

Valuation Methodology in Distressed Real Estate Markets



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Market-Based Solutions



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Sufficient transactions to extract them?

Stabilized NOIs?

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Price per square foot /unit?

Cost Approach

External obsolescence

Market-based solutions...

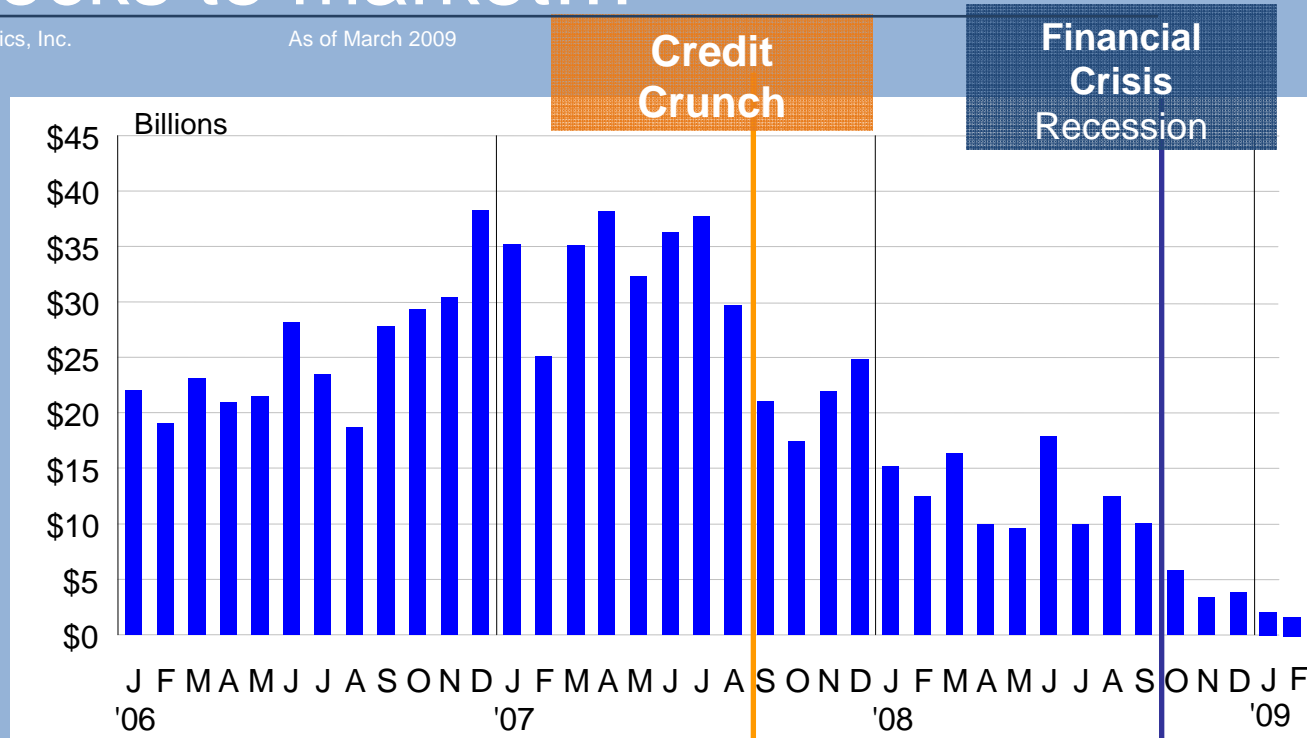
- **Real Capital Analytics (RCA)**
- **Current comp sales**
- **Comp sale updates (refried)**
- **Investor surveys**
- **Other valuation approaches**

Two shocks to market...

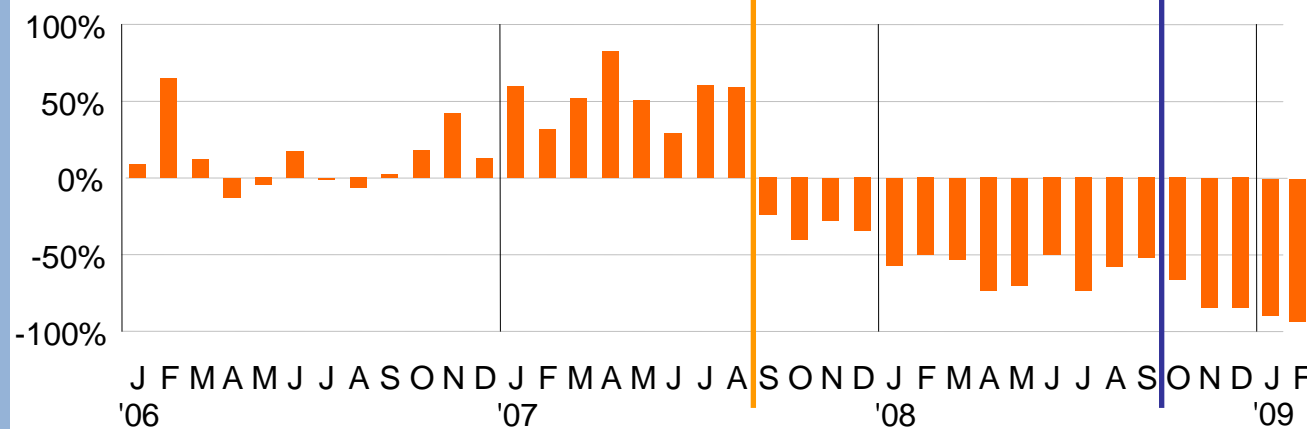
Source: Real Capital Analytics, Inc.

