



# Valuation Issues

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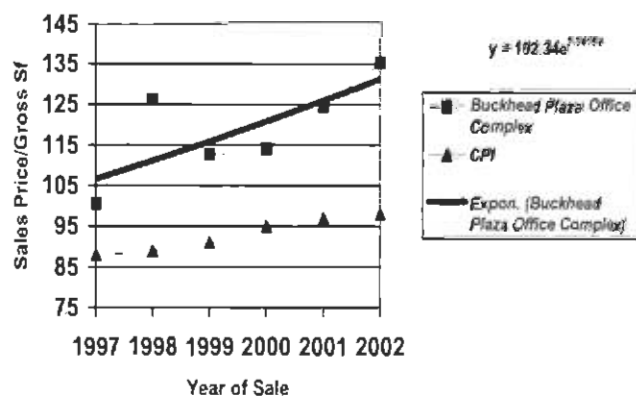


## BUCKHEAD PLAZA HISTORICAL SALES

By  
John R. German

Buckhead Plaza is a professional office development on Ferncreek Drive and Raeford Road. This is a condominium office development similar to One Village Plaza on Robeson Street and the Breezewood office development on Breezewood Street. Buckhead Plaza has developed over the last seven years and has several buildings. The development appears to be built out as of March. The sales provided include both typical medical clinic and professional office upfit. The medical clinic upfit would typically be in the higher range of values. The indicated sales price range per gross square foot of building area is approximately \$98 to \$135 per square foot. These sales track the office market in Fayetteville, NC for new office space. The market is presently exhibiting a slightly overbuilt level with increasing vacancy and some rent concessions in the older space.

Historical Office Sales in Buckhead Plaza



## GROWTH RATE AFFECTS VALUE

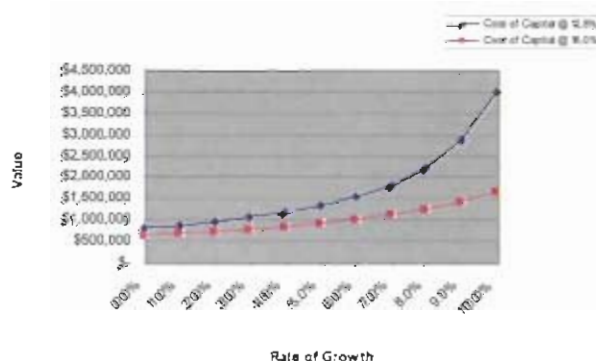
by  
Thomas W. Bell



As growth is the leading factor in determining valuations and P/E ratios of stocks in the public market, so is the importance of growth seen in the valuation of privately held firms. Although revenue growth is important, it is the growth in net free cash flow that drives the value of a company. Net free Cash Flow is defined as Net Income plus Depreciation & Amortization less Capital Expenditures, and change in long term Debt and Working Capital, typically,

the amount of cash available for distribution to shareholders. One income method of valuing a company is the Capitalization of Earnings method; calculated by dividing the cash flow by a capitalization rate. The capitalization rate is the cost of capital, less the long-term sustainable growth rate. Assume a company has a cost of capital of 16% (5% risk free rate + 7% equity premium + 4% small stock premium) and Net Cash Flow of \$100,000. The value at 0% growth is \$625,000 while a 10% growth rate produces a value of approximately \$1,660,000. This is shown in the graph below.

Assuming a debt/equity mix of 30/70 with a debt cost of 8% (4.8% after tax cost of debt) produces a Weighted Average Cost of Capital of approximately 12.5%. With a 0% rate of growth the calculated value of the company is approximately \$800,000 while a 10% rate growth produces a value of approximately \$4,000,000.





## THE PRESIDENT'S CORNER

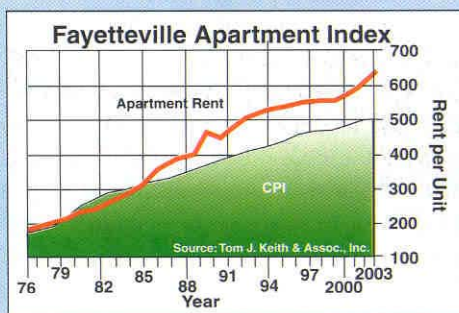
By

Tom J. Keith, MAI, CBA

For the second year, the decline in the stock market brought about continued interest in land tracts I have not seen since the early ninety's. It seems as though investors want something tangible they can see, walk on and at least enjoy for recreational uses or hold for a long term investment at a modest three to six percent return. The paper and timber companies are selling their land to investors in blocks of 25,000 to over 100,000 acres. Many of the buyers are regional timber companies that break up these large blocks into smaller sizes and sell at higher prices to long-term investors who buy from 100 to 2,500 acres. The demand for these smaller tracts has surpassed anything I have ever seen.

