



FAX Information

Date: June 25, 1990

To: Mr. Kim Murphy, Director of Real Estate
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June 25, 1990

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Reference: Appraisal Report (UNM P.O. 825081)
Commercial Property at 1832-36 Lomas Blvd. NE

I recently reviewed two letters from Daniel Hernandez, Associate Broker with Berger Briggs, in connection with the appraisal report referenced above. Some of Mr. Hernandez's statements concerning the appraisal are incorrect and, as a matter of record, I am making a response. Please attach this letter to those from Mr. Hernandez in your files, for the benefit of readers who have not examined the appraisal report.

Brooks, Lomax & Fletcher, Inc. completed the referenced appraisal in September 1989 and concluded in a market value estimate of \$120,000. Two valuation methods were used. One method was a hybrid cost approach/direct comparison approach; the second was an income approach. Not used was the conventional cost approach.

The hybrid cost approach/direct comparison approach noted above was a summation method which combined land value with the estimated contributory value of older (depreciated) improvements. The contributory value of improvements was estimated on the basis of other properties that had sold recently. The hybrid approach, called Sales Comparison Approach in the report, concluded in a value indication of \$127,000.

The income approach concluded in a value indication of \$114,000. The income approach was felt to be the best method of analysis consistent with a view that the most probable buyer would be an investor; however, the data available for income analysis was not very definitive. Conversely, the sales comparison data showed a consistent pattern and was felt to be the most persuasive method used. Recognizing the positive and negative attributes of each method, a midpoint value estimate of \$120,000 was concluded.

Response to Letter From Daniel Hernandez

The following comments respond to statements made in a letter dated November 15, 1989, from Daniel Hernandez, Associate Broker with Berger Briggs, to Alan Prickett, Director of Real Estate for the University of New Mexico. The purpose of Mr. Hernandez's letter was to critique the referenced appraisal, and to express an opinion of the property's market value.

Mr. Hernandez stated that the summary page in the appraisal lists "the three methods of valuation." This statement is incorrect. The summary page lists two methods of valuation: Income Approach, and Sales Comparison Approach.

Mr. Hernandez stated "...no attempt is made to arrive at a reproduction cost less depreciation, the third method." This statement is misleading, because it implies that a valuation approach was omitted in error. A conventional cost approach was not used for reasons stated in the appraisal (it is not reliable in appraising property with very dated improvements). More important, the hybrid cost approach/sales

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comparison approach used in the appraisal did arrive at a depreciated building value which was added to the estimated value of the land.

Mr. Hernandez stated that "the discussion about land comparables makes much of the fact that this property does not sit on a corner in an effort to distinguish it from the immediately adjacent property...." This language, which focuses on "making much of" and "in an effort to", falsely suggests an orchestration by the appraiser. The appraisal identified corner locations among the sales, then noted whether sale prices and corner locations were correlated.

Mr. Hernandez stated that "The discussion also argues that the corners were more valuable because they were more appropriate for fast food/convenience store locations even though Land Sale 9 was purchased for the retail sale of automobiles; hardly a convenience oriented business." This statement is incorrect. The actual discussion follows:

"All of the sales at adjusted prices above \$10.00 per sq.ft. are those with the highest ADTC's. These properties also had corner locations, C-2 or equivalent retail zoning, and were acquired for either retail or automobile related uses (emphasis added). The 'convenience' uses were either quick service grocery (Circle K) or fast food restaurants (Taco Bell; Burger King). The auto related use was used car sales (emphasis added)."

In expressing his own view regarding highest and best use, Mr. Hernandez suggested that the appraised property "is appropriate for such a highly intensive use" as the adjoining fast food restaurant, which is "complete with drive-up window." Not mentioned by Mr. Hernandez, however, is the fact that the adjoining fast food restaurant occupies a site at least twice as wide as the appraised property. (The appraised property is only 50 feet wide.) The evidence given by Mr. Hernandez is incomplete and does not support his conclusion.

In paragraph three, page two, of his letter, Mr. Hernandez falsely attributed a theory and methodology to the appraisal by Brooks, Lomax & Fletcher, Inc.: "If we use the theory employed by the appraisal...we should multiply...by the ratio of the Lomas Boulevard traffic count by that on University." The appraisal does not multiply by ratios of traffic count, and does not give or imply any theory for doing so.

A further misstatement in the same paragraph of the letter is that the estimated land value of \$8.50 per square foot was based on University Boulevard comparables. The appraisal considered patterns found in the data set as a whole, with emphasis on differences in highest and best use between the subject and comparable properties.

Mr. Hernandez's analysis of the land sale data leads him to conclude in a value range of \$14.26/sq.ft. to \$22.82/sq.ft. The \$14.26 estimate is reportedly the average of the land sales on Central Avenue and Lomas Boulevard (properties suitable for higher intensity use than the subject). The \$22.82 estimate is reported to be the UNM purchase price of adjoining property, expressed per square foot of land. My records indicate the adjoining property sold for \$248,000, or \$21.21 per square foot of land. Using Mr. Hernandez's observation that this transaction could be applied directly to the subject site, the resulting indication of subject property value is \$116,000. Since this is the price paid for a higher and better use of the site, it is inappropriate to add building value. Although Mr. Hernandez noted the adjoining property sale could be used directly, he did not extend the reasoning to its logical conclusion of \$116,000.