As of March 2009

Monthly US
Commercial
Property Sales

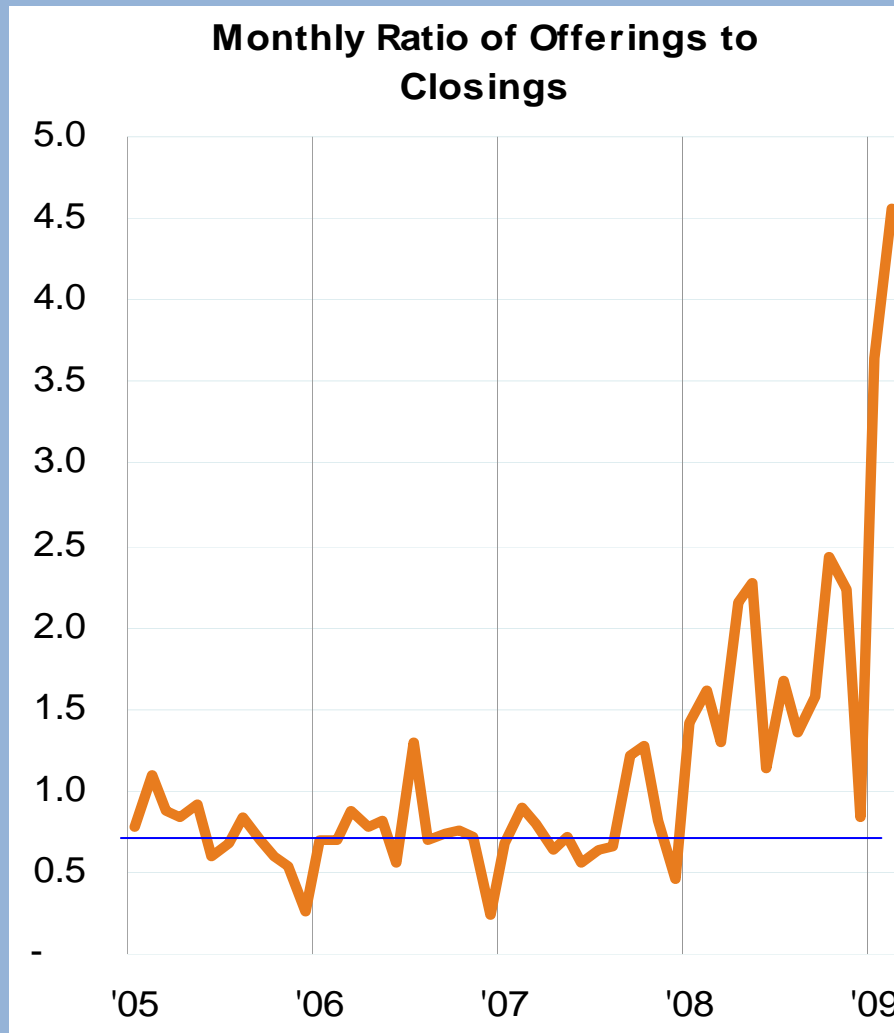


Year-Over-Year
Change in
Commercial
Property Sales



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Sales rare, but offerings plentiful...



Source: Real Capital Analytics, Inc.

