

Appraisal Matters for Bankers: CRE Trends, Urban RE, and Special Use Appraisal

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Overview

- #1 Appraising Urban Real Estate
 - Upzoning
 - Rent Stabilization / Neighborhood Preservation / Compliance
 - Locational Adjustments with Public Transportation & Walkscores
- #2 Special Use Real Estate and Going Concerns
 - Cell Towers/Billboards
 - Educational Facilities
 - Fast Food
 - Business Multiples
- #3 Looking Forward: Upcoming Trends in CRE
 - Self Driving Cars & Impacts on CRE
 - Retail CRE-Frazier Capital Volatility Survey
 - Frazier Projections on Hottest Industrial Markets



#1 Appraising Urban Real Estate

- Upzoning
- Rent Stabilization / Neighborhood Preservation / Compliance
- Locational Adjustments with Public Transportation & Walkscores



this is NOT a warehouse



this is NOT a storefront building



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Rent Stabilization

Partial List of rent controlled cities:

Berkeley
Beverly Hills
Campbell
East Palo Alto
Fremont
Hayward
Los Angeles
Los Gatos

Oakland
Richmond
Palm Springs
San Francisco
San Jose
Santa Monica
Thousand Oaks
West Hollywood

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Neighborhood Preservation

California Environmental Quality Act (CEQA) gives guidance for evaluation of historical resource and cultural resource buildings

City level conservation districts – additional plan review

- ➡ Adaptive re-use
- ➡ Significant vacancy, higher operating & capital expenses
- ➡ Can be truly beautiful if done well

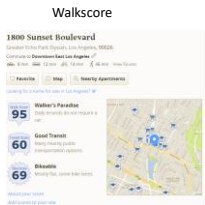


Neighborhood Preservation



Locational Considerations

- Internet Provider mapping
- Linkages Mapping



#2 Special Use Real Estate & Going Concerns

- Cell Towers/Billboards
- Educational Facilities
- Fast Food
- Business Multiples



Overview-Traditional Media

- Wallscapes & Banners
- Airport Advertising
- Posters
- Billboards
- Digital Billboards



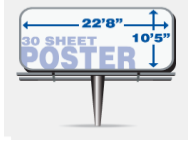
Wallscapes & Banners

- Wallscapes & Banners
- Airport Advertising



Posters (Billboard's Little Brother)

- 30 Sheet Poster (Medium Billboard): Range of \$750 - \$2,000 per location per 4 week period
- 8 Sheet Poster / Junior Poster (Small Billboard): Range of \$300 - \$750 per location per 4 week period



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Billboards

- Bulletin is the largest standard-sized billboard
- Sizing: 14' x 48', 10'6" x 36', 10' x 40', 10' x 30', 12' x 24', and 12' x 40'
- Range of \$1,500 - \$30,000 per location per 4 week period



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Digital Billboards (Jumbotron)

- Digital/LED Bulletin (Large Digital Billboard): Range of \$3,500 - \$25,000 per location per 4 week period for an ~8 second spot in a loop of ~64 seconds



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Digital Billboards (Jumbotron)

Installation Costs

- +/- \$150,000 for structural modifications
- +/- \$350,000 per side (10' x 22')
- New Sign needed every 6-10 years (warranties 3 yrs)
- Best Units: Adtronics, Daktronics, Optec and Jesco units
- Worst Units: Chinese units (last 2-3 yrs) & limited service



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Basic Definitions

DMA	DMA A1B+ Population	Weekly GRP	Panels	4-Week A1B+ In-Market Impressions	4-Week Reach %	4-Week Frequency	4-Week Rate Per Foot	4-Week Total Rate	CPP	CPM
Los Angeles	13,900,000	50	20	20,244,004	26.5	7.7	\$8,900	\$182,000	\$679	\$4.09

Cost per (Mille) Thousand (CPM) - Cost of reaching one thousand potential viewers of a billboard panel. The formula for calculation is the monthly cost of the face divided by the circulation measured in thousands of viewers.

Cost per Rating Point (CPP) - Cost of exposing a message to achieve one rating point, or 1% of the market population.

