 18 ACRES**
Robertsdale, AL
TREMENDOUS PROPERTY - 18 ACRES WITH 350 FEET ON HIGHWAY 59. 3 BUILDINGS. FIRST IS AN OCTAGON WITH...
- Executive Park (801)**
Mobile, AL
2 Story Office Building with expansion. Also expansion. Also
- Gulf Shores Pkwy Office Building**
Gulf Shores, AL
LOCATION!!!
- 5741 Southland Drive**
Mobile, AL
Description Located across from Alhambra's Bank (formerly Charter)
- 3200 Executive Park Circle**
Mobile, AL
Approximately 100,000 SF

- \$1,395,000
17,259 SF Bidg Office Building
- \$2,700,000
11,000 SF Bidg Office Building
- \$660,000
16,920 SF Bidg Office Building
- \$1,100,000
10,169 SF Bidg Office Building
- \$1,290,000
10,798 SF Bidg Office Building
- \$1,400,000
10,080 SF Bidg Office Building

Mobile and Baldwin Counties





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Asking Prices

 312 Catoma Street - Renovated Office Space Montgomery, AL 2 Story office building 22,002 square foot building with attached garage. Newly Renovated	\$1,500,000 22,002 SF Bldg Office Building \$68/SF
 Forbes Building Birmingham, AL This is a 3 level building that has been used as a retail store for many years, first	\$1,700,000 20,600 SF Bldg Office Building \$83/SF
 2320 Highland Ave Birmingham, AL Two story office building with parking below, constructed in 1987 and has been well maintained	\$1,750,000 19,823 SF Bldg 8.50% Cap Rate Office Building \$88/SF
 2141 14th Avenue South Birmingham, AL Total SF 17,350: Basement 1,332 sf (+/-); 1st Floor 8,120 sf; 2nd Floor 8,120 sf; attached	\$1,350,000 17,350 SF Bldg Office Building \$78/SF

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Average = 79.25/SF 20,000 X 79.25/SF = \$1,585,000

 312 Catoma Street - Renovated Office Space Montgomery, AL 2 Story office building 22,002 square foot building with attached garage. Newly Renovated	\$1,500,000 22,002 SF Bldg Office Building \$68/SF
 Forbes Building Birmingham, AL This is a 3 level building that has been used as a retail store for many years, first	\$1,700,000 20,600 SF Bldg Office Building \$83/SF
 2320 Highland Ave Birmingham, AL Two story office building with parking below, constructed in 1987 and has been well maintained	\$1,750,000 19,823 SF Bldg 8.50% Cap Rate Office Building \$88/SF
 2141 14th Avenue South Birmingham, AL Total SF 17,350: Basement 1,332 sf (+/-); 1st Floor 8,120 sf; 2nd Floor 8,120 sf; attached	\$1,350,000 17,350 SF Bldg Office Building \$78/SF

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Reconciling the Numbers

Comparable Sales	Building Value - \$1,100,000 - \$1,300,000
Capitalization	8.421 - \$1,529,412
Discount Rates	10.48 and 12.48% BT
Discounted Cash Flow	Simple Average? \$1,286,072 - \$1,490,127
Band of Investment	Weighted Average? 2,050
Return on Investment	Selected Measures?
Cash on Cash	9.50% - 14.50%
Opinion of Value	Building Value - \$1,353,976
Certified Appraisal	Building Value - \$1,285,062
Real Time Supply/Demand	Value and rent below asking prices

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Reconciling the Numbers

Comparable Sales	Building Value - \$1,100,000 - \$1,300,000
Capitalization	8.421 - \$1,529,412
Discount Rates	10.48 and 12.48% BT
Discounted Cash Flow	Simple Average? \$1,359,667
Band of Investment	Selected Measures? \$1,381,066
Return on Investment	
Cash on Cash	9.50% - 14.50%
Opinion of Value	Building Value - \$1,353,976
Certified Appraisal	Building Value - \$1,285,062
Real Time Supply/Demand	Value and rent below asking prices

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That's all folks