As of March 2009

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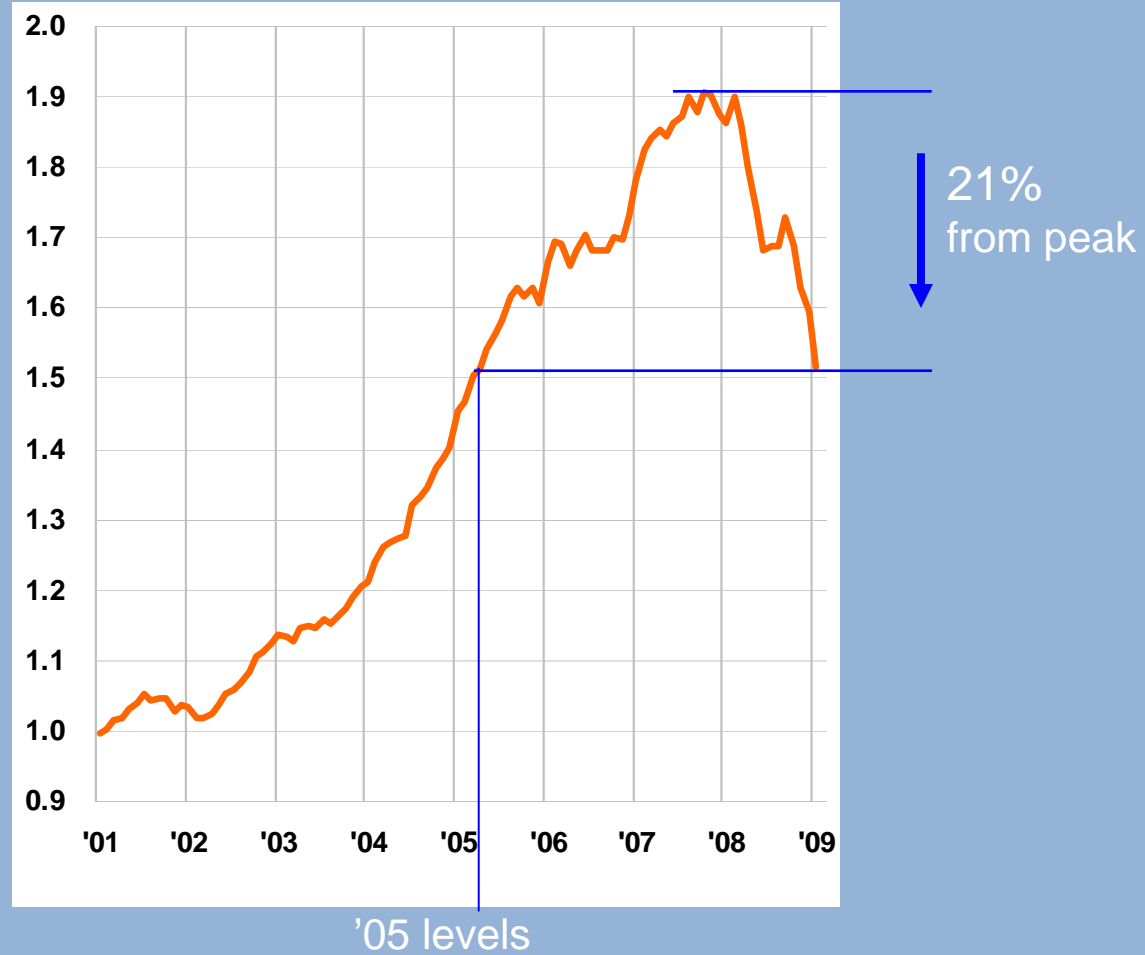
Pricing trends...

Source: Real Capital Analytics, Inc.

As of March 2009

US Commercial Property Prices [Prior to Wave of Distressed Sales]

Moody/Real CPPI – National, All Properties, Monthly



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Summary of current distress...



By Property Type

As of 3/20/09

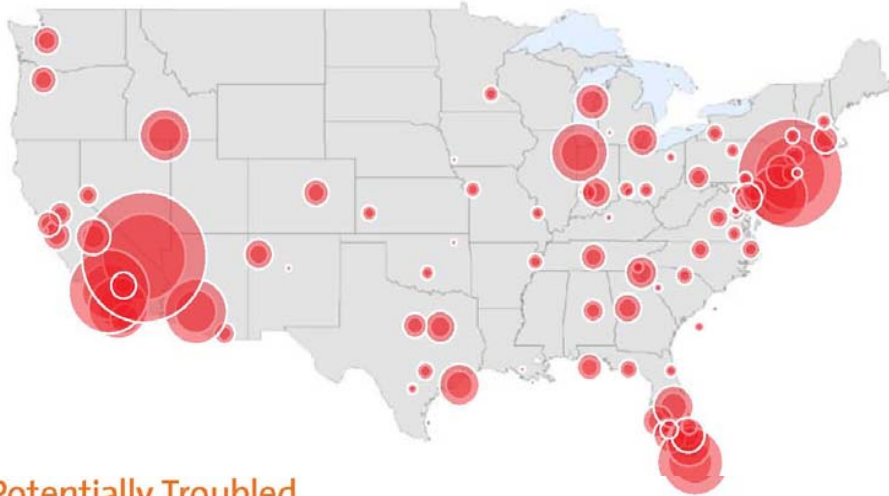
	2008		2009 YTD		Total	
	\$ in bil.	# of Props	\$ in bil.	# of Props	\$ in bil.	# of Props
Retail	\$14.0	946	\$2.5	192	\$16.5	1,138
Development	\$10.4	247	\$2.4	114	\$12.8	361
Apartment	\$6.4	735	\$3.9	278	\$10.3	1,013
Office	\$5.9	266	\$2.8	92	\$8.7	358
Hotel	\$6.0	119	\$2.7	71	\$8.7	190
Other	\$1.6	101	\$0.8	73	\$2.4	174
Industrial	\$1.2	154	\$0.6	84	\$1.8	238
Grand Total	\$45.4	2,568	\$15.7	904	\$61.1	3,472