Good quality income properties sought for 1031 tax free exchange replacements are extremely desirable and many are selling at a low 6 to 7% return that makes one wonder if stocks and bonds are not a better investment and less trouble to manage considering the increasing risk from the growing number of federal, state, and local regulations affecting real estate. Many types of real estate are getting over built in this market, particularly office and retail space. We are seeing the greatest activity in the residential development market that peaked in 1993-95 and bottomed sometime in the 2000 - 2001 time period.

Industrial properties in North Carolina have declined about 50% over the last five years which some say is due to the NAFTA and the economy. Much of the textile, furniture, and low-tech manufacturing have moved outside the US borders where labor costs are less. Owners of these vacant industrial buildings see little prospects of selling their buildings at full market value and many are dumping these properties at liquidation prices of \$1.50 to \$5.00 per square foot to speculators and local tenants.



The Fayetteville Apartment Index is based on data collected as of December and January of each year. The survey includes two bedroom units less than 20 years old. Some older projects were dropped and replaced

with newer complexes. The average rate of the last six years was: \$560, \$558, \$575, \$598, \$608, \$620, and \$656 for 2003. The rates increased 26% from 2002 to 2003 which is one of the biggest increases on record. During the last 10 years rental rates have closely tracked the rate of inflation. The vacancy rate for the past few years beginning in 1994 was 2.9%, 4.0%, 4.2%, 5.8%, 2.6%, 6.6%, 5.3%, 2.9%, 3.7% and 2.0% in 2003. Some markets have experienced high apartment vacancy rates as a result of tenants finding it cheaper to make mortgage payments at the low interest rates than to make rental payments.

Staff member Kelly Williams performed this year's rental rate survey.



## LAND VALUES: FLOODPLAIN VERSUS THE FLOODWAY

By

Barrett A. Teele

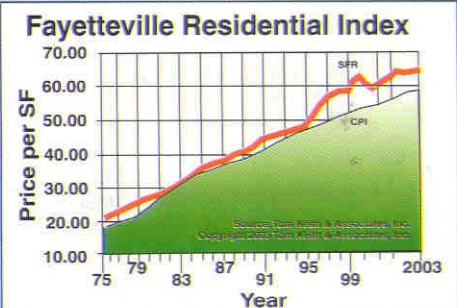
The floodplain is generally described as the level land adjacent to a river, creek, or stream that periodically overflows, while the floodway is defined as that portion of the available cross section that cannot be obstructed without causing an increase in the water-surface elevations resulting from a 100 year average return period of more than a given amount. FEMA establishes the amount to be 1.0 foot, but each individual state can require smaller amounts of increase in water surface elevations.

Several factors used in determining land values in floodplains are access, zoning, frequency and severity of flooding, and flood insurance availability. These factors are restrictive to development that may obstruct or interfere with the flow of water during flooding. While being restrictive, these factors are less restrictive than developing land in a floodway.

Developing land in a floodway requires a "no-rise" certification from a licensed Professional Engineer. Any development on a floodway cannot increase the flood area by more than one vertical foot. In summary land in a floodplain is generally valued higher by an appraiser, because there are less restrictions to development.

The Residential Price Index is based on the average square foot price for dwellings ranging in value from \$60,000 to \$120,000 as of 2003 which are less than 20 years old and situated on sites contributing about 18% to the

total selling price. The building boom of 1993 brought about an 11.9% increase in the prices of homes from 1992 to 1993. The 1994 prices moderated some with a 5% increase over the 1993 prices. The 1995 prices leveled off at the 1994 prices with no increase. During 1996, prices increase 7.8% to \$62.44 per square foot, but the slow market of 1997 brought about a 6.13% drop to \$58.61 per square foot in prices. Prices in 2000 decreased 1% to \$63.56 per square foot from the 1999 price of \$64.11. Prices in 2001 decreased 1.62% to \$62.53 per square foot. Prices in 2002 were \$63.38 per square foot and \$64.44 per square foot in 2003. The Fayetteville Board of Realtors reported the most activity during 2003 in residential sales since 1995 which may signal an improving market. The average price paid for new homes during 2003 amounted to \$180,000. The averages were calculated by selecting an equal number in each age group from one to 20. This eliminated the heavy weighting of the most recent sales and increased activity of the higher prices sale of 2002 and 2003. The 2003 residential data was compiled by staff members Barrett Teele and David Ivey.





