

## **NCREIF meeting minutes Chicago, IL**

### **Valuation Committee Meetings Thursday, July 1, 2010**

#### **Working My Way Back To You, The MIT Transaction Database (TBI)** Professor David Geltner Joint session with Research and Valuation

This morning session focused on a proposal by Professor Geltner to transfer the maintenance of his Transaction Based Index (TBI) to NCREIF. Developed at MIT, the index is already fully functional and has an extensive operating history. The TBI uses paired sales from the NCREIF data pool and is increasingly quoted in the media in assessing the strength of the commercial real estate market. As maintained by NCREIF, the index would be considered a complement to NCREIF's current indexes.

Professor Geltner described the history, calculation and interpretation of the index. This hedonic regression analysis is based on 25 years of data, with the analytical balance between noise and lag creating the statistical backdrop.

Interestingly, while the analysis focuses on actual sales, reported values remain a key component in the underlying calculations. Overall weaknesses include the generally small sample of institutional caliber repeat sales. The session ended with a request that the various committees of NCREIF provide feedback as the desirability of maintaining the TBI.

#### **Valuation Committee General Session** Chair, Del Kendall

This general session of the Valuation Committee included updates from Chuck Hagedorn regarding TAFAC and from Marybeth Kronenwetter regarding REIS. Chuck's comments focused on the comment period for the current USPAP draft. Concerns including the language regarding documenting the discussions around draft appraisals. Marybeth's comments focused on the REIS update, which includes changes to the debt valuation language. The discussion also raised concerns about REIS compatibility with IVSC.

Joe Magdziarz, President Elect of the Appraisal Institute, also addressed the group and was very complimentary toward our efforts. He answered questions, indicating that nationalized licensing was probably not likely, although greater standardization probably was going to happen in the future.

In order to facilitate “topical” discussion in an “open mic” format, several additional speakers addressed the group:

Jeff Walker of USRC spoke regarding debt valuation and related issues. His comments included the accounting distinctions between gross and net approaches to valuation per the language in FAS 157. Jeff was key member of the debt mark to market task force.

Hank Staley of Atlantic Hospitality provided an overview on the hotel market, with handouts demonstrating the depth of the last recession and the initial, but surprisingly strong, signs of recovery. In valuing hotel assets, Hank emphasized that forward (stabilized) income potential was the key metric.

John Kjelstrom from NVC followed with a discussion regarding the general status of the appraisal market and related issues. John discussed the increasing relevance of external appraisals in the NPI, and both proposed and fielded questions from the group. Discussion items included current concerns pertaining to data lag, the need to verify sales accurately and FAS 157 distress.

The meeting ended with a vote to support the pursuit of the TBI index as a desirable adjunct to current NCREIF indexes. Rick Wincott was nominated to succeed Ellie Kerr as the representative on the REIS committee from Valuation.

### **Costar Database Overview**

Joint Session with Research  
Andy Florence, Costar CEO  
Dr. Ruijue Peng, PPR  
Hans Nordby, PPR

This overview of the Costar transaction database had many similarities to the discussion earlier in the day from Professor Geltner, including a statistical discussion of the underlying calculations. The primary difference between the two is the depth of the data, with Costar providing significantly more paired transactions. That being said, the Costar database is not restricted to institutional caliber sales, and a key discussion item was the relative sensitivity of the result by the inclusion or exclusion of smaller sales.

### **Taxation and the Appeal Process: Finding Fairness in an Era of Big City Needs**

Steve Griffin  
Terry Griffin  
Griffin and Associates, Chicago, IL

This overview of the Greater Chicago tax environment included information on the taxing authorities themselves and the overall political landscape. A key discussion item was the often vigorous attempts of the municipality to defend their tax base, including

several instances of legally “increasing” assessments following a failed appeal attempts by property owners.

As cities pursue more sources of revenue, even hospitals and other institutions are being challenged on their non-profit status. Questions from the audience focused on the mechanics of developing appropriate fee simple cap rates, determining fee simple vacancy levels, and breaking out hotel FF&E for the tax appeal process.

### **Not California and Not DC: Generating Core Apartment Returns in Mid-America**

Pete Evans

Moran and Company, Chicago, IL

Pete Evans provided an excellent overview of the multi-family investment market in Chicago, Minneapolis and other major mid-western cities. With higher cap rates available in the Mid-west than in places like California, New York and Washington DC, low debt rates create surprisingly strong returns.

The analysis focused on the upside in returns from likely rent growth and concession burn, and the positive leverage available from various current financing vehicles. The presentation also included an inventory of the Chicago multi-family properties and consideration of the future for multi-family overall. The focus on upside was driven by the notion of limited new supply and a recovering economy.