

White Mountain Appraisals, Inc: News

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Accurately Appraising Northern New Hampshire since 1986

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COVERAGE EXPANDED

In addition to our regular coverage area of northern Grafton County and all of Coos County, we have recently expanded into southern Grafton County in the Plymouth area. The databases have been upgraded and our coverage now includes:

Plymouth & area including:

Plymouth	Holderness	Ashland
Waterville Valley	New Hampton	Groton
Campton	Hebron	Alexandria
Bridgewater	Thornton	Benton

See the new coverage map at http://www.whitemountainappraisals.com/area_covered.htm

We also cover some areas in Vermont – although we are fully certified in Vermont, we have limited sales data in that market, so please call to check.

COMMERCIAL APPRAISALS – ARE YOU GETTING YOUR MONEY’S WORTH?

Commercial appraisals are complex appraisal assignments that require significant expertise, research and analysis involving a significant investment in terms of both fee and time. A commercial appraisal is like any appraisal, just more involved and focused on commercial data: the process involves an inspection, research, analysis and concludes with an extensive narrative report. USPAP appraisal regulations apply equally to all properties – commercial and residential.

It was interesting to hear from some clients recently that many things we routinely include in commercial appraisals are not included in the reports of others or may be there, but lack thoughtful analysis. Some of these items are:

NO COST APPROACH: All too often, appraisers make an erroneous assumption that if a building is old then the cost approach is not applicable, but this is not the case. Aside from other benefits, the cost approach gives you one number you absolutely need: the site value. It is very important that you know the value of the site and that you have some data and analysis in the report that substantiates this site value.

The cost approach itself is a valuable approach because it gives you good insight into the current market – for instance, the cost approach is generally lower than the market values in a vigorous,

appreciating market such as Littleton, while it can greatly exceed market values in slow markets such as Berlin. And, it's always a great reality check for new construction. Better to know going into a project how that is going to appear in the market than after the fact. Don't accept the argument that because a building is old the depreciation cannot be calculated.

The cost approach can also be a useful component in evaluating the underlying real estate value of a property that may have some "business value" included in the income and market approaches. Often times, this is all that's left when a business goes south.

The key to estimating depreciation on an older building is an accurate estimate of the effective age (which is the apparent age of the building after considering renovations, upgrades and maintenance – in other words, how the property appears and functions relative to today's standards). I've explored this relationship extensively and have applied these findings in appraisals and have always provided an accurate cost approach to our appraisals. If you want some more insight on effective age and how it is applied to depreciation, see the article I authored: Accurate Appraisals in a Rural Market: Some Problems and Solutions at <http://www.whitemountainappraisals.com/accurate.pdf>

CAP RATES INSTEAD OF DISCOUNTED CASH FLOW: Cap rates (or income multipliers) were invented before the personal computer and are generally considered less accurate since they really invite error and then multiply their effects. Inaccuracies between gross and net income, variabilities in expenses, and changes in discount rates can all send this estimate escalating wildly. Cap rates cannot consider changes in cash flow due to any factors such as increases or decreases in occupancy, changes in taxes, changes in pricing, changes in maintenance, putting new buildings/additions on line, etc. In addition, to try to project the entire value of a property based on just one year is at the least a scary thing to do and at best a ballpark number only.

We always construct a multi-year cash flow model and discount the net cash flow at prevailing market rates, tempered by the characteristics of the subject and the projected reversion of the property. If you're estimating the value on the financial performance of a property, it should have more substance to the analysis than just a multiplier of one year's income.

LACK OF GOING CONCERN OR MISLABELING OF INCOME PROJECTION VALUES: A going concern, or business value, is the projection of value from the income stream of the business operation. For instance, the income approach for a restaurant would be constructed from the rent of the building, while the business value would be estimated from the actual business operations of that restaurant.

This can be confusing on properties where the distinction between business and real estate is not clear, such as for a bed and breakfast or motel. Here, the real estate to some degree is the business and the business operation may or may not enhance the real estate value. Make sure you specify the value you need, or ask for both so you know exactly where you are.

ADJUSTMENTS BY SQUARE FOOT OR PERCENT FOR THE MARKET APPROACH: Many appraisers use grids in the market approach that are constructed on the basis of first converting all the comps to a value of dollars per square foot. Adjustments are then applied to this unit number, and results are reconciled to yield a final estimate. Aside from being somewhat misleading (for instance, an otherwise innocuous adjustment of \$5.00/SF could really be an enormous adjustment of \$75,000 in a 15,000 SF building), it is not a very accurate method. For example, how do you adjust for differences in site values when you've already divided the sales price by the area? How are the differences in value due to relative size handled?

The problem is that the value per square foot is not at all linear and varies with the size of the building. This variability manifests itself in many real estate quantities such as value per acre or rent per square foot and they all behave by the law of marginal contribution which says the more of something you have, the less per unit it is worth.

Worse yet, sometimes innocuous looking percent adjustments are posted, added up and applied to each comp – a mere 10% could conceal huge adjustments that may otherwise look out of place.

We recognize this overall law and apply all of our adjustments to the sales price in full dollar amounts. The resulting adjusted values are then divided by the area and graphed to reveal the relationship between the value per SF and the size. This relationship is then used to estimate the value of the subject. We have found this to be the most accurate way of estimating value among the range of comparables that we must utilize in this market.

EXPERTISE IS EXPERIENCE

We don't advertise that we are experts in any particular type of commercial property because we cover all types of properties and have significant experience in them all. For instance, we have completed appraisals on over 200 hospitality properties that include a range of lodges, cabins, hotels, motels, B&B's, and inns. We have done over 50 restaurants and over 450 multi-family properties. From a mom and pop operation to a multi-million dollar hotel/shopping/office complex, we've done them.

And the best part is that because we have done so much and have an extensive database, we are often able to provide commercial appraisals for significantly less than you would pay elsewhere. Please call or email for a quote on your next project.

WE SPONSOR BUILDING STRONG COMMUNITIES CONFERENCE

White Mountain Appraisals is a sponsor of the Building Strong Communities Conference presented by the New Hampshire Community Loan Fund.

SEMINAR PROBABLY IN APRIL

The seminar "Appraising for Realtors and Bankers" will be presented to a private audience in March and we are currently trying to book space to have this for you in April or May. We will keep you posted.