

# Commercial Appraisal Insights:

Essential Knowledge for Financial and Legal Professionals

**ORANGE COUNTY ESTATE  
PLANNING COUNCIL**

**MARCH 25, 2025**

**PRESENTED BY  
JOHN SHAMOUN**

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## QUICK BACKGROUND

- ***Appraiser Since in 2003 - Certified General Appraiser Since 2007***
- ***Currently the Chair of the Commercial and Investment Division at SRAR***
- ***Past Chair for the Northwestern Branch of So. Cal. Chapter Appraisal Institute***

### ***Key Appraisals***

- The Beverly Hilton – 571K/8.88 Acres Evaluation for Recapitalization Purposes
- Palisades Village – 125K Open Air Mixed-Use Destination Center - Retail/Entertainment/Office/Residential
- Raw Vacant Land – High Desert and Infill Locations
- Portfolio Evaluation of Apartments, Industrial Parks, General & Medical Office Buildings and Shopping Centers
- Expert Witness (Deposition and Court Testimony) - United States Bankruptcy Court
- Real Estate Assessment Appeals

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# HEADWINDS

- INTEREST RATES/LENDER CONSTRAINTS
- A WAVE OF COMMERCIAL LOANS COMING DUE
- CAP RATE EXPANSION (Post-Pandemic)
- INFLATION OR RECESSION FEARS
- OP EX INSURANCE, ENERGY, LABOR, AND MATERIALS COSTS
- TRADE WAR - TARIFFS
- TRANSACTION VOLUME
- PROPERTY REPLACEMENT COSTS
- DISRUPTORS

2025  
AND BEYOND

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# TOPICS

- Why Appraisals Matter in Estate Planning, Tax Matters and R.E. Litigation
- Fair Market Value Definition
- Regulatory Bodies
- Appraiser Certification Levels and Overview of the Profession
- Property Types
- The Appraisal Process
  - Report Types/Uses/Users/Interests/Values/Approaches/Data Source
- Ordering The Appraisal – Timing & Fee
- Bonus Material and Final Considerations

Real Estate Appraisal

Vendor Name  
Street  
City

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## WHY APPRAISALS MATTER IN ESTATE PLANNING...

### 1. ESTATE PLANNING

- Establishing Fair Market Value (FMV)
- Equitable Distribution
- Avoiding IRS Disputes
- Gifting Strategies

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## WHY APPRAISALS MATTER IN TAX MATTERS

### 2. TAX MATTERS

- Estate & Inheritance Taxes
- Capital Gains Tax
- Gift Tax Returns (Form 709)
- Depreciation Schedules

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## WHY APPRAISALS MATTER IN R.E. LITIGATION...

### 3. REAL ESTATE LITIGATION

- Partition Actions
- Eminent Domain / Condemnation
- Breach of Contract / Fraud Claims
- Zoning or Land Use Disputes

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## FAIR MARKET VALUE

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# FAIR MARKET VALUE - FMV

## FAIR MARKET VALUE (FMV)

*"The price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts."*

### IRS Publication 561

FMV is widely used for:

- Estate and gift tax reporting
- Divorce settlements
- Business valuations

# KEY DIFFERENCES

## Key Differences Between Market Value and FMV:

<b><u>FEATURE</u></b>	<b><u>MARKET VALUE</u></b>	<b><u>FAIR MARKET VALUE</u></b>
<b><u>Used By</u></b>	Appraisers, Lenders, Investors	IRS, Courts, Estate Planners
<b><u>Standards</u></b>	USPAP, FIRREA	IRS Publication 561, legal precedent
<b><u>Assumptions</u></b>	Cash-equivalent terms, typical market exposure	Hypothetical willing buyer/seller with full knowledge
<b><u>Audience/Purpose</u></b>	Real estate sales, lending	Tax reporting, legal proceedings
<b><u>Time on Market</u></b>	Reasonable exposure period assumed	May or may not define specific exposure
<b><u>Compulsion to Sell/Buy</u></b>	None assumed	None assumed

# REGULATORY BODIES

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# REGULATORY BODIES

- **FIRREA – Title XI (1989)** Response to the Savings & Loan Crisis
- **The Appraisal Foundation - TAF (Congress - 1989)**
  - **The Appraisal Standards Board (ASB)**
  - **The Appraiser Qualifications Board (AQB)**
- **The Appraisal Subcommittee (ASC)**
- **State Licensing Agency**
  - **(CA – Office of Real Estate Appraisers (OREA 1990)**
  - **Renamed in 2013 Bureau of Real Estate Appraisers – BREa)**
- **Wall Street Reform and Consumer Protection Act – (Dodd-Frank – 2010)**
- **Client (Attorney's, CPA's, Financial Advisors, & Management Company's)**

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# OVERVIEW OF THE APPRAISAL PROFESSION

