



Understanding Cap Rates—Part II

In our last newsletter, we discussed market dynamics that make interpreting cap rates difficult for appraisers and real estate investors.

While the economy is starting to show signs of stabilization and recovery on the heels of a recession that began in 2007, lending practices remain restricted, and real estate transaction activity has slowed to a crawl.

Consequently, methods that appraisers typically employ in calculating or

otherwise determining cap rates may have become unreliable, or at least difficult to process.

For example, lending indices used in band-of-investment remain very low; yet, debt financing has become more cautious, and even unavailable for many property types.

Appraisers should be keenly aware of this phenomenon when plugging in mortgage yields and loan-to-value ratios.

RealtyRates publishes a

free guide on their website which illustrates permanent financing parameters by property type and a property desirability matrix that appraisers and other real estate professionals can use to better understand this process. (RealtyRates.com.)

With regard to the lack of sales data from which to extract cap rates, an appraiser must—at a minimum—employ the most current data available, and interpret that data in its historical context. □

Capitalization Rates

2009 Cap Rates

- **Industrial**
7.42% - 13.05%
- **Office**
8.76% - 13.50%
- **Limited-Service Hotel**
9.95% - 13.30%

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.

PRESS RELEASE: BILL HAFNER ELECTED CHAPTER PRES.

William S. Hafner, MAI, was elected President of the Upstate New York Chapter of the Appraisal Institute. The Upstate Chapter has 240 members and covers a territory of Albany to Rochester

and from Binghamton to Plattsburgh.

Chapter levels of the Appraisal Institute provide its members with educational resources, networking and industry support services.

This is Bill Hafner's fourth time elected as President.

His duties will include leading the Board of Directors, coordinating activities with regional offices and liaison for governmental affairs. □

OUR APPRAISERS IN THE COURTS

A large part of our practice is devoted to preparing appraisals and consultation reports for clients' use in litigation and regulatory matters, including real estate tax appeals (on behalf of

both taxpayers and municipalities), condemnation, property damage, zoning and other matters. As these cases come to trial, we are often called upon to testify in support of our findings. More often,

cases settle before actual testimony is required. The following is a sampling of recent cases in which our appraisers testified in support of their appraisal reports, and the results.

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Verizon v. City of Troy

In this real estate tax appeal, Michael Ardman, MAI, performed an appraisal of two properties in downtown Troy, reporting a combined value opinion of \$1,250,000 for the properties. The properties were assessed on the basis of full market value of over \$3,100,000. When the case failed to settle, Mr. Ardman testified in support of his findings before the New York State Supreme Court. Following the trial, the Court rendered its decision adopting Mr. Ardman's opinions completely, resulting in a reduction of the assessment of

the property by more than 60%.

American Tower v. Town of Vestal

In another tax appeal before the New York State Supreme Court, James M. O'Neill, J.D., prepared an appraisal report of an obsolete communications tower in rural Broome County and testified at trial in support of his findings. At the conclusion of the trial, the Court adopted Mr. O'Neill's reasoning and lowered the assessment of the property by approximately 60%.

New York Regional Interconnect

In another context, Mr. O'Neill prepared a study

on behalf of a group of communities opposed to the construction of a high voltage electrical transmission line along a corridor of approximately 180 miles through the heart of New York State. In the study, entitled *Effect of the NYRI High Voltage Transmission Line on Residential Property Values*, Mr. O'Neill analyzed all the existing literature on the relationship between property values and proximity of such lines, and also conducted a paired sales analysis of several relevant transactions in New York State. Based upon the above, Mr. O'Neill opined that the proposed construction

of the NYRI line would result in a decrease in the value of residential properties abutting or in close proximity to the lines, by approximately 12% to 15%, and testified before the Public Service Commission to that effect. Subsequent to Mr. O'Neill's testimony, the sponsor of the proposed project withdrew its application and the line was not approved.

Please see **Courts** Page 4 ►



NEW MEMBER OF OUR COMMERCIAL STAFF

Hafner Valuation Group is pleased to announce Michael Bourbon as a new addition to our commercial appraiser staff. Michael brings 23 years appraisal experience to the firm, including 21 years as a resident of Canada, where he holds a highly-accredited AACI design-

nation. Michael spent four years as a financial analyst with a prominent Canadian pension fund where his responsibilities included overseeing real estate investments in the United States and Europe.

With Hafner Valuation

Group, Michael will continue to work on complex real estate appraisal and consulting assignments. □



WEBSITE REDESIGN

We have just completed a redesign of our website, www.hafval.com.

The new site concept and text were prepared by Michael Ardman, MAI, and final design implemented by Will Hathaway, the firm's IT Consultant.

New website features include a more user-friendly layout and functional email links.

Images were provided by the Appraisal Institute as part of their business tools and marketing support that are available to their members through free image

downloads. Logos also are available to designated members upon request.

The MAI & SRA logos displayed on our website are brand identities of the Appraisal Institute and stand for knowledge, integrity and professionalism. □

Web News:
Check out our new website at www.hafval.com

Redesigned with new layout and email links.

COMMITTEE UPDATE

Michael Ardman, MAI, was appointed to serve on the 2010 Technology Committee for the Upstate New York Chapter of the Appraisal Institute.

His duties will include assisting the Chapter

with its website and other technology-based applications.

Michael also recently served on a National committee with the Appraisal Institute. □



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Courts: Hafner Appraisers in Trial Testimony

Property Owner v City of Schenectady

On the residential side, Supreme Court, Schenectady County, recently issued a decision reducing a homeowner's assessment by 28%, adopting the opinion of our appraiser, Anthony Palma, in its entirety. □

SAMPLE PROPERTIES APPRAISED:



Proposed "Green" Building (LEED Silver-Rated)



Albany CBD Bldg



Extended-Stay Hotel

ADD THESE RECENT SALES TO YOUR DATABASE

1). **Restaurant** - the former Fresno's in Troy was purchased in lieu of foreclosure and closed Aug. 27, 2009. The buyer is Dinosaur Restaurants, Inc., who plan to convert the building into a Dinosaur Barbeque. The price was \$175 psf.

2). **Auto Dealership site** - Former Advantage Jeep dealership on Hoosick Road in Brunswick sold recently for \$58.93 psf. The 14k sq.ft. dealership was closed down as part of manufacturer's restructuring during the recent industry downturn.

3). **Industrial** - 2000 Seventh Ave, Glenville is the former Super Steel locomotive facility in the Scotia/Glenville Industrial Park. This heavy manufacturing plant closed in April 2009, and was marketed for \$7.0 mil. The plant sold in Dec-2009 for approximately \$4.7 million, or 33% off the ask price.

4). **Industrial Flex** - 1 Mustang Drive is a 115,000 sq.ft. flex building that sold in May-2009 for \$46.52 psf. The building had been remodeled in 1989 for the U.S. Census. Sale stems from an option.

5). **Office** - 430 New Karner Road is a small office building formerly used by Pitney Bowes. The building was vacant at time of sale and marketed for 427 days. It sold Aug-2009 for \$61.38 psf.

6). **Office** - 411 New Karner Road is a small, single-user office building that sold Jun-2009 for \$196 psf. The building had been used as an insurance office, and a previous sale-March 2007 for \$220 psf-included the business. □

Newsletter Features:

- Understanding Cap Rates-Part II
- Capitalization Rates
- Our Appraisers in the Courts
- New Staff Member
- Website Redesign
- Committee Update
- Recent Sales

William S. Hafner, MAI
Michael J. Ardman, MAI