Designated Market Area (DMA) - Local geographical submarket

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Basic Definitions

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Gross Rating Points (GRP) System to standardize the measurement of media exposure. For billboards, one gross rating point represents traffic circulation equal to 1% of the population. Sometimes used interchangeably with Showing.

Eyes On Impressions/Out of Home Rating Average number of persons likely to notice an ad on an OOH display. Gross impressions are those delivered against a demographic audience for an advertising schedule.

TAB Rating Traffic Audit Bureau for Media Measurements, Inc. - a non-profit who audits the circulation of out-of-home media (OOH)

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Basic Definitions



EOI (Eyes on Impressions) new way to calculate traffic
EOI more effective then DEC (Daily Effective Circulation)
DEC counts the number of cars that drive by compared to the number of hours the billboard is illuminated.
EOI takes into effect:

- size of the billboard
- age of the people in the cars
- income, education and nationality

EOI will be lower but also more accurate when compared to DEC score.
DEC counts the number of people passing the ad and does not deduct for people who are not seeing or relating to the billboard



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Calculating Rent-CPM

DMA	DMA ATB Population	Weekly GRP	Panel	4-Week ATB In-Market Impressions	4-Week Reach %	4-Week Frequency	4-Week Rate Per Line	4-Week Total Rate	CPP	CPM
Los Angeles	13,900,000	50	20	20,244,054	26.5	7.7	\$6,900	\$138,000	\$679	\$4.89

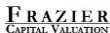
- CPM measures how much a medium costs per 1,000 people (impressions) who see it.
- If you know the CPM for competing media — radio, television and newspapers — you can set your advertising cost using the following equation:
- Total cost of advertising purchase = CPM x (gross impressions / 1000)
- If you decide a competitive CPM is \$2 and you know that your audience is 1,000,000 people/month, then:
- Total cost of advertising purchase = \$2 x (1,000,000 / 1,000)
- Total cost of advertising purchase = \$2 x 1,000
- \$2 x 1,000 = \$2,000/month or per billboard



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Value Metrics and Red Flags

- Municipal Shakedown Fees:
 - Example: West Hollywood asks for \$10,500/month
- Higher Vacancy on Smaller Signs
 - Smaller Slots turn over more
 - Smaller Businesses Advertise on Smaller Signs for less time (1-2 months)



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Value Metrics and Red Flags

- Most Jumbotron displays have PCs in their units
- If the PC goes down, then the entire unit goes down until it is fixed
- Best units are the balanced array models



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Value Metrics and Red Flags

- Read Lease:
 - Term
 - 30 day exit clause
 - Profit Sharing?
 - CAPEX Requirements
 - Who owns the structure?
 - Who owns the equipment?



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Value Metrics and Red Flags

- Cap Rates are a function of the Duration of Lease
- 30 day exit clause means 13-16% cap rate
- Long Term lease (10-20 years) equates to a similar cap rate to the building
- Equipment Lease Rates are 12-14%



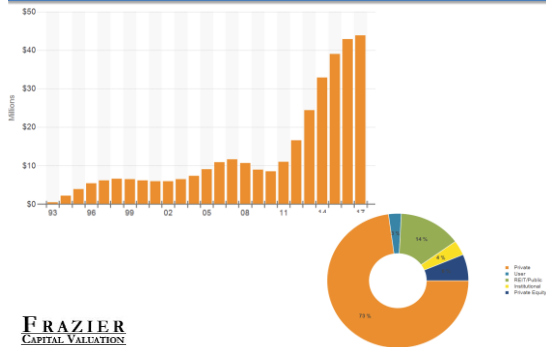
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Education Facilities (Value Drivers)

- Conditional Use Permits are valued
- Parking requirements are valuable
- Disabled Access to Buildings
- Condition
- Most recent renovations and costs
- Space Suitability
- Room or Space Condition



Education Facilities (Buyers & Sales Volume)



Education Facilities (Overall Conclusion)

- Cap Rates have never been lower
- Well run schools are very appealing to students in order to obtain skills
- Future will be more competitive between schools
- Older facilities will not be as competitive as newer ones