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## APPRAISER LICENSING

### FOUR LEVELS STATE LICENSE

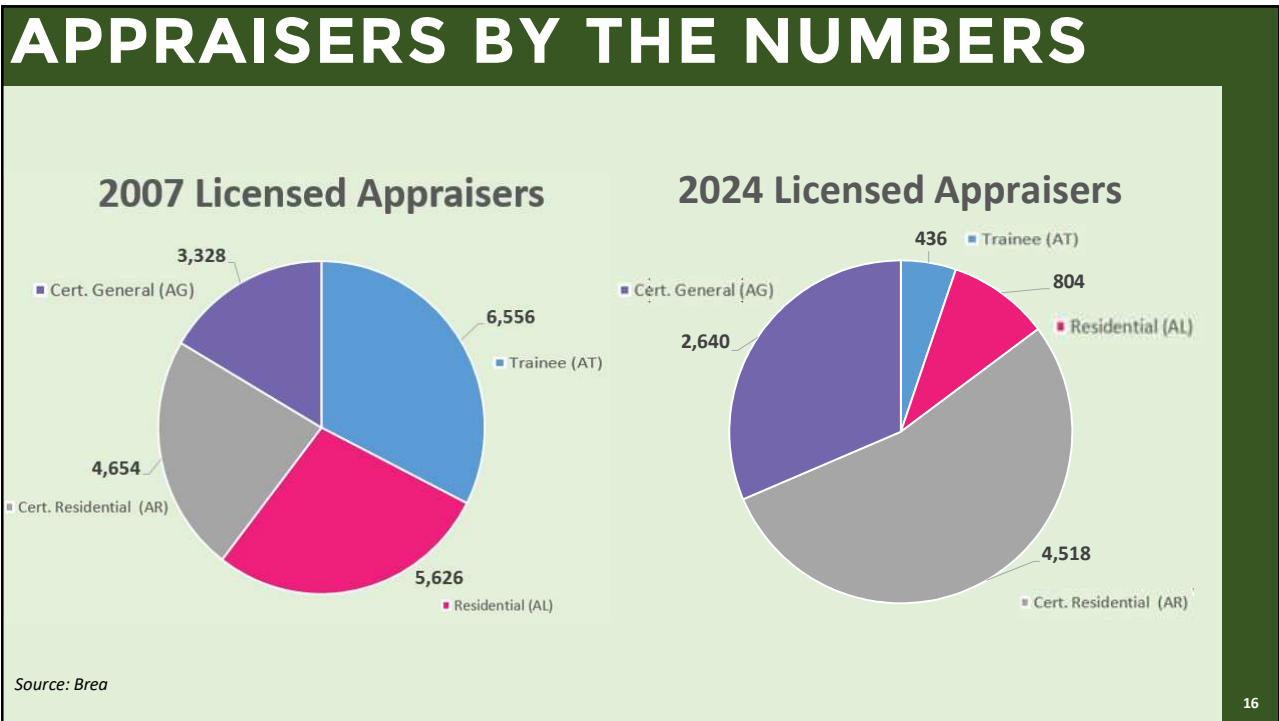
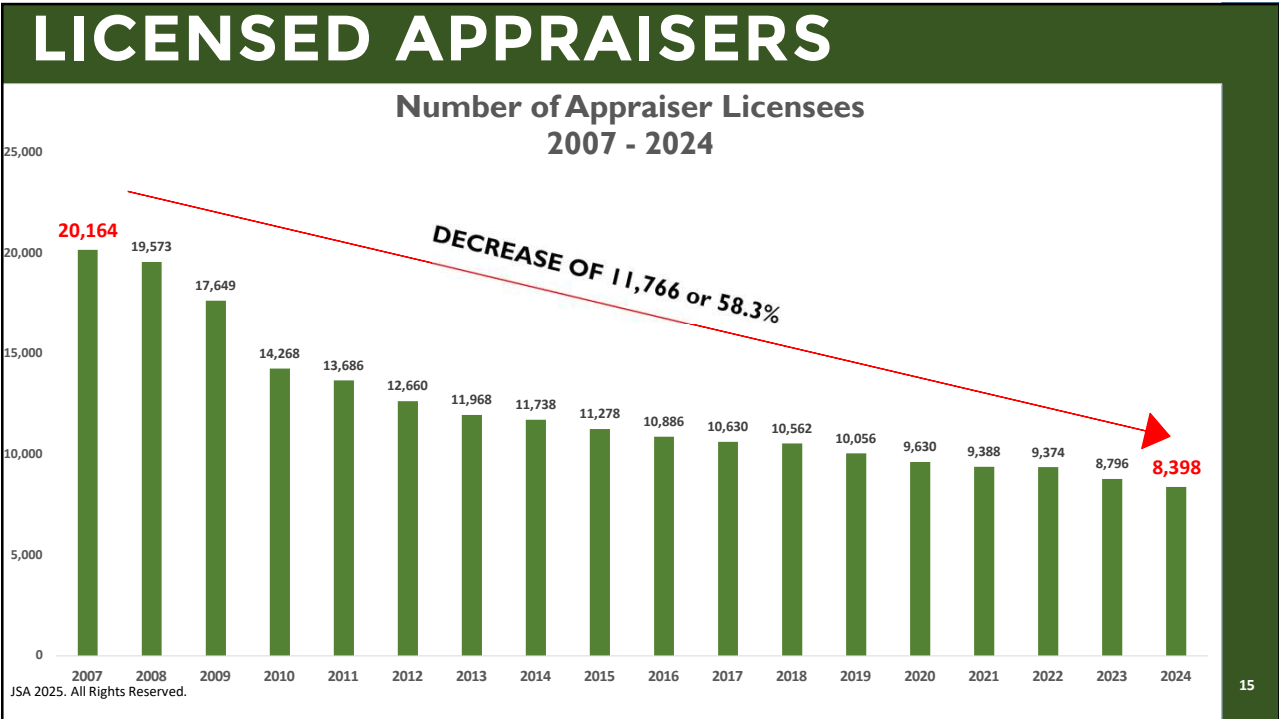
- **AT - Trainee**
  - Must work under direct supervision of a certified appraiser.
- **AL - Licensed Appraiser**
  - Can appraise non-complex 1-4 residential properties up to \$1M transaction value.
- **AR - Certified Residential**
  - All 1-4 residential properties without regard to complexity or value.
- **CG - Certified General**
  - All real property types.