## INDUSTRIAL LAND PRICES

by  
Michael A. Steding

The market for Industrial Land in markets with over 50,000 in population has generally been stronger than in smaller markets. As you will note from the accompanying chart, the price of the smaller sites of less than 4 acres carries a value in excess of \$20,000 and the larger tracts carry a value of less than \$20,000. In the eastern part of the state, the market is much weaker than in the Piedmont and West. Many small industrial sites in these areas will have a value of \$50,000 to \$100,000 per acre. The weaker industrial demand in the east has been attributed to higher utility rates, a more aggregation economy and better agricultural soils and less industrial development since the area was settled over 200 years ago. The East has a lot of catching up to do to convert our agricultural economy to a more diversified one.



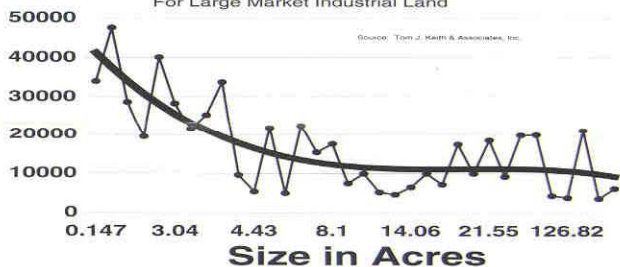
## FAYETTEVILLE'S CENTRAL BUSINESS DISTRICT

By  
David L. Ivey

A good brisk demand for properties in the Central Business District (CBD) of Fayetteville has resulted in values doubling in value since 2001 from about \$3,053 per front foot to \$6,607 per front foot. All of the properties are the smaller properties having a price of less than \$200,000 and most less than \$100,000. Many of the larger properties were purchased by government entities, razed or remodeled, and converted to new modern facilities with adequate parking and good layouts. According to interviews with property owners and business owners, parking is one of the factors that limits increases in value and utility of these properties because businesses cannot find enough parking for their employees and customers. Some of these owners/operators did not realize the problem until they had invested hundreds of thousands of dollars. Those that are still financially able want to locate to outlying areas where parking is more abundant. The 100 and 200 block of Hay Street has the most critical parking problems.

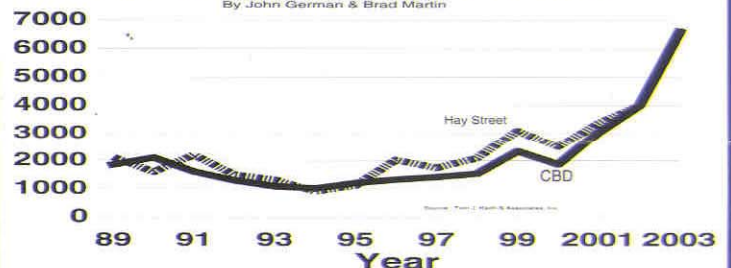
### Price Size Relationship

For Large Market Industrial Land



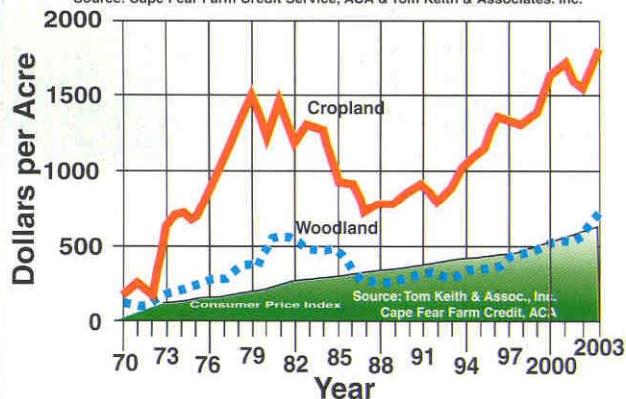
### Fayetteville CBD Values

By John German & Brad Martin



### Keith Cropland & Woodland Index

Source: Cape Fear Farm Credit Service, ACA & Tom Keith & Associates, Inc.