Source: Real Capital Analytics, Inc

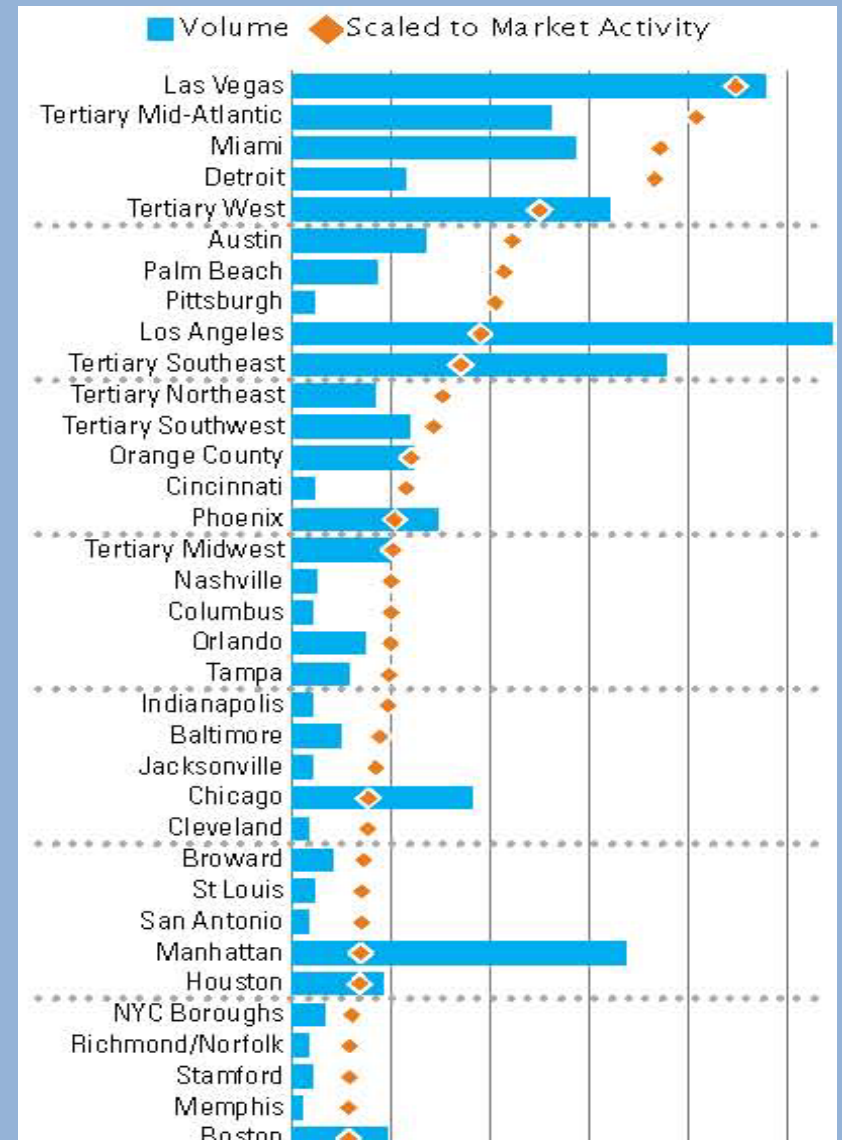
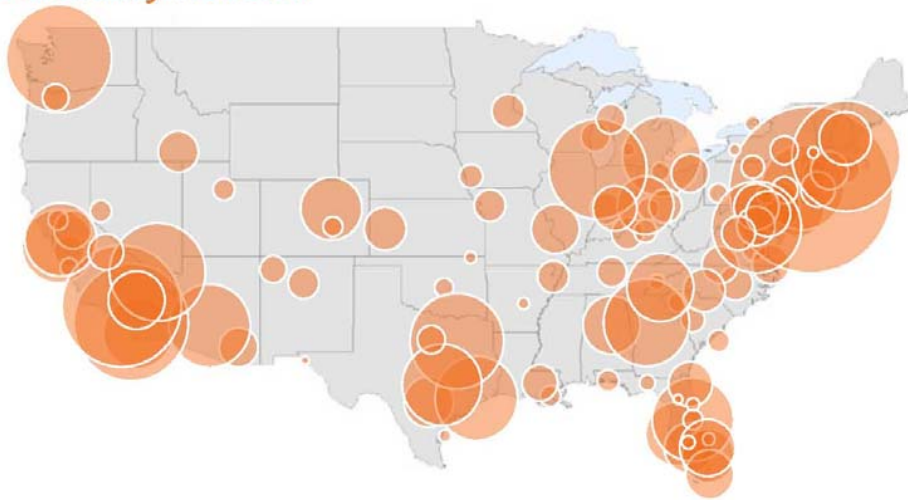
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Summary of current distress...