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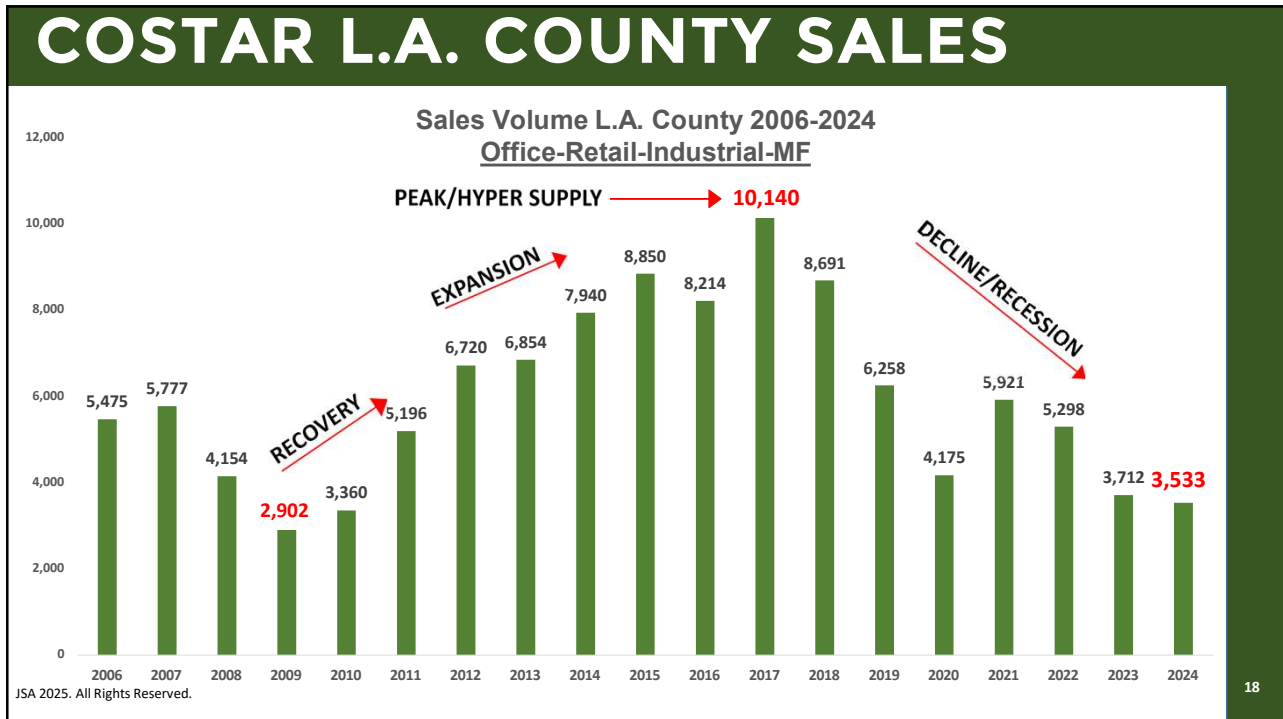
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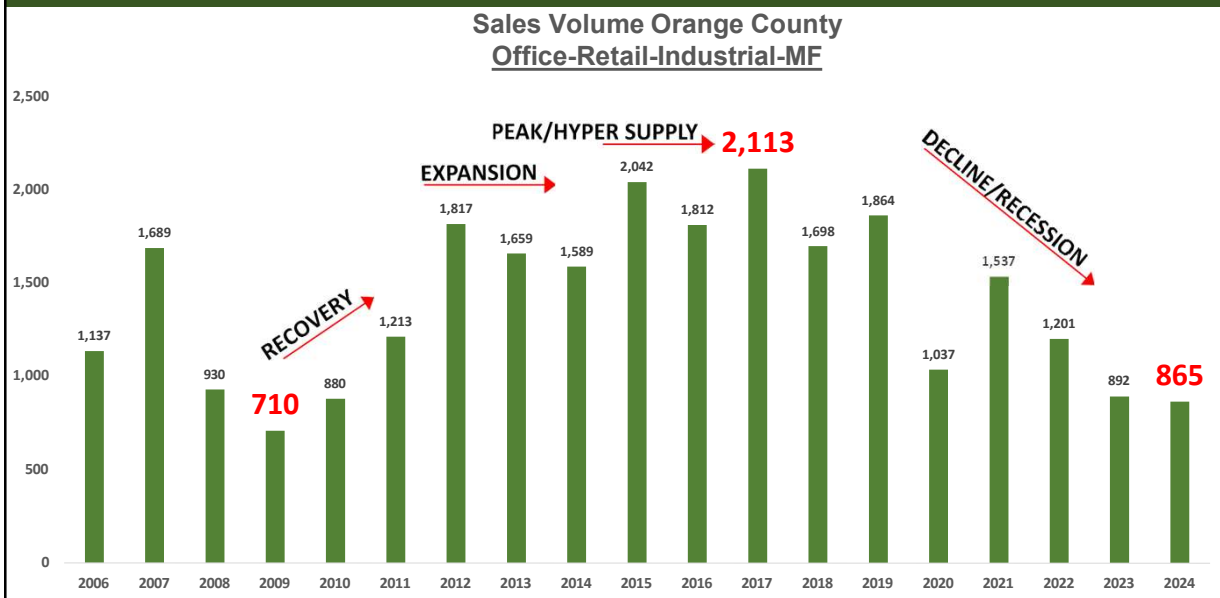


