

Back to the Basics: Increasing Confidence in CRE Appraisals through Fundamental Market Analysis

July 20, 2010

Hyatt Regency Washington on Capitol Hill

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OUTLINE

- Interterra (Interterror)
- Atlanta Office Market
- Are Appraisers being too conservative
- Fundamental Market Analysis

Interterra

- 1982 - Finished
- 1990 – First Review
- 1992 – Title and Movie
- 1994 – Sale

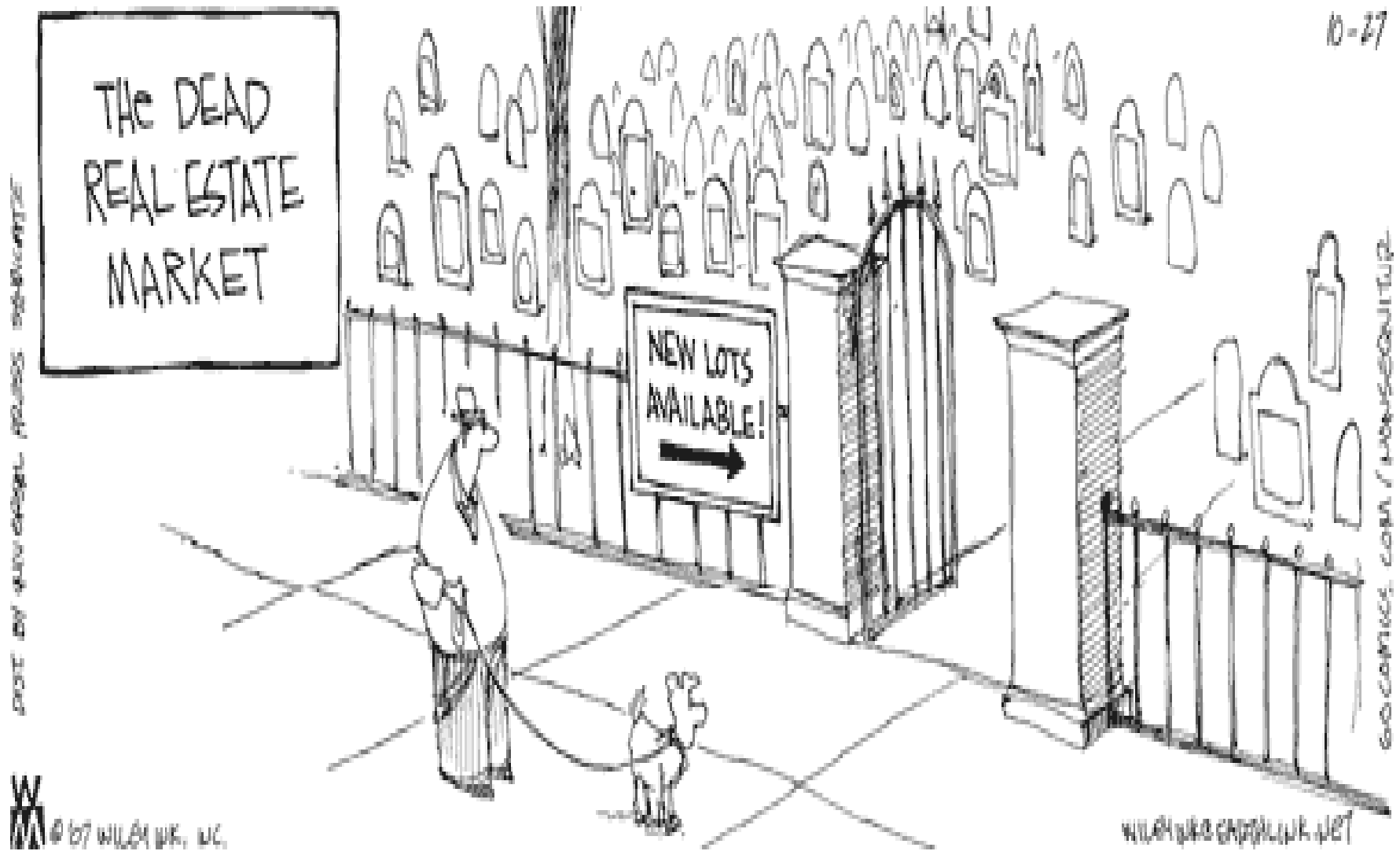
- Two subsequent sales

Interterra

- 1989 -- \$70 M
- 1990 – \$37 M
- 1992 – \$20 M (wiped out \$35 M)
- 1994 – \$20 M Sale

- Two subsequent sales - \$38 M
 - Last sale in 2006 - \$62 M
 - What is Value today?