Distressed



Potentially Troubled



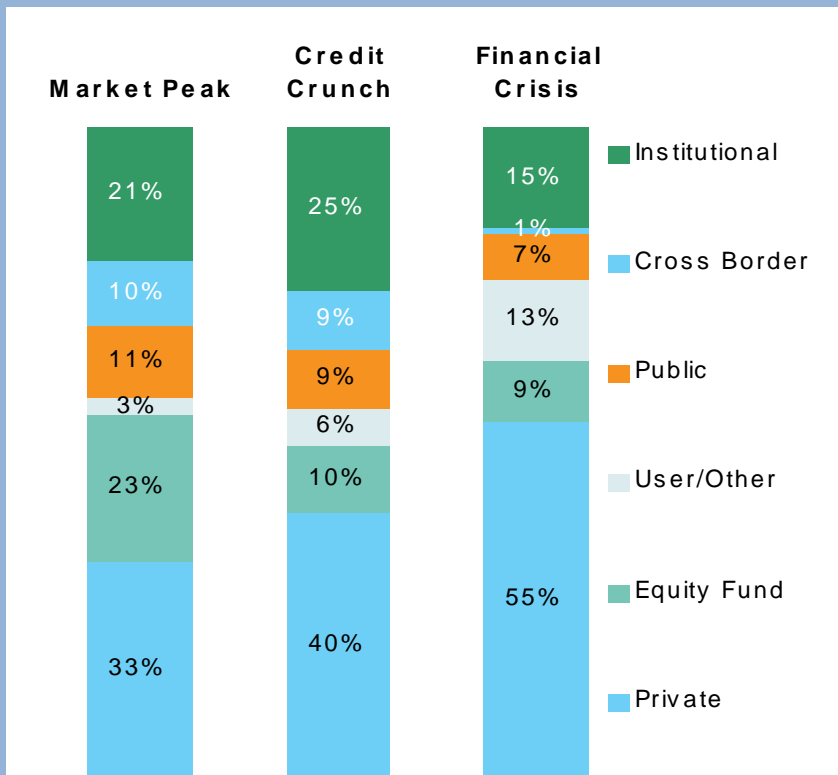
Source: Real Capital Analytics, Inc.

As of March 2009

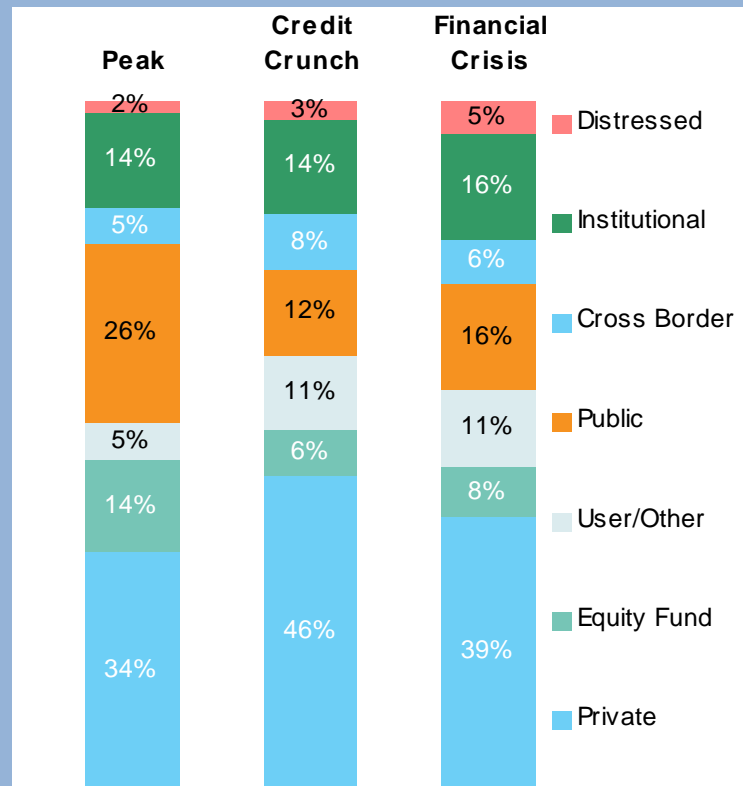
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Equity capital...

