Ratio between the Sale of One Single Family Dwelling vs.Twelve Single Family Dwellings Sold to one Purchaser as a Portfolio

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Often, appraisers are asked to appraise a package of several real estate assets that are to be conveyed from one entity to another entity or individual. This often occurs in valuation of properties, for estates, gifts, and lawyers representing clients in divorce. Many of these entities will contain multiple real estate assets such as a group of single family, commercial buildings, tracts of land, or other types of real estate.

Normally, the buyer and seller of a portfolio of properties expect a discount when purchasing a group of properties. This paper is about how to quantify the amount of discount and the actual calculation of the discount for multiple properties on scattered lots.

In cases where a package of vacant lots in one development need to be valued, the absorption rate can be determined and a discounted cash flow employed to determine the value or the “wholesale value” of a group of or package of lots. This procedure is widely used in the valuation of subdivisions or multiple properties where the absorption rate can be determined from nearby developments. This is a federally mandated method when valuing 5 or more properties for federally chartered lenders. However, it is not as easy to determine the absorption rate of a package of scattered single family dwellings or for that matter scattered single family vacant lots. The price usually dictates the absorption rate and the strength of the market can dictate the price. If a property is priced low enough, it may sell in one day. However, if the price is at a normal level and has a marketing time of 90 to 120 days for a dwelling or lot, it may be a realistic time for a dwelling but vacant lots may take several years to sell particularly if for a random vacant lot in a neighborhood. I have seen vacant lots stay on the market for several years before a buyer is secured. Realtors are often heard telling their prospective listing client that “the sign will rot down before this vacant lot is sold.”

 In the case of scattered multiple single family dwellings which must be sold within 1 years’ marketing time, it is difficult to determine the absorption rate. In cases where the single family dwellings are new and are located in the same development, it would be much easier to determine the absorption rate. **This study addresses the issue of determining how much the value of a single unit in a package changes when the investor purchases a package or portfolio of multiple single family dwellings scattered throughout a market area.** Of course, if the price is low enough the marketing time could be one day, however if the price of the entire portfolio is the summation of the retail prices of all of the dwellings, then the marketing time could be 10 years or as long as it takes to sell each individual single family dwelling at its full retail price. The question then becomes how much should the value be reduced in order to sell all of the units within one years’ time, which has been determined in many court cases as the reasonable marketing time for properties in an estate. The study of these cases is a lengthy discussion on its own. That would not be covered in this particular study since our objective is to determine the price at which all of these dwellings in a package or portfolio could be sold within one years’ marketing time.

 We are stating in this study that the marketing time of a portfolio may be one year however the marketing time of one single family dwelling may be 90 to 120 days. In other words, should the price of a package of multiple dwellings sold to one investor in one transaction be reduced in price in order for these properties to be sold to one purchaser within a 12 months’ marketing time?

 In this particular study a group of 12 single family dwellings were sold to one investor in Lumberton, N.C. at a price of $269,000 on August 21, 2015. This transaction is recorded in Deed Book D2006, Page 153-161. The property was sold from Cecil Conley and wife ,Naomi L. Conley, of Ft Myers, Florida to SANDLUG’S LLC of 3910 Kings Cross Road, Lumberton N.C. 28360. In this portfolio of 12 single family dwellings scattered throughout the city of Lumberton at a tax value of $406,200 and based on an appraisal by Tom J. Keith & Associates, Associate Paula Mitchell appraised each dwelling for a total sum of $493,670 (average of $41,139 each). The price of $269,000 (Average $22,417 each) is considered to be market value for the package and therefore, this property sold for 54.5% of its appraised value, or rounded to 54%. This represents a 46% discount from the summation of the retail price of each of the single family dwellings. Typical market conditions at the time of sale would most likely have an influence on this discount due to the fact that in a very strong market the individual dwellings could be sold one at a time over a period of possibly one year; however, in a weak market it may take several years to market those same properties.

 The ratio or percentage difference between one single family dwelling and a portfolio of 12 units was determined by two methods. The first method involves a cost approach and the extracted depreciation from the replacement cost new. The Marshall Swift Cost Manual is used in this case and the square footage of all of the dwellings is summed in order to arrive at the total square footage based on an average unit size of 1,426 square feet in this particular case. The year of construction is determined to be 1937 with various amounts of depreciation occurring over the lifetime of each of the dwellings.