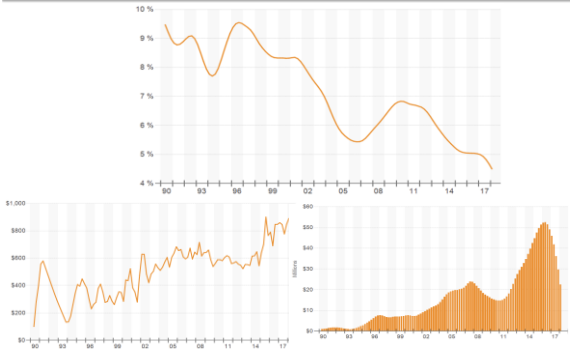


Fast Food Trends for 2018

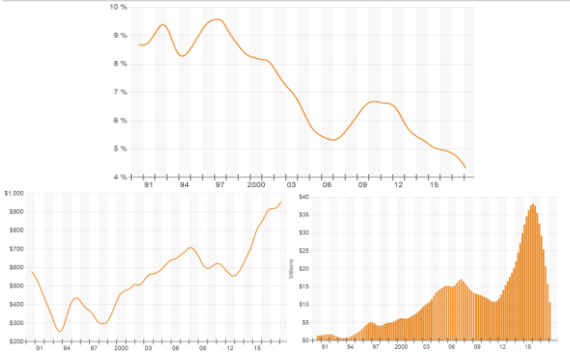
- QSR Operators in a Cut-Throat-Market
- Grocery Stores are eating income profits of QSRs
- More deliveries from UBER Eats, Door Dash & Postmates
- Increases in Minimum Wages accelerating automation
- Alcohol is the Last Frontier for Growth
- Social Media Either Makes or Breaks Locations
- Americans increasingly want Spicy Foods with Nutrition
- Convenience & Speed Still Reign Supreme for 2018
- Sq ft needed has fallen by 20-30% due to increased rents and costs



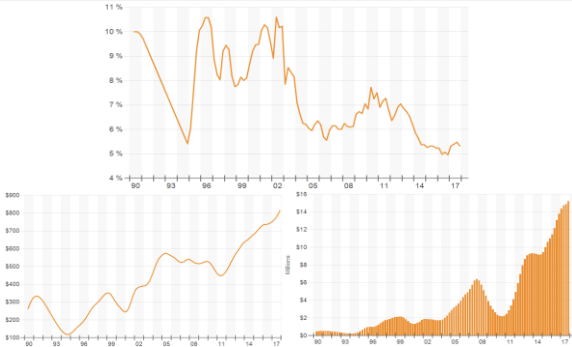
Fast Food Cap Rates & \$/sq ft (California)



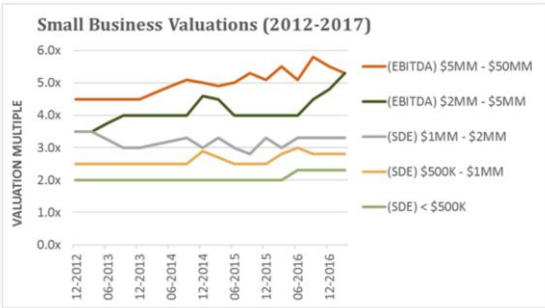
Fast Food Cap Rates & \$/sq ft (S. California)



Fast Food Cap Rates & \$/sq ft (All Counties Net of S. Cal & Bay Area)

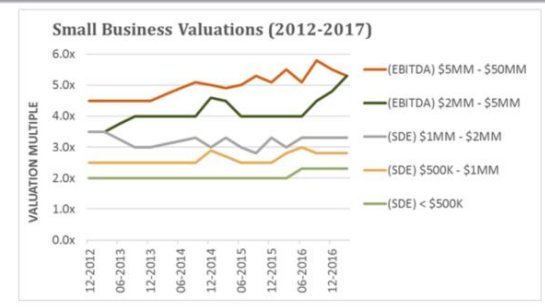


Trends in Small Business Valuation Multiples



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Trends in Small Business Valuation Multiples



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Trends in Small Business Valuation Multiples

- Service businesses with EBITDAs greater than \$1M sold at a 28% premium compared to businesses with EBITDAs under \$1M last year.
- High-revenue manufacturing companies— (earning more than \$10M a year) major increase in business value over last five years (13% higher multiple last year).



