

Appraisal Institute[®]

Professionals Providing Real Estate Solutions[®]

Commercial Real Estate Appraisals During the Pandemic

Pledger M. (Jody) Bishop III, MAI, SRA, AI-GRS
Appraisal Institute Vice President

Iowa Commercial Real Estate Expo Virtual Webinar

Nov. 24, 2020

Highlights

- Introduction
- The valuation process
- Federal appraisal regulations
- Federal banking regulations
- Coronavirus direction for appraisers
- Appraisal examples during the pandemic

1. Introduction

State of CRE Market

- Cap rates increased
- CRE prices
- Vacancy rates
- Recession

2. The Valuation Process

Identifying the Problem

Step 1- Identify the problem

- Develop an understanding
- Appropriate solutions
- Identify appraisal problem
- Initial characteristics
- Scope of work

Scope of Work Determination

Step 2- Scope of work determination

- Critical decision
- Three steps
- Development aspects
- Acceptable decision

Data Collection and Property Description



Step 3- Data collection and property description

- Initial analysis
- General data
- Specific data
- Comparable properties data
- Collected data
- Irrelevant data

Data Analysis

Step 4- Data analysis

- Appropriate data
- Appraisal assignments
- Appraiser's investigation
- Market analysis functions
- Data and conclusions
- Level of detail
- Highest and best use
- Assignment objective

Land Value Opinion

Step 5- Land value opinion

- Land value
- Opinion of land value
- Appraisal techniques
- Sales comparison
- Methods of land valuation
- Subdivision development technique
- Land residual technique
- Ground rent capitalization

Application of the Approaches to Value

Step 6- Application of the approaches to value

- Three approaches
 - Sales comparison approach
 - Income capitalization approach
 - Cost approach

Final Reconciliation of Value Indications

Step 7- Final Reconciliation of Value Indications

- Report communication
- Value opinion or conclusion
- Appraisal report objective

Report of Defined Value

Step 8- Report of defined value

- Appraisal report
- Report communication
- Value opinion or conclusion
- Appraisal report objective

3. Federal Appraisal Regulations

Regulation History

- Banking and appraisal industry
- Appraisal organizations
- 1985-95
- USPAP

USPAP Structure

- Three most important rules for appraisers:
 - Ethics rule
 - Competency rule
 - Scope of work rule

4. Federal Banking Regulations

Active Banking Regulations

- Congressional laws related to appraisals:
 - FIRREA
 - FDICIA

FIRREA

- FIRREA requirements:
 - Comply with USPAP
 - Be written
 - Be prepared by individuals

- FDICIA requirements:
 - Adopted Dec. 19, 1991
 - Section 304
 - Institution's CRE lending program

Banking Guidance

- Three sets of guidance:
 - Interagency Appraisal and evaluation Guidelines
 - FAQs-General
 - FAQs on Residential Tract Development Lending

5. Appraisal Process Management

Develop a Vendor Panel

- Application process criteria
- Appraiser approval criteria

Maintain a Vendor Panel

- Internal monitoring and rating process
- Finding qualified appraisers
- Typical state appraiser licensing classifications
- Use of an engagement letter

Monitor a Vendor Panel

- Appraisal review purpose
- Review requirements
- Reviewer's scope of work
- Value opinion
- Requirements

