



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# **Real Estate Principles and Appraisal Procedures**

Presented to

**BAPEPAM-LK**

**Mark F. Bates, MAI, CRE, FRICS**

**Jakarta - May 7, 2012**



**USAID**  
FROM THE AMERICAN PEOPLE



# Land Economics

1. Land
2. Real Estate
3. Real Property

Are they all the same?



**USAID**  
FROM THE AMERICAN PEOPLE



## Land Characteristics

- Each Parcel is unique in its location and composition.
- Land is durable as a long-term asset, but the supply of land is finite.
- Land is not only an economic concept, but also a valued commodity to people.



**USAID**  
FROM THE AMERICAN PEOPLE



## Land Defined

- Land - The earth's surface (land and water), and anything that is included e.g., wildlife, timber, fish, soil.
- Land theory suggests that ownership is from the center of the earth to the ends of the universe.
- In real practice land ownership has limitations due to governmental controls and practical considerations.



**USAID**  
FROM THE AMERICAN PEOPLE



## Air Rights

- Right to undisturbed use and control of designated air space above a specific land area within stated elevations.
- Right to construct buildings in the air space over the land.
- Right to control view/solar access.
- Right to lease or sell these rights.



**USAID**  
FROM THE AMERICAN PEOPLE



## Surface Rights

Rights include land, water, and anything attached to the land—either naturally or placed by human hands.



**USAID**  
FROM THE AMERICAN PEOPLE



## Subsurface Rights

- Rights to the use and profits of the underground portion of a designated property.
- Right to extract coal, minerals, oil, gas and water.
- Right to construct and maintain tunnels, subways, sewers, and basements.



**USAID**  
FROM THE AMERICAN PEOPLE



## Land Perspectives

- Governmental and legal
  - Under a free market economy, land use is regulated within a framework of laws.
  - The law does not focus on the physical characteristics of land.
  - The law recognizes the potential conflict between private ownership and public use.





**USAID**  
FROM THE AMERICAN PEOPLE



## Land Perspectives cont'd

- Economic
- Land is a major source of wealth, which can be measured monetarily.
- The economic concept of land incorporates modern value theory.
- Land is a resource that all individuals share.
- Environmental preservation concerns
- Historic preservation concerns
- Private development versus public interest concerns
- Land is a marketable commodity.



**USAID**  
FROM THE AMERICAN PEOPLE



## Land Perspectives cont'd

- Environmental and geographic
  - Land has diverse physical characteristics.
  - Land can be used for multiple purposes.
    - Agriculture
    - Commerce
    - Recreation
    - Industry
    - Habitation



**USAID**  
FROM THE AMERICAN PEOPLE



# Real Estate, Personal Property, and Real Property

- Real estate
  - Real estate is land (i.e., physical raw land) and all things that are a natural part of the land, such as trees and minerals.
  - Real estate includes appurtenances.
  - All real estate improvements were once personal property; when attached to the land, they become real estate



**USAID**  
FROM THE AMERICAN PEOPLE



# Appurtenance

Something that has been added or appended to a property and has since become an inherent part of the property; usually passes with the property when title is transferred.



**USAID**  
FROM THE AMERICAN PEOPLE



## Personal Property

- Personal property. Identifiable tangible objects that are considered by the general public as being “personal,” for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery, and equipment; all tangible property that is not classified as real estate.
- Personal Property can be removed from the land



**USAID**  
FROM THE AMERICAN PEOPLE



# Fixtures

- Fixture - An item that was once personal property but has since been installed or attached to the land or building in a rather permanent manner so that it is regarded in law as part of the real estate.
- Similar to Appurtenance



**USAID**  
FROM THE AMERICAN PEOPLE



## Real Property

- Includes all interests, benefits, and rights inherent in the ownership of physical real estate.
- The fee simple interest is the total range of ownership interests in real property. It is the most complete form of ownership.
- Other rights attached to real property ownership include the right of enjoyment (use the property in a legal manner); the right of exclusion (keep others from entering or using the property); and the right to do all or none of these things.



**USAID**  
FROM THE AMERICAN PEOPLE



## Partial Interests

- Partial interest - Divided or undivided rights in real estate that represent less than the whole.
- The removal of one or more rights in real property can affect value. Appraisers are sometimes asked to value a partial interest in real property.