#3 Looking Forward: Upcoming Trends in CRE

- Self Driving Cars & Impacts on CRE
- Retail CRE-Frazier Capital Volatility Survey
- Frazier Projections on Hottest Industrial Markets



How self-driving cars will Change the Real Estate Market

- Car manufacturers (e.g., Ford, Toyota and Volkswagen) to introduce self-driving cars to the market by 2020
- Menlo Ventures’ managing director Venky Ganesan believes that the real estate market will start to adapt to the impact of self-driving cars within just 8–9 years.



How self-driving cars will Change the Real Estate Market

- CEO Magazine's Forecast (8/2017)
- [new-build residential property](#) will become cheaper;
- detached houses on the outskirts of town with insufficient infrastructure will become less liquid;
- the demand for short-term rentals and hotels will decrease;
- the demand for retail property will fall, whilst the demand for warehouses will increase;
- warehouses will be built even further from city centers;
- parking spaces in business districts will be relocated closer to the periphery of cities.

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Detached Houses with Insufficient Infrastructure Will Become Less Liquid

- Demand for self-driving cars will be higher in remote areas than in city centers
- Flats in central locations will remain popular, as they are situated within walking distance of offices, shopping centers and restaurants
- The same will be said for properties located on the outskirts of town that have well-developed infrastructure and good transport links

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Demand for Short Term Rentals and Hotels will Decrease

- Young people will travel more often
- Sven Schuwirth, a senior strategist at Audi, predicted that self-driving cars would cause a major disruption to the hotel industry by 2035: tourists are set to sleep in their vehicles on the road instead of staying in hotels
- hotels and renting apartments over a few days will nevertheless remain popular in major tourist centers, such as London, New York or Paris.

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Demand for Retail Property Will Fall; Demand for Warehouses will Rise

- Transportation, management, salesperson salaries and retail property rental costs make up 20–30% of the value of any product that’s for sale
- Goods in online stores are often cheaper than in shopping centers
- This will present a serious challenge to retail property within 10–15 years
- Supermarkets and high street retail are already being replaced by online stores, whilst the number of warehouses and distribution centers are, conversely, on the increase

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Warehouses will Be Built Even Further from the Center

- In the US, just as in other Western countries, drivers are prohibited from driving their vehicles for more than 11 hours in a row, which limits drivers to covering 600–800km per day
- Driverless trucks will be able to ride day and night
- Retailers and producers will be able to choose facilities on the far outskirts of city centers with cheaper rental prices

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Parking Spaces in Business Districts Will Be Relocated to the Periphery

- According to Old Urbanist, 65% of Houston’s downtown area is occupied by roads and automobile infrastructure
- National Real Estate Advisors state that 30% of space inside the buildings in Washington, D.C. is used for car parking purposes
- With the arrival of driverless cars, there will be no need to park nearby one’s office

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Parking Spaces in Business Districts Will Be Relocated to the Periphery

- A [study](#) by Jason Henderson and Jason Spencer from Cornell University has shown that parking spaces in American cities could well shrink by up to 42%
- After a reduction in the number of parking area needed, building density in cities may be set to increase
- As a result, the most liquid of properties will be those where there are car parks that are located on the outskirts of town or near major transport junctions



Self Driving Car Conclusions

- New technologies should be set to make many property types assailable.
- We recommend investing in peripheral warehouses and residential real estate in central districts
- These properties will secure real benefits over parking and street retail in as little as 10–20 years



Self Driving Car Conclusions (Affects on Value)

- Self Storage ↓
- Auto Dealerships ↓
- Gas Stations ↓
- Housing Prices ↔
- Housing Density ↑
- Assisted Living ↓
- Hotels & Motels ↓
- Fast Food ↓
- Retail ↔



Frazier Capital Valuation

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