BUSI 452 Case Studies in Appraisal II

PURPOSE AND SCOPE

The Case Studies in Appraisal II course (BUSI 452) is a continuation of BUSI 442. This course is intended to introduce further practical applications of how appraisal theory is applied in the valuation of various property types.

The course is based on the fundamental belief that it is the marketplace, not the appraiser, which establishes market value. The role of the appraiser is to analyze the property, gather and analyze market data and, with a thorough understanding of the factors which influence value in the marketplace, estimate the most probable price a property will sell for.

After completing this course, students should be able to:

- Discuss the characteristics relevant to an appraisal of partial interests and other rights.
- Discuss appraisal considerations in arbitration, First Nations Land Claims, assessment appeals, and with respect to automated valuation models.
- Discuss appraisal considerations in the valuation of business enterprises, machinery and equipment, and hotels.
- Demonstrate practical applications in the valuation of the various property types, rationalizing the approaches to value applied using logic appropriate to the property type.

LESSON 1 – Business Enterprise Valuation – Part 1

This lesson is designed to show the use and application of business valuation principles using actual case examples. A quick overview of the nature of business valuation is provided at the outset of this lesson. From there the lesson focuses on asset-based valuations. The following lesson will introduce the various elements of goodwill and its application to an earnings/cash-flow based valuation.

1. Define fair market value and other related value terms.
2. Identify a number of specific principles of business valuation and understand how they may apply in an open and notional market context.
3. Understand the basic approaches to the valuation of a business enterprise, and be able to both identify and calculate the principal elements of a liquidation calculation.
4. Identify the principal issues to consider and their possible effect in the valuation of a real estate holding company, including the application of various discounts.
LESSON 2 – Business Enterprise Valuation – Part 2

1. Understand and apply various earnings/cash-flow based valuation techniques to business operations that are less complex in nature.
2. Understand the concept of redundant assets and how they are incorporated into a fair market value calculation.
3. Understand the nature and valuation of commercial goodwill and how it differs from personal goodwill.
4. Consider the business enterprise marketplace and how actual transactions are completed, including some of the additional aspects involved in the valuation of minority shareholdings.
5. Analyze the influences of brand value in the context of total business or company value.
6. Explain the steps involved in a valuation assignment.
7. Apply some of the valuation principles to specific industry examples: professional practices, auto dealerships, and sports franchises.

LESSON 3 – Valuation of Machinery and Equipment

1. Identify the different types of machinery and equipment valuation assignments;
2. Define the different types of machinery and equipment values;
3. Explain how to approach a machinery and equipment valuation assignment;
4. Identify the information resources required and available to complete the various types of machinery and equipment assignments;
5. Explain how machinery and equipment is valued using an income approach;
6. Explain how machinery and equipment is valued using a direct comparison approach; and
7. Complete a simple machinery and equipment valuation assignment using a cost approach.

LESSON 4 – Appraising Hotels

1. Identify statistics that are important to a hotel appraisal.
2. Explain why a hotel’s location is of utmost importance.
3. Explain why supply and demand of hotel rooms is so crucial in a hotel market analysis.
4. Explain the concept of a hotel’s fair share, and market penetration by market segment.
5. Explain the concept of hotel franchise.
6. Explain when the cost approach is the most reliable for a hotel appraisal.
7. Explain the difficulties in applying the direct comparison approach to hotels.
8. Explain why the income approach is considered the most reliable in a hotel appraisal.
9. Explain the purpose of the furniture, fixtures, and equipment (FF&E) and reserve for replacement for hotels.
LESSON 5 – Hotel Case Study

This lesson is designed to illustrate the use and application of the income approach (discounted cash flow) and direct comparison approach as it pertains to the evaluation of hotels.

The lesson will focus on the identification and analysis of the market factors most relevant to the market evaluation of hotels.

1. Calculate future market demand, supply, and occupancy levels over time.
2. Determine the fair share, fair share of demand, and the demand captured for the subject property.
3. Calculate the occupancy achieved by the subject property over time.
4. Determine the subject hotel’s average room rates and RevPAR over time.
5. Prepare a forecasted income and expense analysis.
6. Determine the market value of the subject hotel using discounted cash flow analysis.