**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Rights and Interests in Real Estate



**USAID**  
FROM THE AMERICAN PEOPLE



## Estates in Land

- Fee simple is the most complete form of ownership
- Leased fee interest is an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others.
- Leasehold interest is an ownership interest held by a tenant with the rights of use and occupancy.



**USAID**  
FROM THE AMERICAN PEOPLE



## Encumbrances and Liens

- Encumbrance – A permanent interest or right in real property that may decrease or increase the value of the fee estate but does not prevent its conveyance by the owner e.g. Restrictions and Easements
- Lien – A claim against the owner's property rights, which may or may not become permanent e.g. Mortgages and Taxes.



**USAID**  
FROM THE AMERICAN PEOPLE



## Easements

An interest in real property that conveys use, but not ownership, of a portion of an owner's property.



**USAID**  
FROM THE AMERICAN PEOPLE



# Encroachments

An encroachment occurs when a portion of an improvement extends beyond the site boundary of its owner's land.



**USAID**  
FROM THE AMERICAN PEOPLE



## Deed Restriction

A limitation that passes with the land regardless of the owner; usually limits the property's type or intensity of use.



**USAID**  
FROM THE AMERICAN PEOPLE



# Controls on Ownership

- **Four powers of government**
  - Taxation
  - Eminent domain
  - Police power
  - Escheat



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Taxation

- The right of government to raise revenue through assessments on valuable goods, products, and rights.





**USAID**  
FROM THE AMERICAN PEOPLE



## Eminent Domain

- The right of government to take private property for public use upon the payment of just compensation.



**USAID**  
FROM THE AMERICAN PEOPLE



## Police Power

- The right of government through which property is regulated to protect public safety, health, and general welfare.



**USAID**  
FROM THE AMERICAN PEOPLE



## Escheat

- The right of government that gives the government ownership of a property when its owner dies without a will or any ascertainable heirs.



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Contracts, Leases and Deeds



**USAID**  
FROM THE AMERICAN PEOPLE



## Contract

- An agreement between two or more who agree to perform or not to perform a legal act, for legal consideration, within a specified time.



**USAID**  
FROM THE AMERICAN PEOPLE



## Lease

- A written contract in which the rights to use and occupy land or structures are transferred to another for a specified period of time in return for a specified rent.



**USAID**  
FROM THE AMERICAN PEOPLE



## Deed (Title)

- The combination of all elements that constitute proof of ownership.



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# The Nature of Value





**USAID**  
FROM THE AMERICAN PEOPLE



## Fundamentals of Cost

- **Cost is a fact.**
- It is the amount (in dollars) that is required to create, produce, or obtain a property.
- The identification of cost is independent of any exchange process.
- From an appraiser's perspective, cost can also be an estimate of fact.
- Cost is independent of value, but it has a significant influence on value to the degree that on some occasions, value might coincide with cost.



**USAID**  
FROM THE AMERICAN PEOPLE



## Fundamentals of Price

- Price - the amount a particular purchaser agrees to pay and a particular seller agrees to accept under the circumstances surrounding their transaction.
  - Price may or may not have any relation to the value attributed to a particular property.
  - Once stated, price is a historical fact.



**USAID**  
FROM THE AMERICAN PEOPLE



## Fundamentals of Value

- Value - The monetary worth of a property, good, or service to buyers and sellers at a given time. The present worth of the future benefits that accrue to real property ownership.
  - Value is based on the process of exchange. It is created in the dynamics that take place between those who buy, sell, or use real and personal property.
  - Value is expressed as an economic concept. Therefore, it is not a fact, but rather an opinion of the worth of a property as of a specified time.



**USAID**  
FROM THE AMERICAN PEOPLE



## Four Factors of Value

- Utility - The ability of a product to satisfy a human want, need, or desire.
- Scarcity - The present or anticipated undersupply of an item relative to the demand for it. Conditions of scarcity contribute to value.
- Desire - A purchaser's wish for an item to satisfy human needs (e.g., shelter, clothing, food) or individual wants beyond essential life-support needs.
- Effective Purchasing Power - The ability of an individual or group to participate in a market, i.e., to acquire goods and services with cash or its equivalent.



**USAID**  
FROM THE AMERICAN PEOPLE



## Supply and Demand in Perspective

- The four factors that influence value operate within the economic principle of supply and demand. In real estate, supply is the amount of a property type available for sale or lease at various prices in a given market as of a given time.



