

1 day Seminar
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GAAO

**CAPITALIZATION
TECHNIQUES**

**USING
MARKET SURVEY
DATA**



12/09/09

The following tables summarize prevailing mortgage and equity requirements and the resulting cap rates, using a modified mortgage equity technique. The source of data for permanent financing which included, spreads over the base, interest rate, loan to value ratios and amortization, was Realty rates Survey. The equity rate data source was from Real Estate Research Corporation, specifically the Required Return Expectations by Property Type and The Atlanta Survey Results pages 9 and 36.

Permanent Financing 3rd Quarter 2009

	Apartment	Golf	Health Senior Housing	Industrial	Lodging	Office	Restaurant	Retail	Self Storage
Spread over Base 10-Year Treasury									
Minimum	0.73%	1.23%	1.54%	0.81%	1.15%	0.81%	2.30%	0.80%	0.81%
Maximum	5.95%	11.54%	6.13%	5.85%	11.26%	5.95%	11.52%	6.13%	5.96%
Average	2.51%	6.10%	3.12%	2.73%	3.41%	2.89%	4.69%	2.85%	4.85%
Interest Rate									
Minimum	4.32%	4.82%	5.13%	4.40%	4.74%	4.40%	5.89%	4.39%	4.39%
Maximum	9.54%	15.13%	9.72%	9.44%	14.85%	9.55%	15.11%	9.72%	9.72%
Average	6.10%	9.69%	6.71%	6.32%	7.00%	6.48%	8.28%	6.44%	6.44%
Debt Coverage Ratio									
Minimum	1.03	1.20	1.12	0.90	1.00	0.95	1.15	1.05	0.95
Maximum	1.95	2.25	2.30	2.05	3.00	2.05	2.10	2.10	2.60
Average	1.43	1.58	1.58	1.49	1.61	1.50	1.74	1.42	1.39
Loan to Value Ratio									
Minimum	50%	50%	50%	50%	50%	50%	50%	50%	80%
Maximum	90%	85%	90%	85%	85%	85%	80%	85%	50%
Average	74%	67%	71%	70%	67%	70%	63%	72%	69%
Amortization (Yrs)									
Minimum	15	15	15	15	15	15	15	15	30
Maximum	40	30	40	30	30	30	30	30	15
Average	26	20	24	24	22	25	19	25	27
Typical Expenses									
per Sq. Foot			Nursing 88%			3.40-6.25			
as % of EGI	30% New		Housing 60%	10-15%	65-69%		15-20%	15-20%	30-35%
Method Used	Income	Cost	Cost	Income	Income	Income	Cost	Income	Income
Notes: Apt Expenses 30-35-40%- Golf Courses recommend cost- Nursing homes have heavy nursing expenses use 88%-Senior Housing 60-65% expenses but recommend cost- Industrial Expenses 15-20%, Flex Bldgs 20-25- Resturants 15-20% recommend cost- Retail 15-20% - Self Storage 35% expenses under 65,000 sq & 30% over 65,000sq and Vac at 20%									

Equity Rate Report

Required Return Expectations by Property Type							1 ST Qtr. 2009			
	Office		Industrial			Retail			Apartment	Hotel
	CBD	Suburban	Warehouse	R & D	Flex	Regional Mall	Power Center	Neigh/Comm.		
Pre-Tax Yield (IRR) (%)										
Range	8.3 - 12.0	8.5 - 13.0	8.0 - 12.0	8.9 - 13.0	8.9 - 13.0	8.0 - 13.0	8.3 - 14.0	8.3 - 14.0	7.8 - 14.0	11.0 - 14.0
Average	9.4	10	9.6	10.3	10.4	10.1	10.3	9.7		
Weighted Average	9.8		9.7			10			9	12.7
Required Return Expectations by Property Type							2 ND Qtr. 2009			
	Office		Industrial			Retail			Apartment	Hotel
	CBD	Suburban	Warehouse	R & D	Flex	Regional Mall	Power Center	Neigh/Comm.		
Pre-Tax Yield (IRR) (%)										
Range	8.4 - 11.0	7.5 - 12.0	8.0 - 11.0	8.5 - 12.5	7.8 - 12.5	8.8 - 11.0	8.8 - 12.0	7.8 - 11.5	8.0 - 12.0	10.0 - 14.0
Average	9.3	9.6	9.5	10.2	10	9.3	10	9.4		
Weighted Average	9.5		9.6			9.4			9.2	12
Required Return Expectations by Property Type							3 RD Qtr. 2009			
	Office		Industrial			Retail			Apartment	Hotel
	CBD	Suburban	Warehouse	R & D	Flex	Regional Mall	Power Center	Neigh/Comm.		
Pre-Tax Yield (IRR) (%)										
Range	8.5 - 11.0	8.6 - 12.5	8.5 - 12.5	8.8 - 12.5	9.0 - 12.5	8.0 - 12.0	8.8 - 12.0	8.5 - 11.5	8.0 - 11.5	9.5 - 13.8
Average	9.4	9.9	9.9	10.3	10.5	9.7	10.2	9.6		
Weighted Average	9.7		10			9.7			8.9	11.8

