

From the **The Business Journal**

:<http://www.bizjournals.com/triad/stories/2009/06/08/story6.html>

PREMIUM CONTENT: Jun 8, 2009, 12:00am EDT

## What value? Triad brokers, appraisers find fewer 'comps'

Staff *The Business Journal*

The stubbornly slow real estate market in the Triad has created any number of headaches for sellers and their agents in recent months. One that gets worse as the downturn progresses is the increasingly rare “comp” — recent comparable sales traditionally used to appraise the current value of another, often nearby, piece of property.

A good, current comp of a completed transaction can tell how much a property is worth with the level of accuracy that buyers and sellers and the lenders who will finance a deal can rely on. The more recent transactions there are, the better the odds that for any given real estate deal, something similar has sold lately nearby.

But the downturn in both residential and commercial real estate activity makes such comps harder to find, and the problem gets worse as slow sales persist, according to Michael Clapp of Winston-Salem-based appraisal firm Michael S. Clapp & Associates.

“A lot of the sales we’ve been using, particularly for residential appraisals, were May, June, July transactions” from last year, before sales slowed most dramatically in the fall, he said. “Those are aging out for us. We’re starting to get some more in because of the spring market and that helps a little, but we’re still quite a bit behind.”

Absent a market rebound, there’s not a lot that can be done to address the problem on the residential side. Appraisers have to broaden the scope of their comps, going back further in time and measuring against less similar properties, which reduces the accuracy of the valuation.

“We lived in a different world 12 months ago,” said Kevin Kemp, a partner with **Triad Commercial Properties**.

The lack of comps is an issue for commercial appraisals too, but there are alternative ways to value a piece of property that is used for business, said Tom Taylor of the Greensboro appraisal firm Taylor Pope and Herring.

Properties such as multitenant office buildings can be valued by the amount of income they generate, for example, Taylor said. The “cap rate” takes into account both income and sales price so a lack of comparable sales still makes the appraisal harder, but the rental stream at least provides some current data to go by, he said.

Of course, the recession also has an impact on leasing activity, so some properties may not have a

lot of current income to value either, Taylor noted.

"With a lot of vacancy, (landlords) may have to lower their rent to attract tenants, and that impacts the value," he said. "It is a problem, but it's just what we've all got to work with."

On the bright side, neither appraiser felt the lack of comparable sales with which to value properties would scuttle enough deals on either the residential or commercial side to become a major drag on the market itself.

But in some cases buyers and sellers who can't make the valuation numbers work for a traditional deal are having to get creative, said Sean Dowell of brokerage and appraisal firm **Commercial Carolina** in Greensboro.

He said he was involved in one recent transaction in which a company that both owned a building in North Carolina and had a \$2.5 million lease commitment in California essentially gave the building it owned to its landlord in return for being let out of the lease in California. The company was facing a downsizing but could not value its property to sell it and buy out the lease, Dowell said.

He declined to identify the participants, but said bypassing the formal appraisal and sale process allowed each side to get something out of the deal.

"The landlord turned around and leased the building to make up the difference in the rent, and they didn't have to determine a formal valuation since they could just sign the general warranty deed over," he said. In a tough market, "people are doing whatever it takes."

Reach Matt Evans at (336) 370-2916 or [mlevans@bizjournals.com](mailto:mlevans@bizjournals.com).