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Types of Value



**USAID**  
FROM THE AMERICAN PEOPLE



## Market Value

- Market value is the estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion. (IVS)



**USAID**  
FROM THE AMERICAN PEOPLE



## Other Values - Examples

- In Use Value-The value a specific property has for a specific use.
- Investment Value-based on individual investment requirements.
- Going-Concern Value-The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate.
- Insurable value-The value of an asset or asset group that is covered by an insurance policy.
- Assessed Value-A value set on real estate and personal property by a government as a basis for levying taxes.
- Fair Value-Pertains to an accounting term defined by IFRS 13





**USAID**  
FROM THE AMERICAN PEOPLE



## Analyzing Market Areas

- Market area - The geographic or locational delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users.
- The subject property of an appraisal assignment is influenced by the governmental/legal, economic, social, and environmental/geographic forces that permeate the vicinity in which it is located.
- Analyzing the market area provides a framework, or context, in which the value conclusion is developed.



**USAID**  
FROM THE AMERICAN PEOPLE



## Market Areas cont'd

- Purpose of analyzing the market area in an appraisal assignment.
  - Provides a framework to form an opinion of property value
  - Identifies the area that has the greatest influence on the subject property's use and value
  - Establishes potential limits for data searches used in the approaches to value
  - Helps the appraiser determine the stability of an area and may also indicate future land use and value trends



**USAID**  
FROM THE AMERICAN PEOPLE



## Characteristics of Market Areas

- The appraiser can start the process of identifying the market area by first roughly defining the physical boundaries.
- Boundaries of a market area reflect the forces that influence values on all surrounding properties in the same way as they do on the appraised property.



**USAID**  
FROM THE AMERICAN PEOPLE



## Change and Transition

- *Change* - Market areas are dynamic and subject to constant change. The appraiser must analyze the effect, if any, these changes have on value.
- *Transition* - Transition is identified with land use, whereas change is broader and encompasses more characteristics. The two can take place at different rates and have different effects on the same property within a market area.



**USAID**  
FROM THE AMERICAN PEOPLE



## The Life Cycle of a Neighborhood

- Growth - A stage in which the market area gains public favor and acceptance.
- Stability - A stage in which the market area experiences equilibrium without marked gains or losses.
- Decline - A stage of diminishing demand in a market area.
- Redevelopment - A stage characterized by renewal, redevelopment, modernization, and increasing demand.



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Value Influences on Market Areas



**USAID**  
FROM THE AMERICAN PEOPLE



## Government and Legal

- These considerations relate to laws, regulations, and taxes, and the enforcement of these constraints on market area inhabitants. Relevant governmental considerations include the following factors:
  - Taxation and special assessments
  - Public and private restrictions
  - Schools
  - Police and fire protection
  - Planning and development activities



**USAID**  
FROM THE AMERICAN PEOPLE



## Economic

- Economic considerations relate to the financial capacity of a market area's occupants and their ability to maintain properties. Relevant economic considerations include the following factors:
  - Economic profile of residents
  - Types of financing available
  - Price and rent levels
  - Construction, conversion, and vacant land
  - Extent of owner occupancy
  - Vacancy rates
  - Changes in use or economic base





**USAID**  
FROM THE AMERICAN PEOPLE



## Social

- Social considerations relate to the status, physical environment, services, affordability, and conveniences of a location. Relevant considerations include the following factors:
  - Population density
  - Age levels of occupants
  - Education levels of occupants



**USAID**  
FROM THE AMERICAN PEOPLE



## Environmental and Geographic

- Environmental considerations consist of any natural or manufactured features that are contained in or affect the market area. Relevant environmental considerations include the following factors:
- Location within the community
- Topography, soil, climate, and view.
- Land use patterns, density of buildings, and open space
- Age, type, size, condition, and appearance of structures
- Adequacy, cost, and quality of services
- Environmental liabilities