# TRANSACTION SALES L.A. AND ORANGE

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# COSTAR ORANGE COUNTY SALES



# PROPERTY TYPES

# PROPERTY TYPES



INDUSTRIAL



OFFICE



RETAIL



MULTI-FAMILY

# PROPERTY TYPE – INDUSTRIAL

## INDUSTRIAL

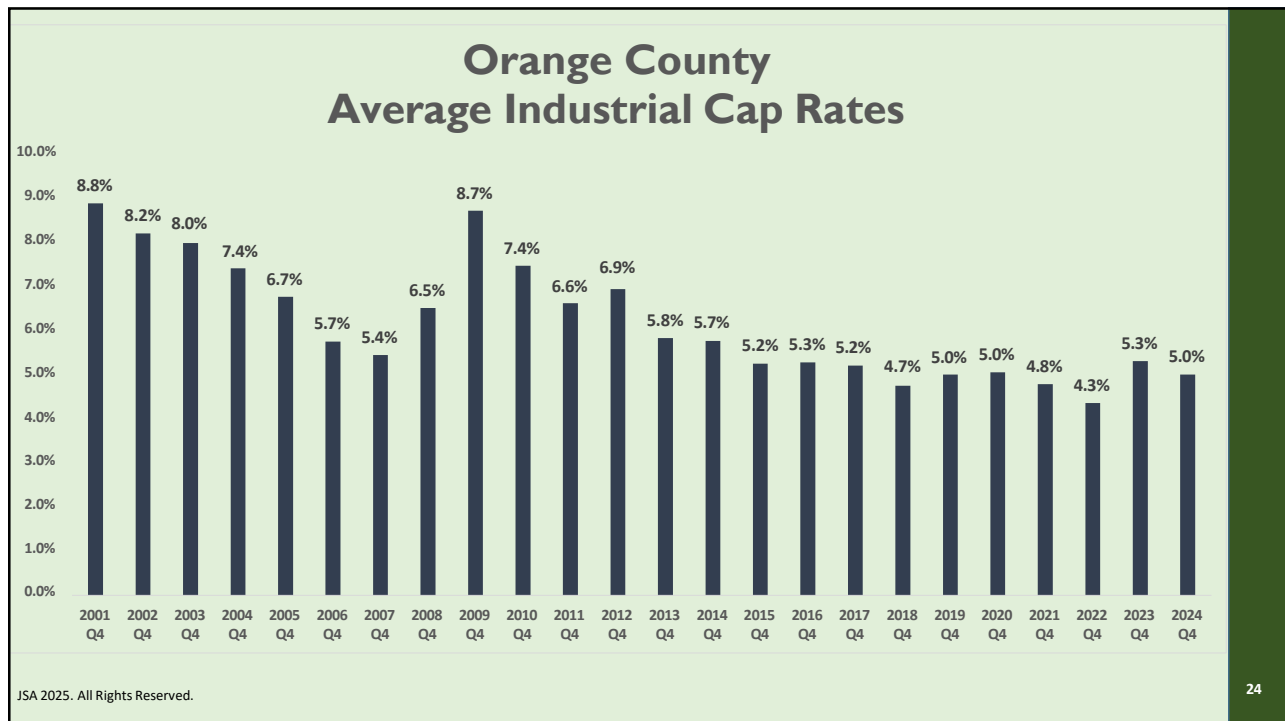
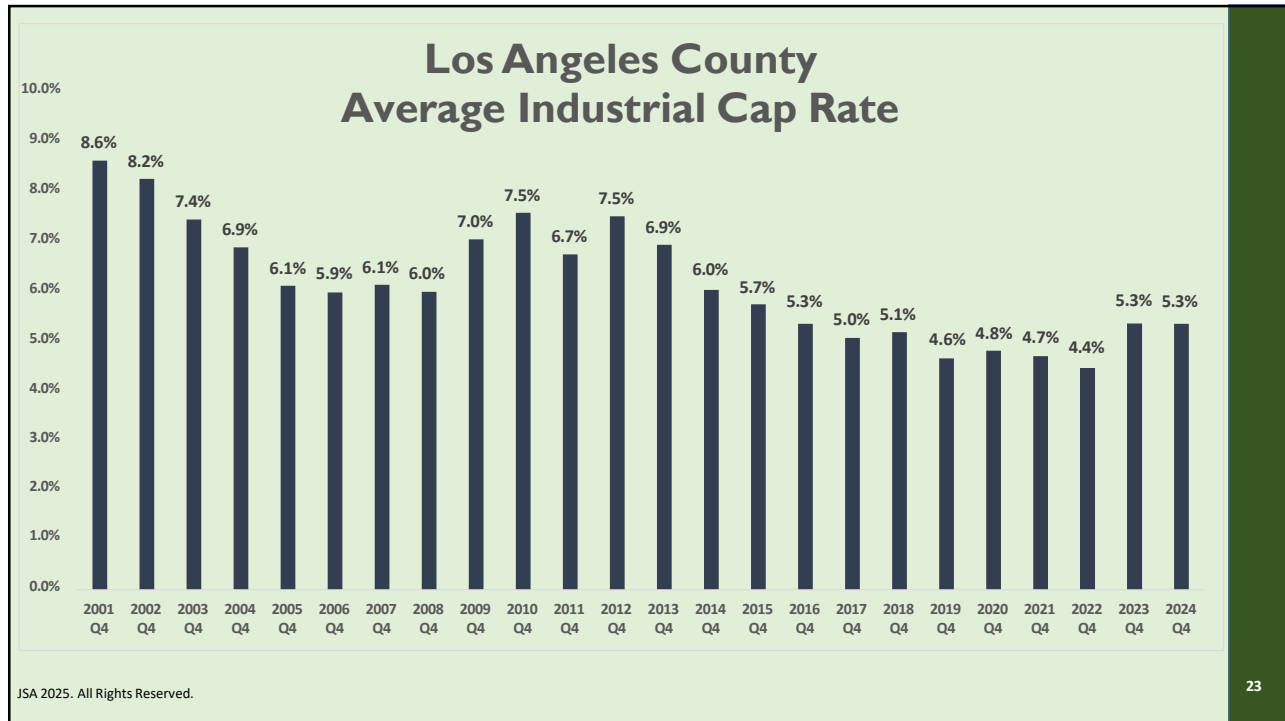
- Light
- Heavy
- Flex