Composition of Buyers



Composition of Sellers

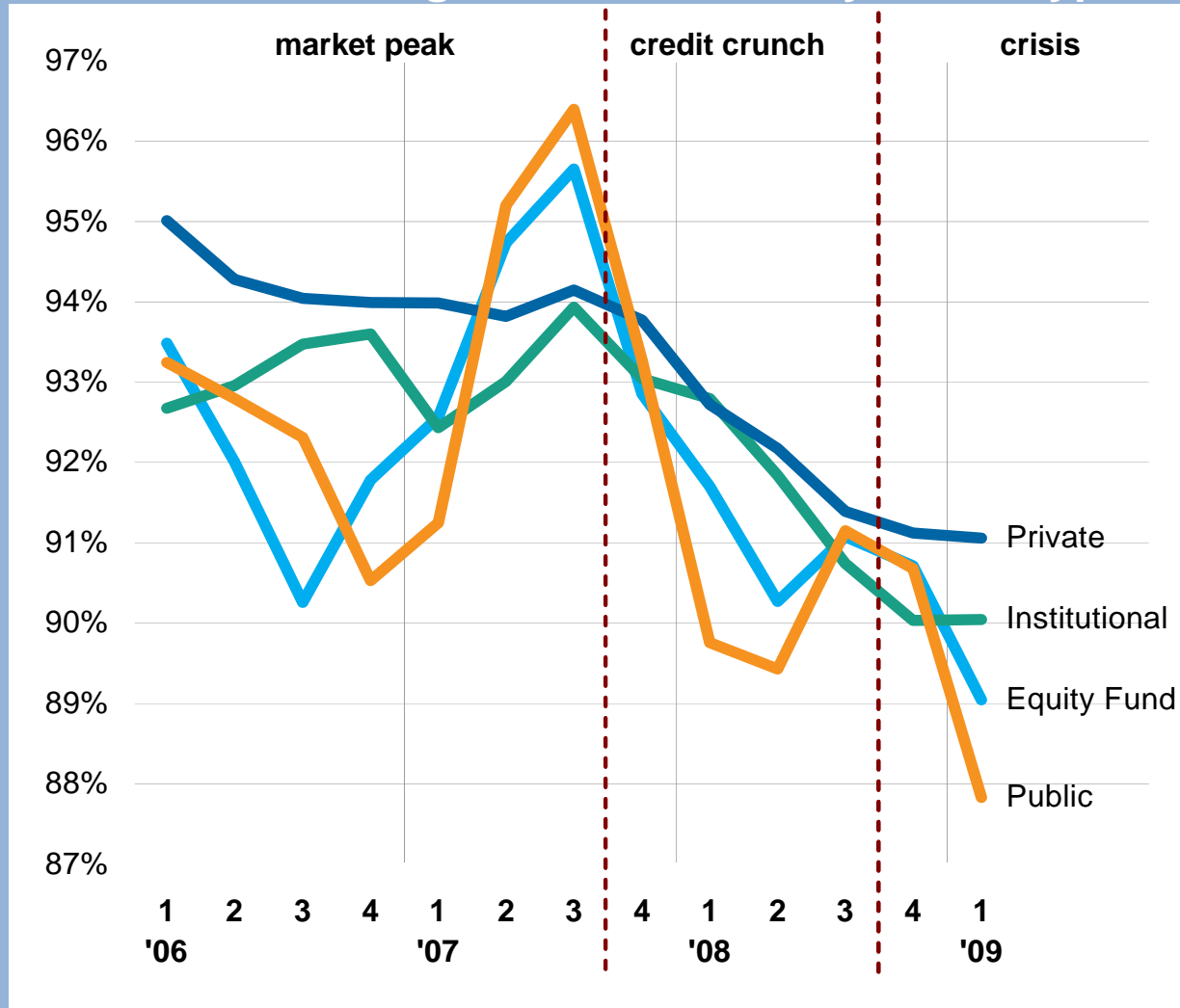


Source: Real Capital Analytics, Inc.

As of March 2009

Capitulation...

Percent of Asking Price Achieved By Seller Type



Source: Real Capital Analytics, Inc.

As of March 2009

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Comparable sales analysis...

Quality of comparable sales

- Distress sales increasing
- Market value definition test

Usable sales

- Detailed verifications
- Motivation/strategy

Comp sale updates (refried)...

San Francisco Office Sale Comparables Reverification Survey										
No.	Location	Sale Date	Bldg. Size (SF)	Sale Price	Price/ Sq. Ft.	NOI/ Sq. Ft.	Indicated	Overall Rate		
							Overall Rate	Estimated	7/2/01	1/1/02
1	600 Battery Street	Jun-01	112,208	\$37,500,000	\$334.20	\$32.55	9.74%	9.74%	9.74%	
2	550 California Street	Feb-01	339,910	\$107,000,000	\$314.79	\$28.56	9.07%	10.57%	11.07%	
3	114 Sansome Street	Nov-00	177,696	\$62,000,000	\$348.91	\$32.45	9.30%	(1)	(1)	
4	131-141 Steuart Street	Nov-00	75,404	\$27,850,000	\$369.34	\$25.85	7.00%	(1)	9.25%	
5	225 Bush Street	Nov-00	570,000	\$143,500,000	\$251.75	\$22.66	9.00%	11.25%	13.00%	
6	100 Pine Street	Nov-00	402,534	\$156,000,000	\$387.54	\$36.82	9.50%	10.75%	11.75%	
7	650 California Street	Oct-00	492,131	\$154,000,000	\$312.92	\$20.34	6.50%	(2)	(2)	
8	180 Montgomery Street	Sep-00	299,118	\$99,500,000	\$332.64	\$20.29	6.10%	(1)	(1)	
9	100 California Street	Jul-00	274,000	\$88,750,000	\$323.91	\$21.86	6.75%	(2)	(2)	
10	50 Fremont Street	Jul-00	771,875	\$258,767,933	\$335.25	\$23.47	7.00%	8.25%	8.25%	
11	303 Second Street	May-00	700,892	\$210,267,600	\$300.00	\$21.00	7.00%	(1)	(1)	
12	100 First Street	May-00	451,000	\$135,000,000	\$299.33	\$23.95	8.00%	(1)	(1)	
13	501 Second Street	Feb-00	189,154	\$54,650,000	\$288.92	\$16.18	5.60%	9.25%	9.75%	
14	201 Spear Street	Nov-99	230,604	\$62,400,000	\$270.59	\$17.59	6.50%	8.50%	9.00%	
15	88 Kearney Street	Jul-99	209,474	\$67,000,000	\$319.85	\$28.51	8.91%	10.41%	10.91%	
16	333 Bush Street	Jun-99	542,743	\$156,500,000	\$288.35	\$21.04	7.30%	8.80%	9.30%	
			Low:	75,404	\$27,850,000	\$251.75	\$16.18	5.60%	8.25%	8.25%
			Mean:	364,922	\$113,792,846	\$317.39	\$24.57	7.70%	9.72%	10.20%
			High:	771,875	\$258,767,933	\$387.54	\$36.82	9.74%	11.25%	13.00%