Subdivision Development



Case Study – Atlanta Office

ATLANTA OFFICE MARKET

1. 20
2. 20
3. 20
4. (2,000,000)
5. 2,000,000
6. 200,000,000

ATLANTA OFFICE MARKET

YEAR	TOTAL JOBS	OFFICE JOBS
2009	(214,700)	
2010	(60,600)	(3,727)
2011	67,100	15,097
2012		37,959
2103		45,161

- Following is a 30 year review of the Atlanta Office market. This market grew significantly in the 1980s and 1990s and has slowed dramatically in the 2000s. Forecasting demand in this type market is difficult as absorption has been anemic for the past few years with five years of negative absorption in the 2000s.
- The following information is taken from information from REIS as compiled by Integra.
- Employment growth is obtained from Economy.com.

ATLANTA OFFICE MARKET – HISTORICAL REVIEW

Year	Square Feet	Vacancy Rate	Occupied SF	Office Emp #
1980	35,556,000	5.4%	33,635,000	293,000 1:115
1990	91,995,000	19.5%	74,055,975	458,000 1:162
2000	127,673,000	9%	116,182,430	705,000 1:165
2009 (2Q)	139,560,000	17.4%	115,276,560	741,770 1:155

Years with less than 1,000,000 sf added:

1980s: **2**; 1990s:**3**; 2000s:**3**

Years with less than 3% added to inventory:

1980s: **0**; 1990s:**4**; 2000s:**8**

Years when vacancy rate was less than 10%:

1980s: **2**; 1990s:**4**; 2000s:**1**

Years when new supply exceeded absorption:

1980s: **8**; 1990s:**5**; 2000s:**6**

ATLANTA – SIMPLE AVERAGES

Supply			Absorption	
1980s	5,643,000		1980s	4,042,000
1990s	3,567,000		1990s	4,212,646
2000s	1,158,000		2000s	1,305,013
Last 5 years	465,400		Last 5 years	829,800

ATLANTA OFFICE MARKET - CONSIDERATIONS

1. Minimal New Supply
2. Job Growth Anticipated
3. Older space Removed
4. Submarket Variations
5. Bottom - 2010

Appraisers: Too Conservative or are they reflecting actual market conditions?

Key Points

1. Sensitivity Analysis
2. Broker/Listing Support
3. Cost New Rent Considerations
4. Long-term Vacancy Forecasts
5. Job Growth Analysis

Appraisers: Too Conservative or are they reflecting actual market conditions?

1. Sensitivity Analysis

(15 lot subdivision – 5 years)

(Miami Condominium Market)

(Dulles Office Building – lease-up)

(Spear Street Office Building)

Appraisers: Too Conservative or are they reflecting actual market conditions?

2. Broker/Listing Support

(Are Brokers too Conservative or are they reflecting actual market conditions?)

Appraisers: Too Conservative or are they reflecting actual market conditions?

3. Cost New Rent Analysis

- What is cost new rent?
- If job growth/demand starts back, at what point will new construction be needed?
- Rent spike?

Appraisers: Too Conservative or are they reflecting actual market conditions?

4. Long-term vacancy forecast

- Is it higher in the initial years?
- What is vacancy over the entire hold?
- What is vacancy rate at reversion?

Appraisers: Too Conservative or are they reflecting actual market conditions?

5. Jobs/Jobs/Jobs

- Economy.com?
- Local Forecast?
- What type jobs (office, manufacturing, etc.)?