With regard to the analysis of improved sales, Mr. Hernandez questioned the selection of Improved Sale 2 in the appraisal. Improved Sale 2 was criticized because it was "a set of apartments" and not an office sale, and therefore "very odd" to use. My response is that Sale 2 has economic characteristics virtually identical

to the other sales used in the analysis. Although Improved Sale 2 was built as a 6-plex apartment, it was not purchased for apartment use; it was purchased for office use. Likewise, Sale 4 was originally built as a single family residence, but was most recently purchased for office use. Likewise, Sale 3 was originally built as an industrial/commercial building but was most recently acquired for office use. Sale 1, which was originally a commercial building, had transitioned to restaurant and office use at the time of sale, and was purchased with the original intent of office use (the cost of adapting the structure to office use later proved too costly, so the building was razed). Improved Sale 2, like the other sales, is located in a transitional area where the uses originally intended had changed to office use.

Mr. Hernandez called the appraisal's method of analyzing the improved sales "dubious" because of the need to estimate the value of land associated with each sale. In Mr. Hernandez's words, "one has to guess at what these relative values are." My response is that the impact of many attributes of property must be estimated in the valuation process, so estimating land values in the locations of the sale properties is not an unusual or extraordinary task. In the present case, the estimates of land value for each improved sale are benchmarks supported not only by general data files and experience of the appraiser, but by the included data set of land sales in the appraisal report. It is important to note that failure to make "guesses" about land value results in failure to analyze the impact of land values on the sale prices of the comparables. This will result in failure to develop a meaningful estimate of value. Mr. Hernandez's analysis of the improved sales illustrates the problem very well.

In his analysis of the improved sales, Mr. Hernandez developed an average sale price per square foot, which was then applied to the subject's building area. No consideration was given to the impact of different ratios of land area to building area between the subject and comparable properties. (Two of the sale properties had nearly twice as much land as the subject for every square foot of building area, and one of the sales had nearly three times the land area for every square foot of building area.) As a result, Mr. Hernandez's analysis was flawed. For illustration, one of the value indications by Mr. Hernandez's analysis was \$188,337.60. If the land area of the subject property were double or triple its present size, his analysis would still arrive at \$188,337.60.

By ignoring the impact of different ratios of building area to land area, Mr. Hernandez failed to account for the fact that sale prices vary in relation to differences in land area. In the present case, most of the sale properties had substantially more land than the subject for every square foot of building area. As a result, the Mr. Hernandez's analysis grossly overstates the value of the appraised property.

Following his analysis of the improved sales, Mr. Hernandez accused Brooks, Lomax & Fletcher, Inc. of bias: "It is clear that the method used in the appraisal was chosen based on a desired result rather than based on good and common practice." The accusation of bias angers me, but it is consistent with the overall tone and demeanor of the letter. The accusation is self serving in addition to being false.

Mr. Hernandez charged various appraisal abuses in the income approach, evidenced by an overall capitalization rate too high, and an estimated net income too low. Mr. Hernandez showed that, by combining the high indications of rent with the low indication of overall capitalization rate, different combinations of numbers could be found which would result in higher indications of value. I concur the numbers can be manipulated in many ways.

Mr. Hernandez stated \$6.50 per square foot was "a conservative market rent" for the subject office space, in contrast with the appraisal estimate of \$5.40 per square foot. Mr. Hernandez's opinion was influenced, presumably, by Rent Comparable 1, which showed part of the property next door to the subject to be rented at \$6.50 per square foot. Follow-up research during the last week indicates the previously vacant

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space in Rent Comparable 1 is still vacant, and the asking price has been reduced from \$6.50 to \$5.00 per square foot.

I continue to believe the current income performance of the subject property is what a prospective buyer would rely on in making his own evaluation of income potential. Also, I continue to believe that the income is risky because the property would appeal to such a limited market segment (low quality space, limited parking), thus justifying a fairly high overall capitalization rate. The income approach in the appraisal is consistent with the best available evidence, and it is based on analytic judgements consistent with the most likely decision process of potential buyers.

Mr. Hernandez used a conventional cost approach in his letter to support a value indication of \$172,674. His source of depreciated reproduction cost was Marshall Valuation Service. According to Mr. Hernandez, the Marshall Valuation Service supports \$30 per square foot for the subject improvements, taking into account depreciation. Using my own copy of the Marshall Valuation Service cost manual, a figure less than half of Mr. Hernandez's is supported. Verification of the following is invited:

Section 15 (Calculator Method), page 5; Office Building, Average Quality, Class C (type of construction)	\$47.50/sq.ft.
Adjustments:	
Current cost multiplier (Section 99, page 3)	1.01
Local multiplier (Section 99, page 9)	.96
Replacement cost new	\$46.06
Depreciation (Section 97, pages 3 & 4)*	70%
Depreciated replacement cost	\$13.82

* Building life expectancy (Average Class C Office Building) is 50 years; effective age is 44 years.

This letter is intended to identify statements by Mr. Hernandez which are incorrect concerning the appraisal. I have also addressed Mr. Hernandez's charge of bias by examining the "evidence" of his own analysis. Please attach this letter to those from Mr. Hernandez in your files, for the benefit of readers who have not examined the appraisal report.

BROOKS, LOMAX & FLETCHER, INC.


John B. Piper Jr., MAI
President/CEO