Introduction to Special Purpose Properties

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Power Point Presentation

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THE GREAT FLOOD

THANK YOU

HOW DO YOU DEFINE AN EXPERT?
Introduction and Goals

- Introduction
- Definition of a Special Purpose Property
- Units of Measure
- Examples of Special Purpose Properties
- Mini-studies
- Question & Answer Session
Disclaimer

The author of this presentation hereby states that any of the references, examples, or mini-studies, whether presented in the content of the Power Point presentation or verbally is a matter of public record. Any matter that would be considered confidential in nature will not be presented or discussed without permission from the presenter’s client.
Definition

Definition of “Special-Purpose Property”

A property with a unique physical design, special construction materials, or a layout that particularly adapts its utility to the use for which it was built, also called a special-design property:

Reference: The Directory of Real Estate Appraisal - 5th Ed. Appraisal Institute
Define Standard of Value

MARKET VALUE

ASSESSED VALUE

DATE OF OPINION OF VALUE

Retrospective * Current * Prospective
Units of Comparison

- For investors or non-occupant owners, financial units of comparison are frequently more relevant than physical units of comparison.

- For owner-occupants, physical units of comparison may be more important.

*The determination of the most probable buyer motivation is considered in the highest and best use analysis.*
Examples - Units of Measure

- Square Feet
- Cubic Feet
- Front Feet
- Cubic Yard
- Calculated Units of Measure
Continued-Units of Measure

- Unit
- Acre
- Site
- Space
- Round - Hole - Acre
Elements-Income Analysis

- Potential Gross Income
  - Vacancy & Collection Losses
  + Other Income

= Effective Gross Income
  - Fixed Expenses (Insurance & Taxes)
  - Operating Expenses
  - Reserve for Replacement

= Net Operating Income
Capitalization Rate (Ro) Development

- A short list of methods for the development of Capitalization Rates
- Market Abstraction
- Band of Investment
- Debt Coverage Ratio
- Ellwood or Mortgage Equity
- Residual Methodology
- Built – Up Rate (Safety-Risk-MGM)
Rate Components

- All rates consider:
  1) Return of Investment
  2) Return on Investment
  3) Management
  4) Typical Risk for Property Type
  5) Reserve for Replacement
Direct Capitalization

“FORMULA”

\[ \text{Value} = \text{Income} \times \frac{\text{divided}}{\text{by Rate}} \]

Value = $\_\_\_\_\_\_\_\_\_ \ / \ \text{by Rate}

Value = $100,000 / .10

Value = $1,000,000

*Net Operating Income or Net Profit
Examples

- Industrial – Mega Manufacturing
- Industrial-Mega Warehouses
- Retail – Big Box Shopping Complex
- Golf Courses
- Power Plants
- Coal Mines
Examples -Continued

- Environmentally Impacted Properties
- Low Income Subsidized Housing
- Convenience Stores
- Hospitality-Hotels-Resorts
- Hospitals-Medical –Senior Care
- Churches-Change of Use
Mini - Case Studies
Coal Mines

Requires Voluntary Reporting by Operator

- Must Consider the Personal Property Exemption

- The **challenge** is to develop numerous factors including number and allocation of acres into several categories of coal or non coal production.

- **Determine** average coal seam thickness!

- **Identify** the land/coal relationship-type of land

State of Illinois Revenue Ruling (35) ILCS 200) (10-800)
Coal Mines-Continued

Types of Land related to coal production

Barren Acres    Un-mineable Acres
Mined Out Acres  Undeveloped Acres
Developed acres mined during year

Then assign $____ value to each group and finally, develop the current formula for assigning $____ value to the number of acres that have been mined during the assessment year.
Developed Land-Coal Formula

1) Tons Per Acre (1,742 Tons Per Acre)
2) Coal Seam Thickness
3) Recovery Rate (Tons Recoverable)
4) Spot Price of Coal
5) Develop Annual Income
6) Discount to a PV (Avg Rate – 3 Banks)
7) Apply Assessment Ratio (.3333)

State of Illinois Revenue Ruling (35) ILCS 200) (10-800)
An Example of the Formula

- 1,742 t/ac-ft (Tons-Acres-Ft)
- X 6 feet (Seam Thickness)
- 10,452 t/ac (Total Tons/Acre)
- X 50% (Recovery Ratio)
- 5,226 t/ac (Tons recoverable/Ac.)
- $ .8328 (4% of spot) (20.82)
- $4,352.21 (5-year net income/acre)
- ÷ 5 years (Annualize Income)
- $870.44 (Annual Net per Acre)
An Example of the Formula

- $870.44  (Annual Net Income per Acre)
- $3,334.36  Coal Reserve Value Per Acre
- $1,111.34  (EAV / Acre)
Electric Power Plant

Must consider **personal property** and **environmentally qualified property**

- Cost Approach
- Sales Comparison Approach
- Income Approach

**COMPLEX ASSESSMENT**
Golf Courses-Country Clubs

Must consider personal property exemption

- Sale Price per Round of golf
- Sale Price per Square Foot
- Sale Price per Acre
- Sale Price per Hole
- Income Analysis based on Income & Expenses
Environmentally Impacted Property

- Must consider impact on overall property assessment! Example
- 300,000 Sq Ft heated and A/C warehouse. Impacted by chemical spill.
- New use might be cold storage warehouse. Income & desirability changes-affects value.
- White River Fish Kill- Indiana
- Conoco Oil Company-Louisiana
- Meat Market-Day Care-Indiana
- Gasoline Spill-Bowling Green, Kentucky

Reference: IAAO “Valuation of Contaminated Property Seminar # 911
Low Income Subsidized Housing

Must Consider all benefits and restrictions
An example:
Louisville, Kentucky-52 Units-Day Care Center

Types of most popular Low Income Housing
Section 515
IRS Section 42 Low Income Housing Tax Credit
Hospitability-Hotels/Resorts

- Must Consider Personal Property Exemption
  - Sale Price Per Square Foot
  - Sale Price Per Room
  - Sale Price Per Income Analysis
Convenience Stores

Must consider Personal Property Exemption

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<th>per</th>
<th>Description</th>
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<tr>
<td></td>
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<tr>
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<td>$_____ of inside sales</td>
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<tr>
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<td>Income Analysis</td>
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Allocation /Sale Price Between Real-Personal-Inventory – Good Will
Steel Manufacturing Plant

Things to Consider

Older, Highly, Depreciated Improvements
Possible Contamination
Functional Obsolescence (Interior)
Functional Obsolescence (Plant Layout)
Multiple Sites Needed – Start to Finish
Example – US Steel*-Gary, Indiana

* Any Discussion is a Matter of Public Records
QUESTIONS ?

AND

ANSWERS !
Phone Consultation - No Charge
PHONE CONSULTATION

Lots of Materials in this Webinar!

Lots of questions unanswered!

For a free 30 minute consultation

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Thanks and Good Luck !