## TRENDS

- Rising Vacancy
- Rising Cap Rates
- Declining Sales
  - Tariffs–Supply Chain

## UNIT OF MEASURE

- \$/SF/GBA
- \$/CF/GBV
- \$/TD



# INDUSTRIAL - NEW USE



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# PROPERTY TYPE - OFFICE

**OFFICE**

- General
- Medical

**TRENDS**

- Rising Cap Rates
- High Building Vacancy (General Office)
- Remote Worker
- Lease Renewals Rents Concessions

**UNIT OF MEASURE**

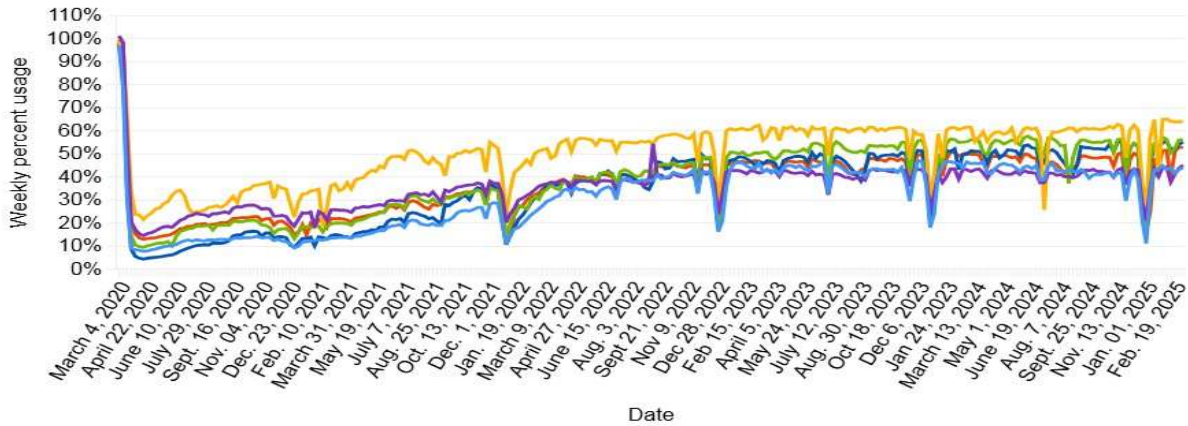
- \$/SF/GBA
- \$/SF/Rentable Area
- \$/SF/Useable Area