The single family dwellings consist of the following sizes and ages in the tabulations below:

 *Square Feet Address Tax Value Age*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  2,158 | 601 E 8th Street | $ 29,000 |  1910 |  |
|  1,428 | 505 E 8th Street | $ 42,100 |  1950 |  |
|  1,320 | 508 E 8th Street | $ 45,000 |  1950 |  |
|  1,260 | 512 E 8th Street | $ 54,900 |  1930 |  |
|  1,091 | 602 E 8th Street | $ 21,700 |  1930 |  |
|  1,014 | 606 E 8th Street | $ 28,200 |  1938 |  |
|  930 | 613 E 8th Street | $ 23,700 |  1930 |  |
|  1,176 | 817 E 8th Street | $ 22,700 |  1950 |  |
|  1,218 | 815 E 8th Street | $ 22,100 |  1950 |  |
|  1,768 | 807 E 8th Street | $ 47,700 |  1926 |  |
|  1,520 | 801 E 8th Street | $ 35,000 |  1932 |  |
|  2,227 | 721 E 8th Street | $ 34,100 |  1946 |  |
|  17,110 SF |  |  $406,200 |  |  |
|  (1,426 average) |  |  | (1937 average) |  |

 In this case about half of the dwellings are brick veneer and about half have wood siding and therefore, a combination from the Marshall Swift manual of their cost is determined as follows:

73.31 with siding X TLM (time location modifier) 0.91 = 66.71

79.63 Brick veneer X TLM (time location modifier) 0.91 = 72.46

 Average 69.59 + $6.41(extras) = $76.00

|  |  |  |
| --- | --- | --- |
| Appliance | $1500/Unit | $ 1.05 |
| HVAC | $ 2.61 | $ 2.61 |
| Flooring | $ 2.75 | $ 2.75 |
|  |  | $ 6.41 |

Total replacement cost new of all dwellings:

17,110 Square Feet x $76 = $1,300,360

|  |  |
| --- | --- |
| Sales Price |  $269,000 |
| Less Land Value (12 X $10,000/lot)  |  $120,000  |
| Improvement Value |  $149,000 |

|  |  |
| --- | --- |
| Total Replacement Cost |  $1,300,360  |
| Improvement Value |  $ 149,000 |
| Depreciation |  $1,151,360 |

Amount of Depreciation;

$1,151,360 = 89% depreciation when sold as a package

$1,300,360

Valuation of typical single family dwelling of similar age and condition:

Comp at 1007 North St

Sales price = $59,000.00 @1236 SF

Replacement cost new 1236 @ $76 = $93,936.00

SP 59,000

Less LV 10,000

Improvement Value 49,000

Depreciation 44,936

Total Depreciation 44,936 = 48%

 93,936

Comp at 824 E. 6th Street, Lumberton NC

1243 SF @ $76 per SF equal a replacement cost of $94,468

SP 51,500

Less LV 10,000

Improvement Value 41,500

Depreciation 52,968

Total Depreciation 52,968 = 56%

 94,468

Based on the above two comps it can be seen that the depreciation ranges from approximately 48 to 56% or centering on about 52% depreciation. It can be seen from the calculations that the depreciation for the portfolio amounts to about 89% while the depreciation for the two comparables centers around 52% and the calculations indicate that the depreciation must be increased 71% for the portfolio above that of one single family dwelling.

 In summary, we find that the summation of the appraised value of all 12 dwellings amounts to approximately $493,670.00 based on 14 comps. We also find that the summation of the 2010 tax value of all twelve dwellings amounts to $406,200.00 and the portfolio of 12 scattered single family dwellings sold for $269,000.00 as a package or portfolio of 12 units then the following ratios can be developed.

$269,000 Sales Price of Portfolio of 12 Units

$493,670 Summation of Appraised Value of Each of the 12 Dwellings

Equals 54%

Indicates that the package sold for 54% of the appraised value of the summation of the individual dwellings and that the ratio based on accessed values is follows:

$269,000

$406,200 Tax Appraised Value = 66% of tax value

 Therefore we conclude that the appraised value determined by the firm is the most accurate method because the 2010 tax value is about 6 years old and indicates a package of 12 scattered single family units that sold for $269,000 is equal to the appraised value and indicates the depreciation rate of 89% while the average depreciation for 8 comparables indicated a depreciation rate of 54% with a value centering around 52%. Using the 52% this indicates that depreciation must be increased 71% from a base rate of 52%.

 Documentation for this particular study is included in the files of the appraiser showing the comparables used to appraise each individual home as well as its’ tax value and its’ replacement cost new.