6. Coronavirus Direction for Appraisers

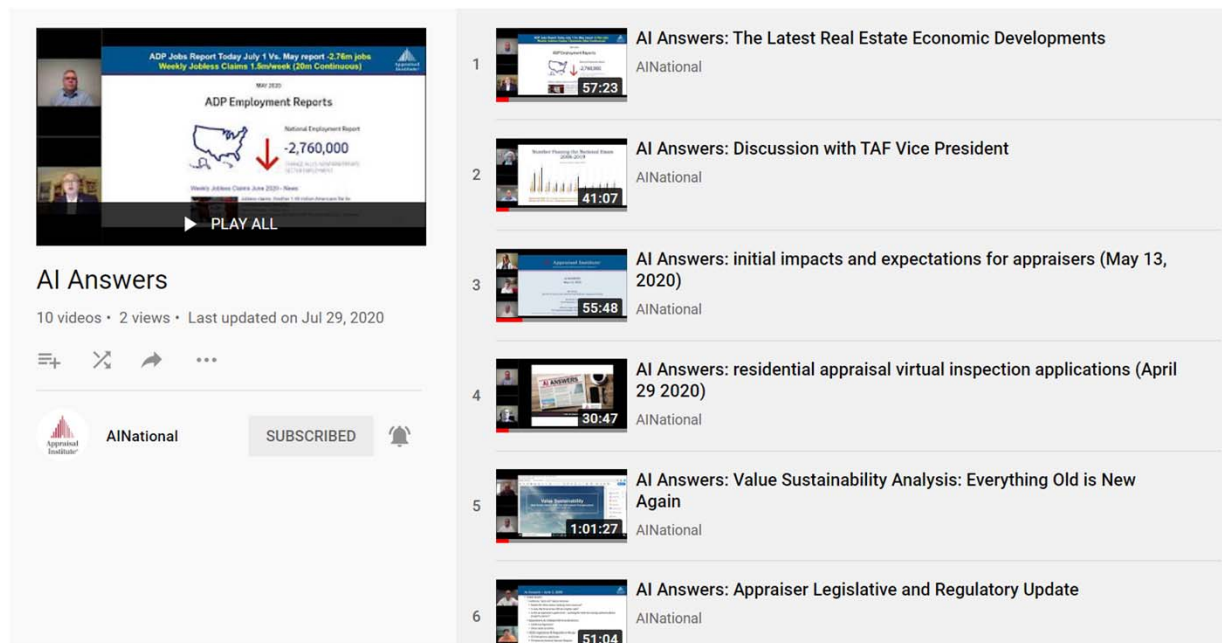
AI's Direction for Appraisers

AI Professional Practice recommends:

- Appraisal assignments
- Market conditions
- Market analysis
- Appraisal reports
- AI resources
- Self-protection

AI Answers COVID-19 Webinars

- Video interviews with key subject experts
- Available on AI's YouTube channel: www.YouTube.com/c/AINational



The image shows a screenshot of the AI Answers YouTube channel page. The main video player displays a slide titled "ADP Employment Reports" with a map of the United States and a red arrow pointing down to "-2,760,000". Below the video player, the channel name "AI Answers" is shown, along with "10 videos • 2 views • Last updated on Jul 29, 2020". The channel logo "AINational" and a "SUBSCRIBED" button are also visible. To the right, a list of six videos is displayed, each with a thumbnail, title, and duration:

- 1 AI Answers: The Latest Real Estate Economic Developments (57:23)
- 2 AI Answers: Discussion with TAF Vice President (41:07)
- 3 AI Answers: initial impacts and expectations for appraisers (May 13, 2020) (55:48)
- 4 AI Answers: residential appraisal virtual inspection applications (April 29 2020) (30:47)
- 5 AI Answers: Value Sustainability Analysis: Everything Old is New Again (1:01:27)
- 6 AI Answers: Appraiser Legislative and Regulatory Update (51:04)

Additional Appraisal Resources



- Coronavirus updates
- Appraisal Institute homepage

<http://ow.ly/OrNN50zcLXb>

7. Appraisal Examples During the Pandemic

Restaurants

- Appraisals
- Restaurants
- Broker interviews

Industrial Office Warehouses

- Tenant credit
- Warehouse
- Owner-occupied
- Research

Single Retail Tenant

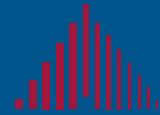
- Income approach
- Variables

Cap Rates in Drug Stores

- Drug stores
- Rite Aid and Walgreens
- CVS
- Transaction volume

Multifamily





Appraisal Institute[®]

Professionals Providing Real Estate Solutions[®]

Commercial Real Estate Appraisals During the Pandemic

Pledger M. (Jody) Bishop III, MAI, SRA, AI-GRS
Appraisal Institute Vice President

Iowa Commercial Real Estate Expo Virtual Webinar

Nov. 24, 2020