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# OFFICE OCCUPANCY

## Office use rises

Filter by markets



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Chart: Jelena Schulz



# OFFICE OCCUPANCY

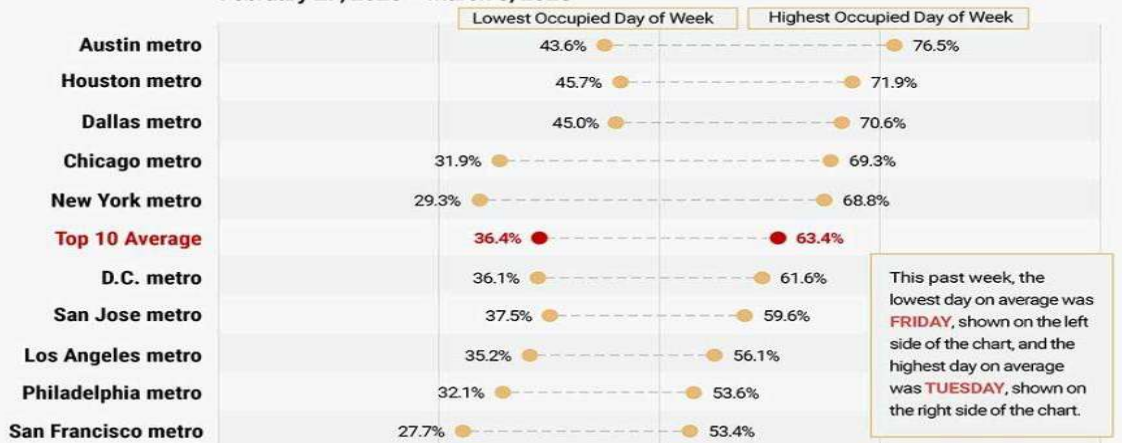


## 10-CITY DAILY ANALYSIS

Return to office rates vary significantly over the course of the week

3.10.25

February 27, 2025 – March 5, 2025



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# OFFICE CHANGE IN USE

100 Van Ness Avenue  
San Francisco

From: Office Tower  
To: 418 Apartments



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# PROPERTY TYPE - RETAIL

## RETAIL

- Freestanding
- Strip Mall
- Shopping Center
- Power Center
- Malls
- Open Air Life Style
- Mixed-Use

## TRENDS

- Rising Cap Rates
- Uptick Vacancy
- B&M Store Closures
- Lease Renewals Rents Concessions

## UNIT OF MEASURE

- \$/SF/GBA
- \$/SF/Rentable Area

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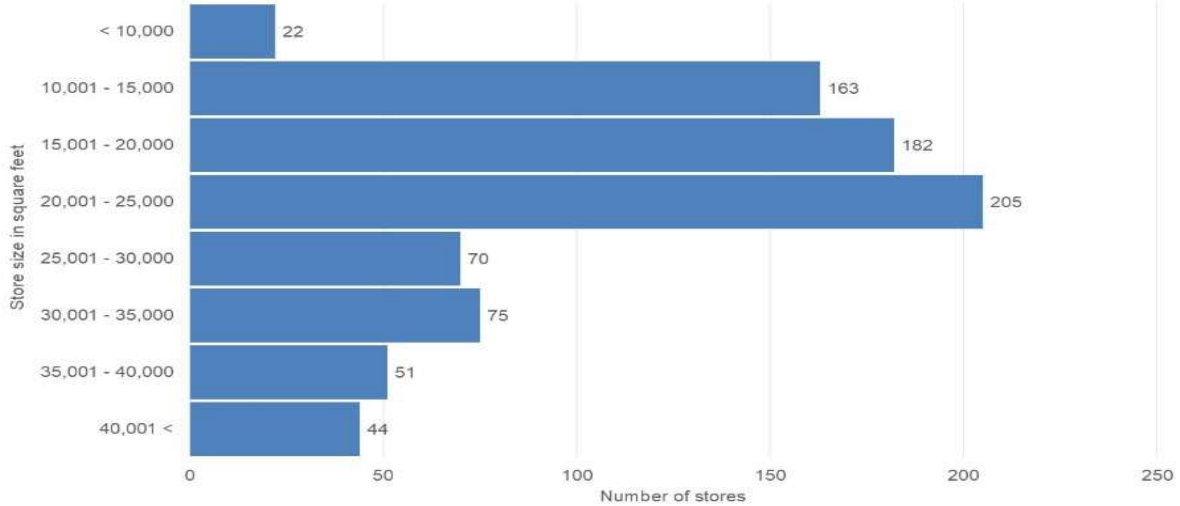
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# STORE CLOSURES

Majority of Joann stores between 10,000 to 25,000 square feet



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Source: CoStar, March 2025



# PROPERTY TYPE - APARTMENT

## APARTMENT

- Single Room Occupancy
- Corporate Housing
- Garden Style
- Low Rise
- Mid-Rise
- High-Rise