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# **Appraisal Procedures**

## **The Valuation Process**

### **From Analysis to Solutions**



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# The Valuation Process

## STEP 1

### Definition of the Problem

Identify  
client and  
intended  
users

Identify the  
intended use

Identify the  
purpose of  
the  
assignment

Effective  
date of the  
opinion

Identify the  
relevant  
characteristics  
of the property

Assignment conditions

Extraordinary  
Assumptions

Hypothetical  
Conditions



## STEP 2

### Scope of Work



Page 14

## STEP 3

### Data Collection and Property Description

Market Area  
Data

Subject  
Property Data

Comparable  
Property Data



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



## The Valuation Process cont'd

### STEP 3 Data Collection and Property Description

**Market Area  
Data**

**Subject  
Property Data**

**Comparable  
Property Data**



### STEP 4 Data Analysis

**Market Analysis**

**Highest and Best Use Analysis**



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



## The Valuation Process cont'd

**STEP 4**

### **Data Analysis**

**Market Analysis**

**Highest and Best  
Use Analysis**



**STEP 5**

**Land Value Opinion**



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



## The Valuation Process cont'd

**STEP 5**

**Land Value Opinion**



**STEP 6**

**Application of the Approaches to Value**

**Cost**

**Sales Comparison**

**Income  
Capitalization**



**USAID**  
FROM THE AMERICAN PEOPLE



## The Valuation Process cont'd

**STEP 6**

**Application of the Approaches to Value**

**Cost**

**Sales Comparison**

**Income  
Capitalization**



**STEP 7**

**Reconciliation of Value Indications and  
Final Opinion of Value**





**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# JakeNJoos





**USAID**  
FROM THE AMERICAN PEOPLE



# Cost Approach Introduction

## LAND VALUE CONCLUSION

Indicated Value per Acre	\$400,000
Subject Acres	1.84
Indicated Value	\$735,767
Rounded	\$740,000



**USAID**  
FROM THE AMERICAN PEOPLE



# Cost Components

- Direct Costs
- Indirect Costs
- Entrepreneurial Incentive



**USAID**  
FROM THE AMERICAN PEOPLE



# Depreciation Types

- Physical Depreciation
- Functional Obsolescence
- External Obsolescence



**USAID**  
FROM THE AMERICAN PEOPLE



## COST APPROACH VALUATION

### Replacement Cost New

<i>Bldg Name</i>	<i>MVS Building Type</i>	<i>MVS Class</i>	<i>Quality</i>	<i>Quantity</i>	<i>Unit</i>	<i>Unit Cost</i>	<i>Cost New</i>
Jake N Joes	Restaurant	B	Good	7,960	SF	\$300.00	\$2,388,000
Subtotal - Building Improvements							\$2,388,000
Site Improvements							\$100,000
Subtotal							\$2,488,000
Plus: Indirect Cost						3.0%	\$74,640
Subtotal							\$2,562,640
Plus: Entrepreneurial Profit						10.0%	\$256,264
<i>Total Replacement Cost New</i>							\$2,818,904

### Depreciation

Deferred Maintenance							\$0
Remaining Cost							\$2,818,904
Age-Life Depreciation						4.2%	-\$119,554
Functional Obsolescence						5.0%	-\$140,945
External Obsolescence						0.0%	\$0
Total Depreciation							-\$260,499
Depreciated Replacement Cost							\$2,558,405
Rounded							\$2,560,000

### Value Indication

Depreciated Replacement Cost							\$2,560,000
Land Value							\$740,000
Indicated Property Value							\$3,300,000
Rounded							\$3,300,000



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Sales Comparison Approach



**USAID**  
FROM THE AMERICAN PEOPLE



### SUMMARY OF COMPARABLE IMPROVED SALES

Name/Address	Sale Date; Status	Yr. Built; # Stories; % Occ.	Acres; FAR; Parking Ratio	Subtype	Effective Sale Price	Leasable SF	\$/Leasable SF	Cap Rate
Applebee's	Jul-10	2006	2.71	Restaurant: Sit Down	\$1,832,727	5,300	\$345.80	–
105 Pleasant Valley St.	Closed	1	0.04	–				
Methuen		–	–	–				
Essex County MA								
Comments:	The free-standing building was constructed as a build-to-suit for Applebee's in 2006. The property was sold to an investor. Specific financial data regarding the transaction was not available.							
Applebee's	Feb-09	2003	1.31	Restaurant: Sit Down	\$1,823,000	5,200	\$350.58	7.74%
56 Plaistow Rd.	Closed	1	0.09	–				
Haverhill		–	17.50/1,000	–				
Essex County MA								
Comments:	The property was leased at the time of sale to Applebee's. The transaction was reported to have indicated a going-in capitalization rate of 7.74%.							
50 South Avenue	Apr-10	1998	2.67	Restaurant: Full Service	\$3,225,000	7,956	\$405.35	–
50 South Ave.	Closed	1	0.06	–				
Burlington		–	–	–				
Middlesex County MA								
<b>Subject</b>		1960	1.84	Restaurant: Sit Down		7,960		
Jake N Joes		1	0.10					
Norwood, MA		NA	–					