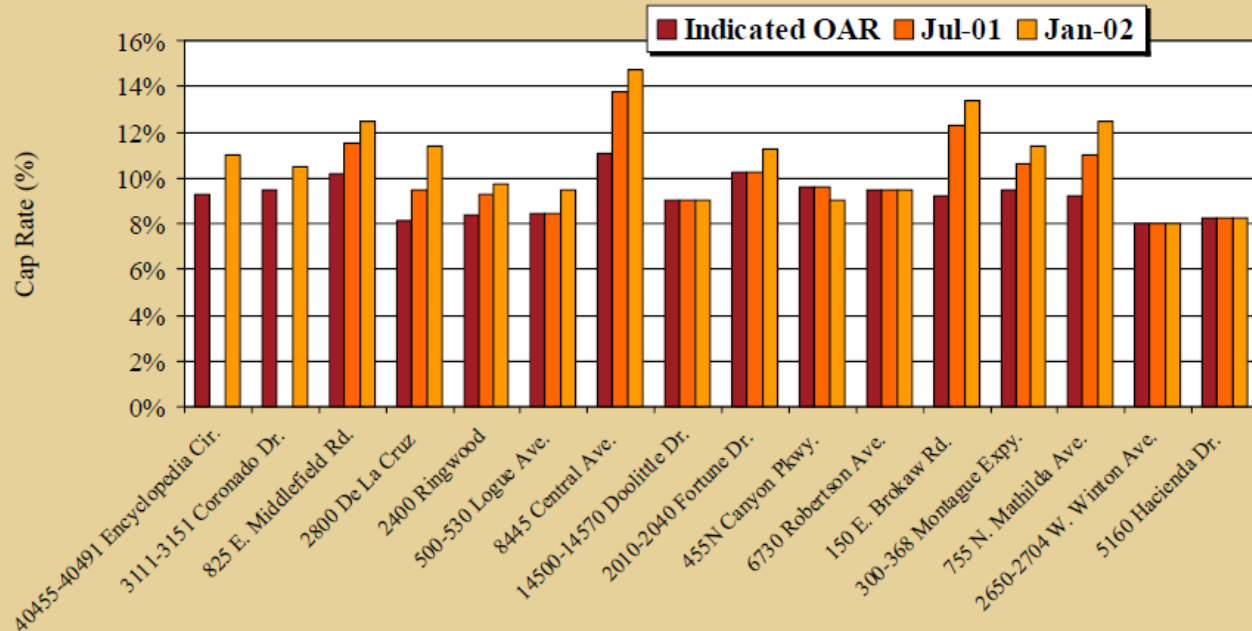
(1) Would have paid less, but unwilling to estimate an OAR.
(2) Would not comment on estimated cap rate for this date.

Source: PricewaterhouseCoopers

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Comp sale updates (refried)...