## TRENDS

- Higher Cap Rates
- RTI on Hold Labor & Material Cost
- Rent Control – Statewide
- Higher Cost of Doing Business
  - Insurance & Utilities

## UNIT OF MEASURE

- \$/SF
- \$/Door
- \$/Unit
- \$/Room

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# THE APPRAISAL PROCESS

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## STEP BY STEP PROCESS

<b>Engagement Letter</b>					
Client & Intended User	Intended Use	Type of Value	Date of Opinion	Property Characteristics	Assignment Condition
↓					
<b>Scope of Work Determination</b>					
Market Data, Region, City & Neighborhood		Subject Data Specific Characteristics Land & Improvements		Comparable Property Data, Sales, Listings, Vacancies, etc..	
↓					
<b>Data Analysis</b>					
Market Analysis, Demand, Supply & Marketability Studies			Highest & Best Use Analysis – As Vacant & As Improved		
↓					
<b>Application of the Approaches to Value</b>					
Cost Approach		Sales Comparison Approach		Income Capitalization Approach	
↓					
<b>Reconciliation of Value Indications and Final Opinion of Value</b>					

Source: USPAP

# INTENDED USERS/USES

## • USER (client)

- Lenders
- Attorneys
- Accountants
- Financial Advisors
- Insurance Co.
- Tax Authorities
- Developers/Builders
- Corporations
- Special Entities
- Property Owners
- Buyers/Sellers

## • USE (purpose)

- Financing
- Estate Planning
- Condemnation
- Buy/Sell Decisions
- Partnership Value
- Divorce Proceeding
- Private Lending
- Expert Witness
- Development Analysis
- Surplus/Excess Land
- Price Negotiations

## • USE *continued*

- Charitable Donation
- Tax & Gifting
- Litigation Support
- Financial Reporting
- Portfolio Evaluation
- Family Transactions
- Assessment Appeals
- Investment Decisions
- Bankruptcies
- Insurance
- Probate
- Highest and Best Use

# TYPES OF VALUE

**Value can have many meanings, and its definition depends on use**

- |                         |                            |
|-------------------------|----------------------------|
| ▪ Market Value          | During the Great Recession |
| ▪ Fair Market Value     | ▪ Liquidation Value        |
| ▪ Use Value             | ▪ Disposition Value        |
| ▪ Investment Value      |                            |
| ▪ Business Value        |                            |
| ▪ Public Interest Value |                            |
| ▪ Assessed Value        |                            |
| ▪ Insurable Value       |                            |

# WHAT DRIVES VALUE

## Key Valuation Detractors

- **Location or Market Conditions**
- **Maintenance & Structural Issues**
- **Vacancy Rates & Tenant Mix**
- **Zoning, Environmental, or Legal Issues**
- **Inefficient or Below/Above-Market Leases**
- **Parking or Property Amenities**

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# REPORT TYPE

## FORM REPORT (mostly residential appraisals)

- Often used for residential and some commercial properties

## NARRATIVE REPORT (mostly commercial appraisals)

Two types are used:

- 1) Restricted Report
  - Bar Bone state minimal presentation
- 2) Appraisal Report
  - Concise Presentation of the Information
  - Describe-Very Comprehensive Level of Detail

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# TYPE OF INTERESTS

- 1) **Fee Simple Estate (absolute, unencumbered ownership)**
  - Owner User
  - Sales Comparison Approach
  
- 2) **Leased Fee Estate (ownership encumbered by lease), and**
  - Property tied to a lease
  - Income Capitalization Approach
  
- 3) **Leasehold Estate (interest created and granted by lease and held by tenant)**
  - Long-term leasehold interest 30-50-99 years

# METHODOLOGY

## Simplified

### 1. Sales Comparison Approach

- Sales of comparable properties based on comparison to the subject
- Typically for Owner-User Property

### 2. Income Capitalization Approach – 2 Methods

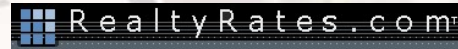
- 1-Year Stabilized & DCF
- $PGI \text{ Less } V\&CL = EGI - \text{Less Expenses} = NOI / \text{Divided by an Overall Rate}$   
Capitalizing the Income
- DCF – 5-10-20Year Forecast  
Typically income producing property tied to a lease or leases

### 3. Cost Approach

- Cost of the improvements less depreciation plus site value

# DATA SOURCES

- PWC (Korpacz) - Investor Survey - [www.pwc.com](http://www.pwc.com) (Private)
- RealtyRates.com – Investor Survey - [www.realtyrates.com](http://www.realtyrates.com) (Private)
- CBRE Cap Rate Survey
- CoStar (Sales Extraction) – [www.costar.com](http://www.costar.com) (Private)
- AIR CRE – Research & Listings Platform ( Land & Industrial) (Private)
- REIS/Moody’s - [www.moodyscres.com](http://www.moodyscres.com) (Private)
- National Council of RE Investment Fiduciaries (NCREIF) [www.ncreif.org](http://www.ncreif.org) (Private)
- REIT Data - [www.reit.com](http://www.reit.com) (Private)
- MLS – Local MLS (Private)
- Your Files – Golden
- Others