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



**IMPROVED SALES ADJUSTMENT GRID**

	Subject	Comparable 1	Comparable 2	Comparable 3
Property Name	Jake N Joes	Applebee's	Applebee's	50 South Avenue
Address	475 Providence Hwy.	105 Pleasant Valley St.	56 Plaistow Rd.	50 South Ave.
City	Norwood	Methuen	Haverhill	Burlington
County	Norfolk	Essex	Essex	Middlesex
State	Massachusetts	MA	MA	MA
Sale Date		Jul-10	Feb-09	Apr-10
Sale Status		Closed	Closed	Closed
Sale Price		\$1,832,727	\$1,823,000	\$3,225,000
Price Adjustment				
Description of Adjustment				
Effective Sale Price		\$1,832,727	\$1,823,000	\$3,225,000
Gross Building Area	7,960	5,300	5,200	7,956
Gross Leasable Area	7,960	5,300	5,200	7,956
<b>Price per SF of Gross Leasable Area</b>		<b>\$345.80</b>	<b>\$350.58</b>	<b>\$405.35</b>
<b>PROPERTY RIGHTS</b>		Leased Fee	Leased Fee	
% ADJUSTMENT		0%	0%	0%
<b>FINANCING TERMS</b>				
% ADJUSTMENT		0%	0%	0%
<b>CONDITIONS OF SALE</b>				
% ADJUSTMENT		0%	0%	0%
<b>MARKET CONDITIONS</b>	12/15/2011	Jul-10	Feb-09	Apr-10
ANNUAL % ADJUSTMENT		0%	0%	0%
<b>CUMULATIVE ADJUSTED PRICE</b>		<b>\$345.80</b>	<b>\$350.58</b>	<b>\$405.35</b>
<b>LOCATION</b>		Similar	Similar	Superior
% ADJUSTMENT		0%	0%	-10%
<b>ACCESS/EXPOSURE</b>		Similar	Similar	Similar
% ADJUSTMENT		0%	0%	0%
<b>SIZE</b>		Similar	Similar	Similar
% ADJUSTMENT		0%	0%	0%
<b>PARKING</b>		Similar	Similar	Similar
% ADJUSTMENT		0%	0%	0%
<b>BUILDING TO LAND RATIO (FAR)</b>		Similar	Similar	Similar
% ADJUSTMENT		0%	0%	0%
<b>BUILDING QUALITY</b>		Inferior	Inferior	Similar
% ADJUSTMENT		5%	5%	0%
<b>AGE/CONDITION</b>		Inferior	Inferior	Inferior
% ADJUSTMENT		10%	10%	10%
<b>ECONOMIC CHARACTERISTICS</b>		Similar	Similar	Similar
% ADJUSTMENT		0%	0%	0%
<b>Net \$ Adjustment</b>		<b>\$51.87</b>	<b>\$52.59</b>	<b>\$0.00</b>
<b>Net % Adjustment</b>		<b>15%</b>	<b>15%</b>	<b>0%</b>
<b>Final Adjusted Price</b>		<b>\$397.67</b>	<b>\$403.16</b>	<b>\$405.35</b>
<b>Overall Adjustment</b>		<b>15%</b>	<b>15%</b>	<b>0%</b>
<b>Range of Adjusted Prices</b>		<b>\$397.67 - \$405.35</b>		
<b>Average</b>		<b>\$402.06</b>		
<b>Indicated Value</b>		<b>\$405.00</b>		





**USAID**  
FROM THE AMERICAN PEOPLE



## Sales Comparison Conclusion

### VALUE INDICATION BY SALES COMPARISON

Indicated Value per SF	\$405.00
Subject Square Feet	7,960
Indicated Value	\$3,223,800
Rounded	\$3,220,000



**USAID**  
FROM THE AMERICAN PEOPLE



# Income Approach

## RENTAL ANALYSIS SUMMARY - RETAIL

No.	Property Name; Tenant	Leased SF	Rent/SF	Overall Comparison to Subject	Comments
1	Confidential Confidential	4,970	\$46.28	Superior	
2	Quinsigamond Plaza Chipotle	2,500	\$33.00	Inferior	Upward adjustment for quality/condition
3	Musgrove Building Brasserie 28	2,660	\$36.09	Inferior	Upward adjustment for quality/condition
4	Mansfield Marketplace Asian Grill & Sushi	3,700	\$35.00	Inferior	Upward adjustment for quality/condition
5	Confidential Confidential	4,000	\$38.00	Similar	



