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VALUING PROPERTIES IN TODAY'S MARKET

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In a Manhattan property sales market where there were 63% less transactions in the first quarter of 2010, compared to the same quarter in 2007, how is it possible to accurately value a property? In some cases, such as multi-family sales, there have been enough sales to make a determination. Whereas with other product types such as land, it becomes a real art, as there have been virtually no sales.

In 2009, there were a total of 277 sales in Manhattan south of 96th Street, of which 60 were apartment buildings. The cap rates ranged from 3-7% with a median of 5%. Since underwriting a property at a 6% cap versus a 3% can cut a value in half, every basis point adjusted needs to be closely examined. To calculate the appropriate cap rate, we look closely at the location and tenancy in the building, specifically the amount of rent regulated versus fair market units. We then zero in on the average rent per square foot and compare it to rents in the area. The more of an upside, the lower the cap.

We also rely heavily on the price per square foot and the price per unit. A building with a low cap typically signifies upside, making it more attractive to investors. Investors might ask how a 50' wide apartment building sold in Chelsea last year for a 3% cap – it was because the rents were a third of market and the sales price ultimately equated to \$285/sf, well below replacement cost. There are also subjective determinations made based on the quality of management that has been in place. A buyer might accept a lower initial return if he or she feels that there are illegal rent regulated tenants in place who could be vacated based upon illegally subletting or not using the apartment as their primary residence.

Analyzing retail and mixed-use properties requires very careful consideration of the existing retail rent or future potential. Retail rents can vary block by block and even considerably if

the space is a corner. Sales brokers are wise to speak with their retail broker colleagues to find out what taking rents are and the estimated downtime. This downtime, commissions, and any improvements of the space must be subtracted from the stabilized value if the retail rent is projected in the revenue calculation. Cap rates have been pushed up significantly in this category which is attributed to weakness in the retail market. All but one sale last year in Manhattan took place at north of a 6% cap for straight retail sales.

Other product types can prove to be more challenging to value today. Loft building sales have been few and far between, as condo conversions have subsided. In years past, we would never have reached outside a geographic area or use a condition or tenancy adjustment, but today it has become common place. If there are not recent comps, we may cite sales from early 2008 or 2007 and time adjust them.

When valuing land, each circumstance of a recent sale needs to be closely examined as there have only been 13 land sales in 2009. Many of these have also sold to end users, so we need to determine whether or not we think a location would be suitable for a use such as an office, dorm, or community space. Since some of the sites sold were partially completed, the existing infrastructure must be examined to determine if there is a savings which would be an added value. This was the case in a land sale at 41-43 Bond Street which generated a sales price of \$325/bsf because approved plans were in place from DOB and Landmarks.

Above all, tracking every sale on a weekly basis is essential to determine values today. More importantly, being aware of current offers and contracts signed can be the greatest help in pinpointing a value. In our valuations, we have begun to use “highest offer received” and “contract signed” to provide a better comparable sales average. In essence, every piece of information helps.