LESSON 6 – Detrimental Conditions and the Appraiser

1. Explain the basic property value impacts of property impairment;
2. Discuss the role of the appraiser in the valuation of impaired property.
3. Outline the applicable standards that comply with Canadian Uniform Standards of Professional Appraisal Practice; and
4. Describe the application of the detrimental condition matrix, detrimental condition model, and Bell chart.

LESSON 7 – Valuation Techniques for Impaired Properties

1. Explain the rationale underlying the valuation analysis of impaired property;
2. Discuss the methods available for the valuation of impaired property;
3. Review an impairment situation and determine an appropriate approach to following in valuing the property; and
4. Carry out the proper steps to value an impaired property using the cost approach, direct comparison approach, and income approach, applying a variety of applicable techniques within each.

LESSON 8 – Market Studies and Feasibility Consulting

1. Discuss the importance of market studies and feasibility analysis in appraisal consulting assignments;
2. Apply logical principles to any practical problem presented by a client;
3. Identify key elements of market, investment, and feasibility analysis;
4. Realize opportunities for undertaking consulting assignments other than traditional point-in-time market value appraisals;
5. Encourage the use of creative critical thinking when identifying and evaluating feasible options;
6. Describe how markets are defined;
7. Explain the demand, supply, and competitive forces of a market;
8. Apply the six step process for carrying out a market analysis assignment;
9. State the fundamentals of and test criteria for highest and best use; and
10. Determine the most probable outcome of alternative viable options.
LESSON 9 – Valuation of Specialized Partial Interests

1. Describe the basic principles underlying the valuation of unique partial interests;
2. Identify and explain what "other" interests are;
3. Explain how to approach the valuation of other interests;
4. Analyze market information with regard to the valuation of other interests;
5. Rationalize which valuation approach is most appropriate in a given situation; and
6. Research basic information necessary in order to carry out a valuation analysis of other interests.

LESSON 10 – Special Use Properties – Retail Gas Bar Developments, Billboards, and Seniors Housing and Health Care Facilities

1. Analyze current trends influencing the retail gas bar industry and recognize that constant change is a relative norm in the marketplace;
2. Describe the various types of ownership, development, leasing, and dealer affiliations that prevail within the retail gas bar market;
3. Explain the locational attributes and site characteristics that are necessary for the successful development of a retail gas bar property;
4. List the three basic components of a retail gas bar;
5. Describe the importance of environmental considerations for this type of property in acknowledging that all properties have underground fuel tanks;
6. Discuss the care required in developing cost estimates, in particular the numerous unique improvements and especially the gas bar fixtures or amenities, such as a carwash;
7. Discuss the various type of lease scenarios that prevail within the marketplace and the care that must be taken in analyzing individual leases, especially with regard to leases with major oil companies;
8. Complete the reconciliation process recognizing that the most appropriate valuation technique is generally a function of existing ownership and the data available for analysis;
9. Identify the different legal interests in a billboard valuation;
10. Analyze whether billboards are real or personal property;
11. Distinguish between business value and real estate value in a billboard valuation;
12. Identify the legal status of billboards;
13. Describe legal nonconforming billboard structures;
14. List the important highest and best use considerations for billboard valuations;
15. Describe certain aspects in the development process that affect a seniors housing and health care facility’s project feasibility (independent living and multi-level care facilities);
16. Describe valuation issues for supportive housing and care facilities (ranging from independent housing to long-term care facilities);
17. Present a supportive housing facility case study for analysis; and
18. Examine the three primary valuation methods (cost, direct comparison, and income) as they relate to retail gas bar developments, billboard valuations, and seniors housing and health care facilities.
LESSON 11 – Specialized Valuation Services

1. Discuss financial reporting requirements as they pertain to real estate and the role of real property valuation professionals;
2. Describe what an automated valuation model (AVM) is and how AVMs are used in real property appraisal;
3. Explain the impact of AVMs on the appraisal industry, in particular residential appraisal;
4. Describe the two main types of First Nations Land Claims and explain how appraisers might be involved in each of these;
5. Describe the five topics that are the basis for successfully appealing a non-residential property tax assessment, and explain the basic procedure for appealing an assessment;
6. Explain the role of the client’s appraiser and the assessment appraiser in determining assessed values and in appealing these; and
7. Describe the purpose of arbitration in real estate situations and the appraiser’s possible role in these situations.