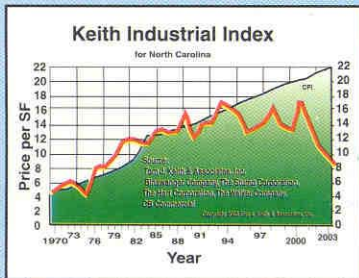


The Cropland & Woodland Index is an average of extracted cropland and woodland prices of farm and woodland comparable sales from 27 southeastern North Carolina Counties collected by our firm and Cape Fear Farm Credit, ACA. The average per acre price of cropland for each of the last eight years from 1995 to 2003 amounted to \$1111, \$1349, \$1325, \$1311, \$1390, \$1651, \$1720, \$1624, \$1820 in 2003. Cropland increased 12% from 2002 to 2003.

The average price per acre for woodland since 1995 amounted to \$353, \$447, \$461, \$496, \$533, \$519, \$575, \$585, and \$719 in 2003. Woodland increased in price 23% from 2002 to 2003 which is the largest increase over the last 10 years. The CPI increased 2.3% last year. Tobacco Allotment prices for 2003 ranged from \$2 to \$5 per pound sold and rent averaged between \$0.35 and \$0.70 per pound rented. Over the last 33 years, woodland prices have exceeded the rate of inflation. Investors looking for safety and stability have purchased much of the woodland.

Only rural farm sales over 50 acres and less than 750 acres in size, which were purchased for row crop farming and outside of any urban influence, were selected for this analysis. All woodland sales ranged in size from 50 acres to 1000 acres. Some reduction in price per acres for woodland was noted for tracts larger than 1000 acres. An increasing number of sales purchased for development, residential estates, and other none agricultural uses were noted but not used in the study. The sample size is greatly reduced over the last two years due to the large number of tracts under urban influence.

Tom J. Keith compiled the data.



The Industrial Index is based on the average price paid for existing industrial buildings in North Carolina from 1970 to 2003. The sources of data included Binswanger Company, The Stump Corporation, The Hart Corporation, CB Richard Ellis, The Walker Company, NC Department of Commerce, and Tom J. Keith & Associates, Inc. Sales of distribution facilities and manufacturing plants dominated the 1996 market while warehouse space dominated the rental market. The years 1997 and 1998 seemed to be a mixed bag of distribution, warehouse, and manufacturing facility sales. Limited 1996-1997 market data tends to show that prices in Eastern North Carolina are catching up with those prices in the Piedmont. The average price paid for industrial buildings in the last 7 years from 1997 to 2003 were as follows: \$13.11, \$12.93, \$16.61, \$13.67, \$11.77, \$10.50, and \$8.63. Starting in 1987, industrial building prices fell below the 31-year inflation trend. To have kept up with inflation, building prices would have had to be \$20.70 per square foot today. The NAFTA agreement with many countries caused many industries to move out of the USA resulting in many vacant buildings which may account for the drop in prices during the past two years. Many buyers of industrial buildings are non-manufacturing investors. Prices have not been this low since 1976.



## RESERCHING FROM THE INTERNET

By  
Kelly K. Williams

The Internet is a great tool to utilize in researching, and when it comes to real estate research, the internet can be a very powerful tool. If you are interested in purchasing a parcel, doing a little research early on can be quite beneficial. There are several websites available where you can locate a particular parcel you are interested in and obtain valuable information on that parcel such as the type of soil it has, the zoning class that it falls under, and even current tax cards on a particular parcel which shows tax information. A good way to locate these web sites is to do a search through a website such as [www.google.com](http://www.google.com), and enter the county and state where the parcel is located and key words such as "register of deeds", "public tax records", or "tax maps". Some good websites for our local counties include:

Cumberland County:

[www.ccrodinternet.org/](http://www.ccrodinternet.org/) : (Register of Deeds)

<http://mainfr.co.cumberland.nc.us/taxinfo.htm> : (Public Tax Records)

Moore County:

<http://giswed.co.moore.nc.us/> : GIS Map and Parcel Information

Hamett County:

[www.hamett.org/sdx/index.html](http://www.hamett.org/sdx/index.html) : GIS Maps and Public Information

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