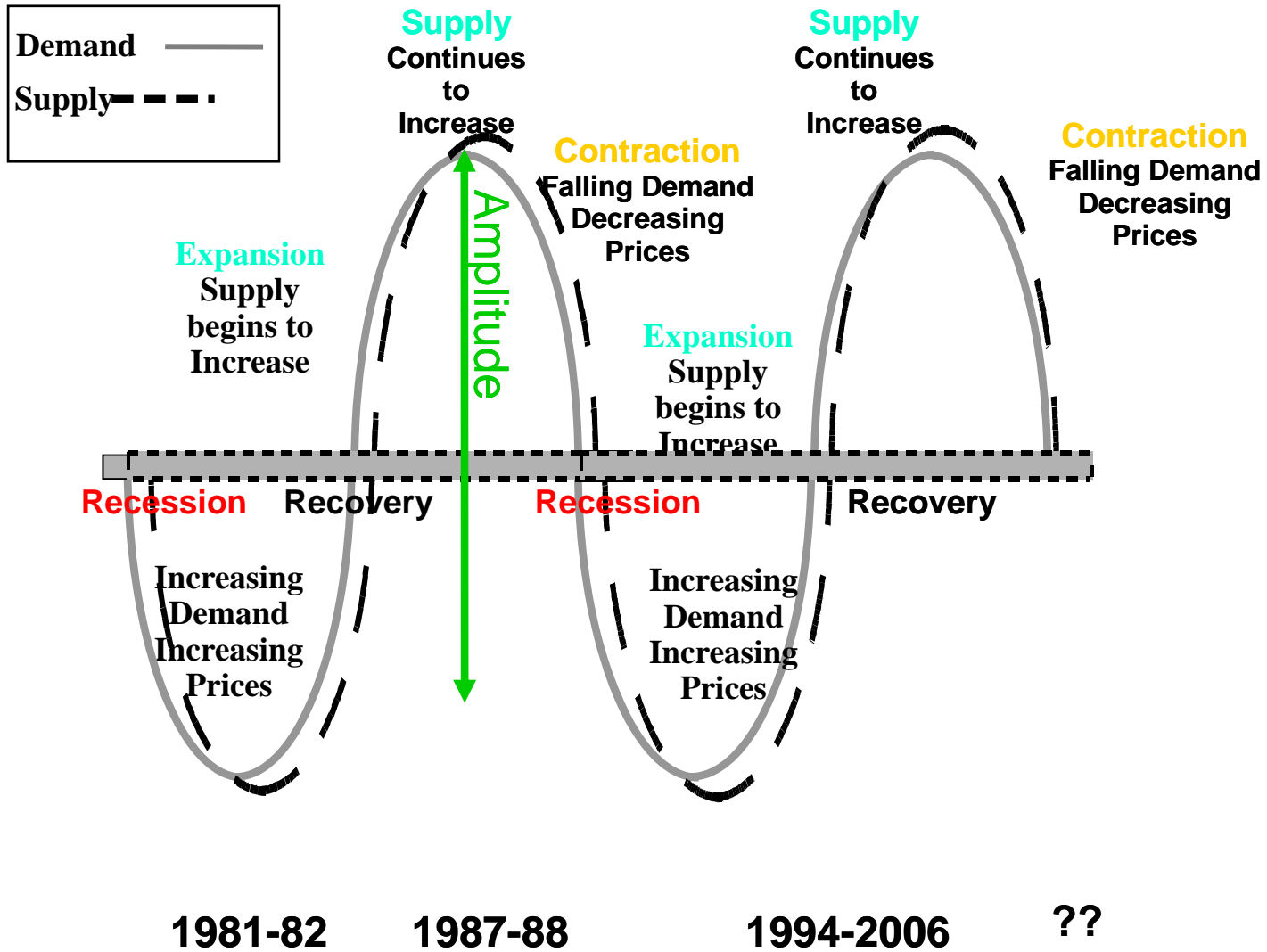
Fundamental Market Considerations

- Macro Overview
- Micro Overview
- Primary Competition Analysis
 - New Product Being Added
 - Any “Rumors”
 - Quantify Sublease Space (indirect vacancy)

The Six Step Process:

- Step 1 - Define the product (property productivity analysis).
- Step 2 - Define users of the property (market delineation).
- Step 3 - Forecast demand factors.
- Step 4 - Inventory and forecast competitive supply.
- Step 5 - Analyze the interaction of supply and demand (residual demand study).
- Step 6 - Forecast subject capture

Classic Real Estate Cycle



RETAIL IN THE US

Population: 307,000,000 +/-

Square Feet per Capita: roughly 46 sf, with roughly half of this figure in defined shopping centers.

What is the SF per capita in your market?