**USAID**  
FROM THE AMERICAN PEOPLE



## Income Approach cont'd

9					
CONCLUDED MARKET LEASE TERMS					
Space Type	SF	Market Rent/ SF/Yr	Rent Escalations	Lease Type	Lease Term (Mos.)
Retail	7,960	\$38.00	CPI	Triple Net	120



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Income Approach cont'd

OPERATING PROJECTIONS	
	IRR Projection
<b>INCOME</b>	
Base Rent	\$302,480
Expense Reimbursements	\$0
Net Parking Income	\$0
Percentage Rent	\$0
POTENTIAL GROSS INCOME	\$302,480
Vacancy & Collection Loss @ 5.0%	-\$15,124
Other Income	\$0
EFFECTIVE GROSS INCOME	\$287,356
<b>EXPENSES</b>	
Real Estate Taxes	\$0
Insurance	\$0
Common Area Maintenance	\$0
General/Administrative	\$0
Management	\$2,874
Replacement Reserves	\$1,194
TOTAL EXPENSES	\$4,068
NET OPERATING INCOME	\$283,288



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



## Income Approach cont'd

$$\text{VALUE} = \frac{\text{NOI}}{\text{RATE}}$$



**USAID**  
FROM THE AMERICAN PEOPLE



## Income Approach cont'd

### CAPITALIZATION RATE COMPARABLES

No.	Property Name	Year Built	Sale Date	Gross Leasable Area	% Occup.	Effective Price /SF	Cap Rate
1	Jake Wirths Boston	1998	Nov-10	14,006	—	\$178.00	8.50%
2	Applebee's Haverhill	2003	Feb-09	5,200	—	\$350.58	8.74%
3	50 South Avenue	1998	Apr-10	7,956	—	\$405.35	9.00%
Average (Mean) Cap Rate:							8.75%



**USAID**  
FROM THE AMERICAN PEOPLE



## Income Approach cont'd

<b>BAND OF INVESTMENT METHOD</b>					
<b>MORTGAGE / EQUITY ASSUMPTIONS</b>					
Loan To Value Ratio	65%				
Interest Rate	6.00%				
Amortization (Years)	20				
Mortgage Constant	0.0860				
Equity Ratio	35%				
Equity Dividend Rate	9.00%				
<b>WEIGHTED AVERAGE OF MORTGAGE AND EQUITY REQUIREMENTS</b>					
Mortgage Requirement	65%	x	8.60%	=	5.59%
Equity Requirement	35%	x	9.00%	=	3.15%
Indicated Capitalization Rate					8.74%
Rounded					8.75%



**USAID**  
FROM THE AMERICAN PEOPLE



# Income Approach cont'd

## DIRECT CAPITALIZATION ANALYSIS

		SF	Space Type	Rent Applied	\$/SF	Annual	\$/SF Bldg.
<b>INCOME</b>							
Base Rent							
JakeNJoes		7,960	Retail	Market	\$38.00	\$302,480	—
Potential Gross Rent		7,960				\$302,480	\$38.00
Expense Reimbursements						\$0	\$0.00
Net Parking Income						\$0	\$0.00
Percentage Rent						\$0	\$0.00
Vacancy & Collection Loss	5.00%					-\$15,124	-\$1.90
Other Income						\$0	\$0.00
Effective Gross Income						\$287,356	\$36.10
<b>EXPENSES</b>							
Management	1.00%					\$2,874	\$0.36
Replacement Reserves						\$1,194	\$0.15
Total Expenses						\$4,068	\$0.51
NET OPERATING INCOME						\$283,288	\$35.59
Capitalization Rate						8.75%	
<b>Indicated Value</b>						\$3,237,582	\$406.73
<b>Rounded</b>						<b>\$3,240,000</b>	<b>\$407.04</b>





**USAID**  
FROM THE AMERICAN PEOPLE



## Final Value - Reconciliation

### SUMMARY OF VALUE INDICATIONS

Cost Approach	\$3,300,000
Sales Comparison Approach	\$3,220,000
Income Capitalization Approach	\$3,240,000
Reconciled	\$3,230,000



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# Reconciliation

- Appropriateness of Data and Analysis
- Accuracy of Opinion – Data Driven
- Quality of Data
- Final Opinion



**USAID**  
FROM THE AMERICAN PEOPLE



**BAPEPAM-LK**



# QUESTIONS

??????