Overall Capitalization Rates *Sales Reverification Survey*

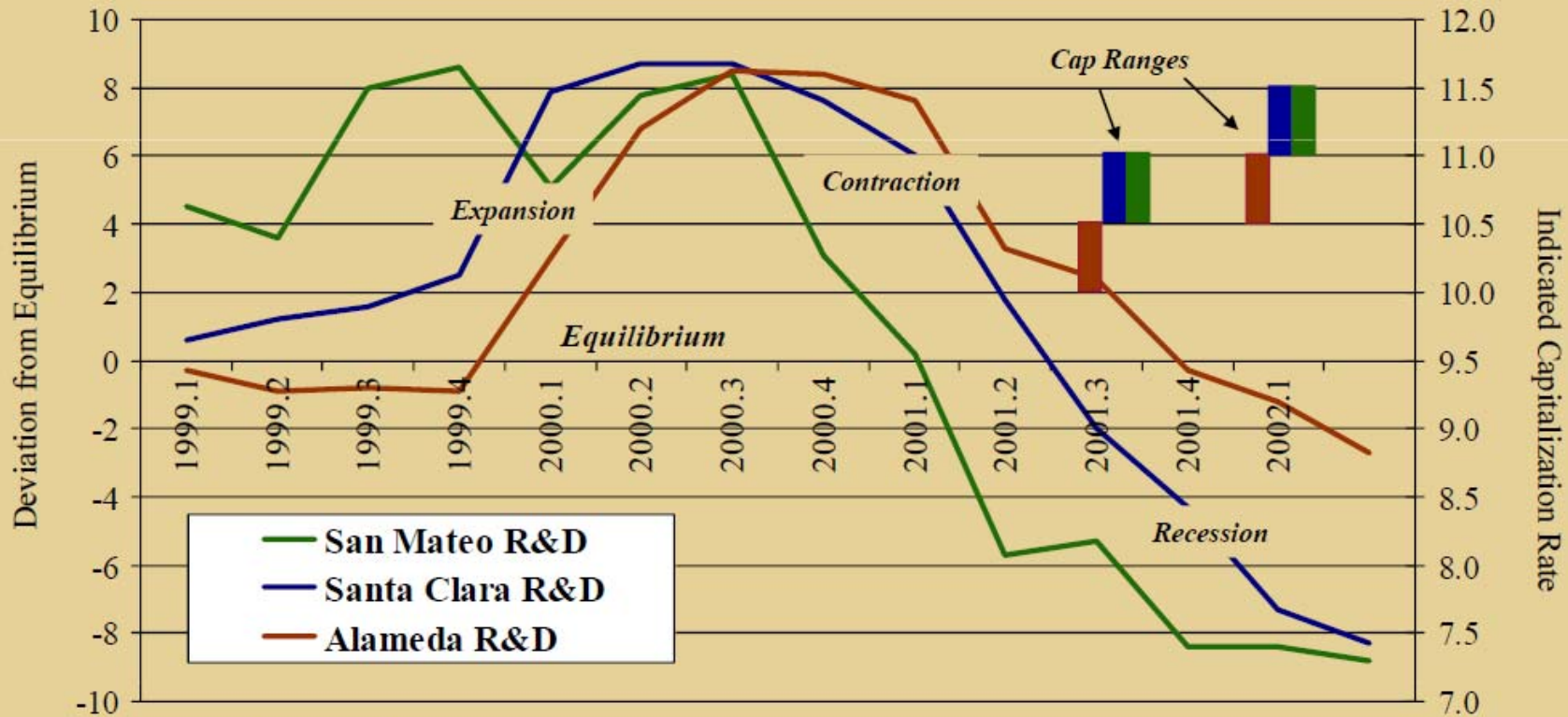


Source: PricewaterhouseCoopers

PricewaterhouseCoopers

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Comp sale updates (refried)...



Source: PricewaterhouseCoopers

Investor surveys...

Table 4 NATIONAL CBD OFFICE MARKET First Quarter 2009			
	CURRENT QUARTER	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)^a			
Range	6.25% – 11.00%	6.25% – 12.00%	6.00% – 10.00%
Average	8.63%	8.52%	7.91%
Change (Basis Points)		+ 11	+ 72
OVERALL CAP RATE (OAR)^a			
Range	4.50% – 10.50%	4.50% – 10.00%	4.50% – 9.00%
Average	7.52%	7.14%	6.63%
Change (Basis Points)		+ 38	+ 89
RESIDUAL CAP RATE			
Range	6.25% – 10.00%	6.25% – 10.00%	5.75% – 9.50%
Average	8.08%	7.80%	7.29%
Change (Basis Points)		+ 28	+ 79
MARKET RENT CHANGE RATE^b			
Range	(6.00%) – 8.00%	(6.00%) – 8.00%	0.00% – 10.00%
Average	0.55%	2.15%	4.05%
Change (Basis Points)		- 160	- 350
EXPENSE CHANGE RATE^b			
Range	2.00% – 3.00%	1.50% – 3.00%	1.50% – 4.00%
Average	2.95%	2.88%	2.96%
Change (Basis Points)		+ 7	- 1
AVERAGE MARKETING TIME^c			
Range	2.00 – 12.00	2.00 – 12.00	2.00 – 12.00
Average	7.35	6.79	6.85
Change (%)		+ 8.25	+ 7.30
a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months			

Source: PricewaterhouseCoopers Korpacz Real Estate Investor Survey®

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Other approaches...

Sales Comparison Approach

Price per square foot /unit?

More data to consider vs. cap rates

Cost Approach

Ext. obsolescence can be calculated

Valuation Methodology in Distressed Real Estate Markets



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