



Understanding Market Dynamics and Cap Rates

After a long-sustained period of compressed capitalization rates, conventional wisdom suggests that cap rates are (or soon will be) increasing for investment-type real estate, thereby decreasing valuations, as economic forces of the broader markets trickle into real estate markets across the country. Elements driving this phenomenon include a troubled banking industry with contracted lending practices, increasing vacancy and credit risk, de-

sire for better liquidity and overall market uncertainty to name a few.

Appraisers and appraisal users should, however, be cautioned by the lack of empirical evidence (e.g., from band-of-investment calculations, market-extraction on historical sales and nationally-published surveys) to substantiate this seemingly unavoidable trend.

It also should be noted there are forces—at least in the short-term—which may counter this trend.

Namely, low index rates, abundant equity capital sidelined from the volatile capital markets, low rates of return on alternate investing, lower equity yield expectations, and an overall confidence in real estate markets relative to capital markets at this time.

It is up to appraisers to understand and properly convey this message to their clients as part of property valuations. □

Capitalization Rates

2007 to Present

- **Net Lease Kmart**
7.28% - 9.00%
- **Albany CBD Office**
5.60% - 8.68%
- **Suburban Medical Office**
7.03% - 8.53%

Cap rates are extracted from actual sales and may include allocations for mgt and reserves. All cap rates are historically based and may not reflect market dynamics discussed in this newsletter.

THE IMPACT OF HUMAN LONGEVITY ON REAL ESTATE

The U.S. Census Bureau is predicting the number of Americans to reach the age of 100 will increase exponentially over the next 50 years. For example, in 1960, the Census registered only 3,000

Americans at age 100 or above. By 1995, that number was 54,000. By 2050, the number of Americans age 100 and above is estimated to exceed 1.2 million.

At present, there is an

oversupply of nursing home beds; however, it is anticipated that a shortage will occur within the next five years. Moreover, much of the existing

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Longevity: Impact on Real Estate

inventory is older and quickly becoming outmoded. This should leave the door open for expansion in this real estate sector.

Hafner Valuation Group is expanding their services to include this specialization, and offers past experience in appraising hospitals, kidney dialysis centers, surgical centers, nursing homes, and other seniors living facilities.

SAMPLE PROPERTIES APPRAISED:



ADD THESE RECENT SALES TO YOUR DATABASE

1). **Retail** - All anchor, three-tenant plaza on Weibel Ave, Saratoga Springs includes Hannaford, Kohl's and Tractor Supply. Built in 2004 and fully leased at 180,000 +/- sq.ft., the property sold Oct-2008 for \$127.84 psf.

2). **Auto Dealership site** - Former Ken Goewey Dodge dealership site in Latham sold Sept-2008 for \$150 psf. The sale represents real estate only, as the flag sold separately to another dealership on Rt 9.

3). **Industrial** - 120 Industrial Park Road, Albany is a 41,688 sq.ft. production warehouse, circa 1960, that sold Mar-2008 for \$39.58 psf. The buyer is an international company based in Turkey.

4). **Industrial** - 15 Industrial Park Road in West Albany is another production warehouse, sold Aug-2008 as part of a sale/leaseback. The unit rate was \$33.28 psf.

5). **Albany CBD** - 17 Chapel Street, is a vacant former car

dealership which most recently served as rehearsal space for Cap Rep. Purchased Jun-2008 for conversion and condo development. Price: \$26.29 psf.

6). **Troy CBD** - 1776 Sixth Ave is a former Verizon admin office bldg, sold Jan-2008 on speculation of relocating the Troy municipal offices from Monument Square to this site (a lease was in negotiation at time of sale). The building transferred for \$63.40 psf.

Newsletter Features:

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