Sales Comparison Approach

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Sales Comparison Approach

• **Market Value**
  – The most probable price for which a property would sell:
    • In cash or cash equivalent
    • under prevailing market conditions
    • as of a certain date
    • between a willing buyer and a willing seller
    • both seeking to maximize their gains
    • neither in a position to take advantage of the other
Sales Comparison Approach

- **Principle of Substitution**
  - The value of a property tends to be set by the price that would be paid to acquire a substitute property of similar utility and desirability within a reasonable amount of time.
Sales Comparison Approach

- **Leased Fee v. Fee Simple**
  - Most states value Fee Simple
  - Fee Simple
    - Assumes subject property operates according to prevailing market conditions, rather than under actual lease terms
  - Leased Fee
    - Sales of leased properties are Leased Fee Sales
      - Leased Fee may equal Fee Simple is leases are at market
    - Some states use Lease Fee (Ohio)
  - Must adjust sales to Fee Simple
Sales Comparison Approach

• Procedure
  – Develop selection criteria for comparable properties
  – Obtain data on sales that meet selection criteria
  – Verify sales and confirm accuracy of data obtained
  – Determine the relevant units of comparison
  – Adjust the comps to the subject for differences among the units of comparison
  – Array the adjusted sales and reconcile into an indicated value conclusion
Sales Comparison Approach

• Developing a Selection Criteria
  – Property Type
  – Date of Sale
  – Location
  – Age
  – Size
  – Class
  – Condition
Sales Comparison Approach

• Collection of Sales Data (Sources)
  – Public Information (Disclosure States)
  – CoStar
  – MLS (Residential)
  – LoopNet
  – Press Releases
  – Business Journals/Trade Publications
  – Brokers/Property Managers/Lenders
  – Appraisers
Question

• How do you verify a sale?
• Can a sale be used if it cannot be verified?
Sales Comparison Approach

• **Verify Sales Data**
  – Critical step -- Often Ignored
  – Confirm Data from Source
  – Obtain Additional Detail
    • Buyer/Seller
    • Financing
    • Strategic Decisions/Redevelopment
    • Seller’s Reasons/Buyer’s Intentions
    • NOI and Cap Rate
    • Intangibles?
Sales Comparison Approach

• **Units of Comparison**
  – Based on Property Type
  – Land
    • Price per Acre (Larger Tracts)
    • Price per Foot (Smaller Tracts/Pads)
    • Price per Linear Frontage
  – Improvements
    • Price per Room (Hotel)
    • Price per Unit (Apartment)
    • Price per SF (NRA/GBA)
  – Miscellaneous
    • Price per Hole (golf)
    • Price per Slip (Marina)
Sales Comparison Approach

• Adjusting the Comparable Properties
  – Most Common Adjustments:
    • Real Property Rights Conveyed (Fee Simple)
    • Financing Terms (Cash Equivalent)
    • Conditions of Sale (Motivation)
    • Expenditures After Sale
    • Market Conditions (Time)
    • Location
    • Physical Characteristics (Age, Size, Class, Access, Condition)
    • Economic Characteristics (Leased Fee/Fee Simple)
    • Uses (Zoning)
    • Non-Realty Components (Intangibles, BPP)
Question

• Does the sequence of adjustments make a difference?
• What is the proper sequence of adjustments?
Sales Comparison Approach

• **Sequence of Adjustments**
  – Transactional Adjustments First
    • Real Property Rights Conveyed
    • Financing
    • Conditions of Sale
    • Expenditures After Sale
    • Market conditions
  – Property Adjustments Second
    • Location
    • Physical Characteristics
    • Economic Characteristics
    • Use
    • Non-Realty Components
Question

• The price per SF of a comparable property that was built 10 years after the subject property should be adjusted (+) or (-) to reflect the differences in age?
Sales Comparison Approach

- **Adjustments**
  - Adjust comps to Subject Property
  - Upward adjustment (+) if comp is inferior
  - Downward Adjustment (-) if comp is superior
## Market Based Adjustments

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<th>Sale 2</th>
<th>Sale 3</th>
<th>Sale 4</th>
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Question

• The adjustment for size should be $_____ per square foot?

A. $60
B. $90
C. $105
D. $125

Answer: C (comparing comps 1 and 4)
Question

• The adjustment for the brick exterior should be $______.

A. $3,000
B. $9,000
C. $10,000
D. $12,000

Answer: B (comparing comps 2 and 4)
Question

• The adjustment for age a should be $____ per year?

A. $3,000  
B. $4,000  
C. $5,000  
D. $6,000

Answer: A (comparing comps 2 and 3)
Question

• The best estimate of market value for the subject property would be $__________.

A. $168,000
B. $181,500
C. $189,000
D. $199,500

Answer: B (see Explanation)
Explanation

• Adjustments for Comp 1
  
  $168,000 (Sales Price)
  + $12,000 (Age Adjustment @ $3,000/year)
  + $10,500 (Square Foot Adjustment @ $105/SF)
  - $9,000 (Brick Adjustment)
  
  $181,500 (Adjusted Sale Price)
Sales Comparison Approach

• **Reconciling into Value**
  – Range or Single Value
  – Weight on Sales with Least Adjustment
  – Net Adjustment
    • May not indicate most comparable
    • Adjustments (+) or (-) cancel each other out

– Gross Adjustment
  • Indicates how much comp was adjusted
Sales Comparison Approach

• **Sales Volume 2009- 2012**
  - Bid/Ask Spread
  - Owner’s Reasons to Sell
    - Asset Losing Money
    - End of Holding Period
    - Required Capital Expenditures
    - Cannot Refinance
Sales Comparison Approach

• Distressed Sale = Market Sale?
  – What if “prevailing market conditions” are based on distressed sales?
  – Why would buyer agree pay higher price for an asset from a willing seller than from a distressed seller?
Sales Comparison Approach

• **Reliability of Sales**
  – Bankruptcy or REO Sales
  – REIT Transactions
  – Portfolio Sales
    • Transfer Tax
  – Sales of Tangible and Intangible Assets
  – Strategic Sales
    • Retail
      – Tenant relationships
    • Office
      – Impact Market Rent
Question

• Which sale is most reliable?

A. The bank sold REO property after a bankruptcy
B. The property was vacant and not in use at the time of sale
C. The property was part of a portfolio transaction that also involved 10 other assets in three different states
Questions