Reserve Requirements

Reserve Requirements 3rd Quarter 2009									
Property Type	Per Sq, Foot			Per Unit			as a % of EGI		
	Min.	Max	Typical	Min.	Max.	Typical	Min.	Max.	Typical
Apartments				\$150	\$380	\$350			
Golf				\$1,225	\$7,000	\$3,250	2.0%	4.0%	3.0%
Health Care / Senior Housing				\$250	\$675	\$375			
Industrial	\$0.22	\$0.60	\$0.40						
Lodging							4.0%	8.0%	4.5%
Office	\$0.26	\$0.70	\$0.50						
Restaurants							2.0%	5.0%	3.0%
Retail	\$0.26	\$0.82	\$0.50						
Self Storage	\$0.22	\$0.50	\$0.45	\$26	\$180	\$112			
Notes:									

Cap Rate Analysis Apartments

2ND Quarter

Loan to Value Ratio 75/25

Modified Mortgage Equity

Constant @ 5.75% for 30 years

$7.002 \times .75 =$

Mortgage	5.25%
Equity $9.2 \times .25$	2.30%
OAR	7.55%

During the second quarter 2009, the apartment sector earned the highest investments conditions rating among the property types, with a score of 5.6 on a scale of 1 to 10. Analyst expect the apartment sector to be the first to recover after the recession.

3RD Quarter

Loan to Value Ratio 75/25

Modified Mortgage Equity

Constant @ 6.00% for 30 years

$7.195 \times .75 =$

Mortgage	5.40%
Equity $8.9 \times .25$	2.23%
OAR	7.63%

The apartment sector pre-tax yield rate decreased by 30 basis points and the vacancy rate increased by 10 basis points to 7.8% for the third quarter . Analyst still expect the apartment sector to be the first to recover after the recession.

Cap Rate Analysis Industrial

2ND Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.00% for 25 years

7.732 x .70 =

Mortgage	5.41%
Equity 9.60 x .30	2.88%
OAR	8.29%

The industrial market remains depressed for the second quarter 2009. Investment conditions ratings declined for all industrial property sectors. Industrial research and development (R&D) saw the biggest decline, dropping to 3.5 on a scale of 1 to 10

3RD Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.25% for 25 years

7.916 x .70 =

Mortgage	5.54%
Equity 10.0 x .30	3.00%
OAR	8.54%

During the third quarter 2009, industrial production, which had been falling sharply since the beginning of 2008, increased for the third consecutive month in September. There are many signs pointing towards stabilization of the industrial economy, but it will take through 2010 to start to stabilize.

Cap Rate Analysis Office

2ND Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.25% for 25 years

7.916 x .70 =

Mortgage	5.54%
Equity 9.50 x .30	2.85%
OAR	8.39%

The office market continued to deteriorate during the second quarter 2009, an indications were, that investors avoid the office sector due to high vacancy, high unemployment and strong depreciation of the assets, however; the investment conditions for the suburban office market increased to 3.7 during the second quarter 2009.

3RD Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.50% for 25 years

8.102 x .70 =

Mortgage	5.67%
Equity 9.70 x .30	2.91%
OAR	8.58%

The office market continues to suffer as job losses keep mounting and demand for office space continues to fall. During the third quarter investment ratings for CBD increased to 4.6 on a scale of 1 to 10 and the suburban office market increased to 3.8. The office vacancy rate increased to 16.1% during the third quarter 2009.

Cap Rate Analysis

Retail

Regional Malls ◆ Power Centers ◆ NBHD Strips

2ND Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.00% for 25 years

7.731 x .70 =

Mortgage	5.41%
Equity 9.40 x .30	2.82%
OAR	8.23%

The retail sector continued to struggle during second quarter 2009, however; retail property sales seem to be showing signs of bottoming out. The regional malls received an investment conditions rating of 2.8 on a scale of 1 to 10, the second lowest rating for retail among all property types, but an increase from the first quarter 2009. the rating for retail power centers and NBHD/community retail centers also increased from the previous quarter.

3RD Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.50% for 25 years

8.102 x .70 =

Mortgage	5.67%
Equity 9.70 x .30	2.91%
OAR	8.58%

The retail sector survey gave regional malls an investment rating of 3.7 on a scale of 1 to 10 during the third quarter 2009, this was nearly a full point increase; however, continued conservative spending by consumers shows retail sales, while increasing during the last 6 months, have been negative on a year-over-year basis and are down 5.7 percent from year-ago results. The third quarter vacancy increased by 50 basis points to 11.7%.

Cap Rate Analysis Lodging

2ND Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 6.75% for 25 years

8.290 x .70 =

Mortgage	5.80%
Equity 12.0 x .30	3.60%
OAR	9.40%

The hotel sector continues to deteriorate during the second quarter 2009. The investment condition ratings for the hotel sector declined to 2.1 on scale of 1 to 10, which was a drop from the previous quarter. This was the lowest rating among the major property types.

3RD Quarter

Loan to Value Ratio 70/30

Modified Mortgage Equity

Constant @ 7.00% for 25 years

8.481 x .70 =

Mortgage	5.94%
Equity 11.8 x .30	3.54%
OAR	9.48%

The hotel sector has had a rough year. The forecasts for occupancy rates is expected to be down 8.4% from the previous year. During the last full week in September the ADR (Average Daily Rate) decreased by 10.1% from year ago results. The investment ratings was 2.6 on a scale of 1 to 10, a rise but still the lowest of all property types.

Web Sites

Ten Year Treasury Bond Site

<http://finance.yahoo.com/q/hp?s=%5ETNX&a=00&b=2&c=2008&d=04&e=1&f=2009&g=d>

Permanent Financing Data

<http://www.realtyrates.com/matrixg.html>

Apartments Data search by city, zip or apartment name.

<http://apartmentrating.com/rate/GA-Kennesaw-Shiloh-Valley-Overlook-Pricing.html>