

Integra Realty Resources, Inc.

Local Expertise...Nationally.

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Introductions

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**Jeff LeJava, Esq. NJ Highlands Council
Highlands TDR Program Administrator &
Staff Attorney**

**Anthony M. Graziano, MAI, CRE, FRICS, Managing Director
Atlantic Coast Office**

**Matthew S. Krauser, CRE, FRICS, Director
Northern NJ and New York Offices**



How is “Value” Created

Condition 1 – Demand/Buyers

Demand: Buyers are the first condition to Value Creation

Must Perceive a Need

Must understand utility of purchase

Must have predictable outcome and timing

Must be cost-feasible



How is “Value” Created

Condition 2- Supply/Sellers

Supply: Sellers are the second condition to value creation

Must Satisfy a Desire (money, cost savings, disposition, tax, preservation)

Must understand pricing mechanism

Must have predictable outcome & timing

Must be highest benefit opportunity



How is “Value” Created

Condition 3- Medium of Exchange

Medium of Exchange: “A Market”

Must be observable by both parties

Must be trusted by both parties

Must have motivated and willing participants

Must have a common denomination of exchange convertible to or in US Dollars



Market Efficiency

An efficient market is characterized by:

Balance of Supply and Demand

Quantity of observable transactions

Timeliness of completing transactions

Explicit transaction evidence

Transactions enforceable and supported by legal infrastructure



Valuation in Highlands Today Sending Zones

Pre-Highlands Value doesn't matter anymore**

Determine Highest and Best Use under existing
Highlands Program

Regional Master Plan Conformance

Existing Physical / Environmental Constraints

Maximally Productive Use of Land + Credits

Value will be reflective of the land's current utility +
intangible value of the awarded (severable) credits



Valuation in Highlands Today Receiving Zones

Pre-Highlands Value (and comps) don't matter anymore**

Determine Highest and Best Use under existing Highlands Program without TDR

Use comparables from Receiving Zone Towns only

Can the site support TDR / Density of Use bonuses? (Is there a higher and better use) If so – the “spread in value” is the approximate benefit of acquiring the TDR's.



Evolution of a “Market”

August 10, 2004 – Highlands Water Protection & Planning Act Enacted

December, 2004 – Highlands Council and Staff begin work on Regional Master Plan (RMP) and Highlands TDR Program

2005 – 2007 TDR Program Guidelines studied, and methods vetted

April 2007 – Highlands Council establishes municipal grant program for feasibility studies to assess establishment of TDR receiving zones

November 2007 Highlands Council Adopts TDR Program Guidelines as part of draft RMP

June 26, 2008 – Highlands Development Credit (HDC) Bank established by Highlands Council

July 17, 2008 – Regional Master Plan Approved by Highlands Council

July through September 2008 – Highlands Council releases capacity and constraint maps and on-line data engine detailing overlay zones

September 8, 2008 – RMP becomes effective after Governor’s thirty-day review

December 9, 2008 – NJ Supreme Court rules Highlands Act is constitutional

February 2, 2009 – HDC Bank holds first meeting

November 2009 – Highlands Council begins allocation of Highlands Development Credits under TDR Program

May 6, 2010 – First Hardship applications to be reviewed by HDC Bank



When was the Value?

Pre 2004

Value under old zoning, under then-current DEP regulations.

2004 – 2008

Value as Restricted – No HDC values (no bank)

Sept 2008

RMP Adopted; Value as Restricted w/ HDC's or TDR potential as "intangible"

May 2010

Value as Restricted w/ HDC's at Bank's Minimum Hardship Value

Future (2011-2012 as transactions occur)

Segregate Value of the Real Estate from Value of HDC's

Observe HDC transfers to assist in comparison of HDC utility/use/price

Identify sites which apply TDR using HDC's; and extract HDC value from price.



What value is afforded the Credits?

The HDC's will not have a market value until there is evidence of utility, and price in exchange.

Their "intangible value" is either the present worth of future benefits, or the minimum credit value

For preservation appraisals, appraiser's should consult the HDC bank and should reflect the value of the credits as "intangible value of the severable HDC's" as a separate value component (property right).

For tax appeal appraisals – same thing, except HDC's are not assessable realty subject to determination by NJ Tax Court.

For financing appraisals – same thing, except HDC's should be noted as "speculative" (intangible) and cautionary language against use as collateral should be noted.



Economic Value Theory Reigns Supreme

The HDC's will not have a value in exchange (market value) until sufficient receiving areas are identified to support their use in the development schema AND the market acknowledges the saleable nature of HDC's as a commodity development right

Whether the HDC bank has \$10 Million or \$300 Million, the "market value" of the HDC's will not be affected by purchases into the bank; only by private purchases where the use of the credits adds value in excess of their purchase price.



