

Extreme Appraising: Valuing CRE in a Down Market

April 23, 2021 via Zoom Meeting

Seminar Developer and Instructor: Gary S. DeWeese, MAI

Given the possibility of declines in the value of CRE as a result of COVID-19, this seminar will address critical issues, often misunderstood even by experienced commercial appraisers, in valuing property in a declining market.

The seminar will be based on a hypothetical case study property, a multi-tenant office building. The primary focus of the case study is to value the property “as is” and “when stabilized”, using all three valuation approaches, based on the following circumstances:

1. The property is 50% vacant in a market experiencing 20% vacancy, thus necessitating the proper measurement of a rent-up adjustment to be incorporated in all three approaches to value the property “as is”.
2. The market is forecast to experience on-going, but temporary, external obsolescence based on a detailed fundamental market analysis, which will be demonstrated using current methodologies and also incorporated in valuations..

In addition, the case study property also incorporates two other issues that will need to be addressed in the valuations.

1. One lease at the property was first negotiated when the market was much stronger. The rent for this lease was recently reduced and the term extended, in a so-called “blend and extend” renegotiation, but is still above market, therefore necessitating a “property rights adjustment”.
2. Another lease includes an apparent higher than market rent due to substantial landlord provided concessions, therefore necessitating a measure of “effective rent” for purposes of forecasting the rent at the time of lease renewal.

All of these issues will be discussed and then analyzed entirely in Excel, although attendees do not need to be an Excel expert to benefit from the seminar.

SCHEDULE:

Part 1: Overview of Case Study Property	8:30 – 9:00 am
Part 2: Purpose and Summary of the Market Analysis	9:00 – 9:30 am
Part 3: Addressing an Above-Market Lease with a Property Rights Adjustment	9:30 - 10:30 am
Break	10:30 – 10:45 am
Part 4: Measuring Effective Rent for a Lease with concessions	10:45 – 11:15 am
Part 5: Calculating the Rent-Up Adjustment for the “As Is” Valuation	11:00 – 12:00 pm
Lunch Break	12:00 – 1:00 pm
Part 6: Market Analysis: evidence of External Obsolescence/Methods of calculating	1:00 – 2:30 pm
Break	2:30 – 2:45 pm
Part 7: Determining the “When Stabilized” Value via the Income, Sales Comparison and Cost Approaches	2:45 – 4:15pm
Part 8: Reconciliation and Wrap-up	4:15 – 4:30 pm

ABOUT THE DEVELOPER

Gary S. DeWeese, MAI, is an instructor for the Appraisal Institute and teaches, among other courses, Advanced Market Analysis and Highest and Best Use, Advanced Income Capitalization and Advanced Concepts and Case Studies. He is the founder and principal of Real Estate Strategic Solutions, LLC, a real estate consulting firm specializing in litigation support, appraisal arbitration, public-private sector development, tax appeal work involving REIT valuation metrics, and other unique assignments. Gary is the former Assistant Treasurer-Real Estate and the Director of Real Estate Investments for the University of California Pension Plan and Endowment where he was the senior management executive responsible for both public and private real estate investments of the portfolios and head of the corporate real estate function. Gary has an MBA from the University of California, Berkeley. Gary has authored three manuscripts for *The Appraisal Journal* and has taught extensively in Asia and as guest lecturer at UC Berkeley. He can be contacted at 925-216-8751 or garydeweese@comcast.net.