Closing Thoughts on “Market Value”

- “Man himself is the beginning and end of every economy” – Carl Menger-“On the Origins of Money”
- [Menger] was “always skeptical about the knowledge and wisdom of political authorities that were conducting the [economic] reform. But he had an abiding faith in the principles and laws of the market that spring from the subjective choices of men.” Hans Sennholz, “The Monetary Writings of Carl Menger” in *The Gold Standard; An Austrian Perspective (1892)*



How Do We Value Land?

- Land is the residual value of what can be developed on a site.
- No demand, no financing, no market
- Highest and Best Use Dictates Value
 - **Physically Possible**
 - **Legally Permissible**
 - **Financially Feasible**
 - **Maximally Productive**



Analyzing Highest And Best Use

- Retain an Engineer or Planner!
- Wetlands, Transition Areas, Highlands,
- Lack of Utilities, Reasonable Probability of a Zone Change or a Variance
- Extraordinary Costs (Demo, blasting, etc)
- Demand!?



Choice of Comparable Sales

Speak to brokers, developers, buyers, sellers, analyze deals that have died, offerings, etc.

- Careful using government sales!
- The most comparable sales are the ones with the same Highest and Best Use!!



Units of Comparison

- What is the appropriate unit of comparison to use?
- PSF of Land, Price Per Site,
- Price Per Acre, Price Per SF of Building?
- How does the market value the land for the subject property?



Units of Comparison

- “Price Per Acre”
10 Acres of Office Land
- Sale 1: 10 Acres Sold for \$150,000/Acre
Sale 2: 9 Acres Sold for \$125,000/Acre
Sale 3: 11.5 Acres Sold for \$135,000/Acre

What are the pitfalls of this approach?



Problems!

- What if Comparable Sale 2 was in a different zone and the zoning's development potential wasn't as dense?
- What if Comparable Sale 3 had wetlands and wetland buffers?
- What if Comparable Sale 1 had no public utilities and can only be constructed with well and septic?



Price Per Square Foot of Building

Someone is only willing to pay for what they can build, regardless of the size of the land? (office, retail, industrial, aptmts)

Example: 5 Acre Retail Site

25,000/SF of FAR x \$50/SF of FAR=\$1,250,000

10 Acre Retail Site

25,000/SF of FAR x \$50/SF of FAR=\$1,250,000

One Site Sold for \$250,000 Per Acre and one \$125,000 Per Acre

Unit of Comparison Applicable: Price Per SF of Building Area OR Adjust for "Site Density/Utility" based on pairing of FAR indications. Remember – Price per FAR also includes location and other factors (extraordinary costs of development, etc.)



Is It Worth That Today?

- The \$1,250,000 assumes there is an active market and demand for retail space!
- Appraiser is required to analyze the status of the current market
- How do older land sales in a more active market equate to today's value?



Market Conditions Adjustments

- Apply negative time adjustments
or
- Discount for the time associated with holding a property until there is adequate demand (including holding costs)
- Check improved sales and see if conclusion makes sense!
- Apply costs for development, with
- profit and remainder is land value.



Residential Properties

- *Market Approach v. Subdivision Analysis
 - Subdivision Considers the time and costs for approvals, holding costs during absorption period, profit to the developer, etc. and discounts the future earnings to the present value
- *Land Residual, Extraction Analysis
- Example: Building Lots sell for 50% of the improved value of the home
- \$2,000,000 Home 50%=\$1,000,000 Lot
- *



Green Acres Requirements

- No Pre and Post Highlands Scenario!
 - Value is Based on Current Regulations
 - Highlands Preservation Area:
 - 3% Impervious Coverage
 - 1 Lot Per 88 Acres
 - 1 Lot for Conforming Building Lot



Commercial Properties

- 10 Acres of Retail Land
- Zoning Permits 50% Impervious Coverage
- Possibly 75,000 to 80,000 SF building w/Parking

- Highlands Preservation Area-
- 3% Impervious Coverage
- 5,500 SF building w/Parking Permitted

- Would Price Per Acre make sense or should it be appraised on an FAR basis?



Final Value Conclusions

- Has to be priced appropriately to equate to the demand
- Discount (if necessary) for the time associated with demand to occur
- **MUST MAKE SENSE!!!!**
- Must conform to Highlands Regulations



Questions / Thoughts / Feedback

- The folks in this room are “market- makers” because we educate the market on “value”
- The valuation concepts presented today are meant to advance our common understanding – not to represent “teachings” which are definite.
- Predictions
 - **The HDC will evolve, and their value will become more transparent. Process may take 20+ years.**
 - **We must view the imposition of this regulatory framework as a complete “re-start” of the land market – History will teach us nothing.**
 - **The land market requires a “re-start” anyway as a function of economic conditions (employment growth, smart growth, lack of capital, etc.)**
 - **The market will challenge, learn, transact, and adapt – and “restricted properties” will command a premium in the coming decade beyond historical boundaries because of “Supply Constraints”. “Buy Land – God ain’t makin’ anymore..”**
 - **The illusion of “lost value” is more severe but a significant component of the affected properties pre-Highlands were farmland, had practical development constraints, or demand was not imminent anyway.**
- Open Q&A