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# DATA SOURCES/PWC

## NATIONAL APARTMENT MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	4.00% – 6.25%	4.00% – 7.50%	4.00% – 8.00%	3.00% – 7.00%	3.50% – 7.00%
Average	5.16%	5.38%	5.59%	4.42%	5.15%
Change (Basis Points)		- 22	- 43	+ 74	+ 1

## PACIFIC REGION APARTMENT MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	4.25% – 6.50%	4.50% – 6.50%	3.50% – 6.50%	3.00% – 5.00%	3.65% – 6.00%
Average	5.44%	5.21%	5.04%	3.80%	4.56%
Change (Basis Points)		+ 23	+ 40	+ 164	+ 88

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# DATA SOURCES/PWC

## NATIONAL WAREHOUSE MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	4.00% – 7.50%	4.00% – 8.50%	3.00% – 7.00%	2.60% – 6.50%	3.75% – 6.40%
Average	5.27%	5.55%	5.23%	4.31%	4.87%
Change (Basis Points)		-28	+4	+96	+40

## PACIFIC REGION WAREHOUSE MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	4.75% – 6.50%	4.50% – 6.50%	4.50% – 6.50%	3.00% – 4.25%	3.70% – 5.50%
Average	5.41%	5.44%	5.23%	3.63%	4.21%
Change (Basis Points)		-3	+18	+178	+120

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# DATA SOURCES/PWC

## NATIONAL STRIP SHOPPING CENTER MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	5.50% – 10.00%	5.50% – 10.00%	5.25% – 10.00%	5.00% – 10.00%	4.50% – 10.00%
Average	7.25%	7.30%	7.50%	7.17%	6.75%
Change (Basis Points)		-5	-25	+8	+50

## NATIONAL NET LEASE MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	6.25% – 9.00%	6.25% – 9.00%	6.25% – 9.00%	5.00% – 7.50%	4.00% – 8.00%
Average	7.71%	7.51%	7.38%	6.22%	6.19%
Change (Basis Points)		+20	+33	+149	+152

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# DATA SOURCES/PWC

## NATIONAL CBD OFFICE MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	5.00% – 9.50%	5.00% – 9.50%	4.50% – 10.00%	4.25% – 8.50%	3.75% – 7.50%
Average	7.23%	7.09%	6.78%	5.80%	5.52%
Change (Basis Points)		+ 14	+ 45	+ 143	+ 171

## LOS ANGELES OFFICE MARKET

Fourth Quarter 2024

	CURRENT	LAST QUARTER	1 YEAR AGO	3 YEARS AGO	5 YEARS AGO
<b>OVERALL CAP RATE (OAR)<sup>a</sup></b>					
Range	6.50% – 11.00%	6.50% – 11.00%	6.00% – 10.00%	4.50% – 9.00%	4.25% – 8.00%
Average	8.78%	8.72%	7.97%	6.25%	6.04%
Change (Basis Points)		+ 6	+ 81	+ 253	+ 274

# DATA SOURCES

- Penner Expense Guides (Office, Industrial, Retail & Multi-Family)
- Bureau of Economic Analysis (BEA) Department of Commerce
- Bureau of Labor Statistics – Department of Labor
- Board of Governors of the Federal Reserve System
- California – Department of Finance
- California – EDD – Labor Market Info Data
- California Association of Realtors (CAR)
- Los Angeles Economic Development Corporation (LAEDC)
- Mortgage Bankers Association (MBA)
- Building Owners and Managers Association (BOMA)
- Institute of Real Estate Management (IREM)
- International Association of Shopping Centers (ICSC)
- National Association of Realtors (NAR)
- National Apartment Association (NAA)
- National Association of Home Builders (NAHB)
- National Council of Real Estate Investment Fiduciaries (NCREIF)
- National Multi Housing Council (NMHC)
- Society of Industrial and Office Realtors (SIOR)
- And others...

# TIMING & FEE

## TIMING & FEE

- Order the appraisal early, for the following reasons:
  - Time involved to complete the report.
  - Time to address any unforeseen problems or delays in obtaining information or access to property.
  - Time to notify client of any valuation issues that may arise.
  
- Typical timeline for noncomplex properties after inspection:
  - Residential 2-3 Days
  - Commercial 2-3 Weeks



## TIMING & FEE

- |  |  |   |
|--|--|---|
| <ul style="list-style-type: none"> <li>▪ Purpose               <ul style="list-style-type: none"> <li>▪ Litigation, Estate Planning, Gifting</li> </ul> </li> </ul>                                  |  <b>Purpose</b>       |  <b>Date of Value</b>              |
| <ul style="list-style-type: none"> <li>▪ Property Type               <ul style="list-style-type: none"> <li>▪ Residential or Commercial</li> </ul> </li> </ul>                                       |  <b>Timing</b>        |  <b>Intended User</b>              |
| <ul style="list-style-type: none"> <li>▪ Report Format               <ul style="list-style-type: none"> <li>▪ Restricted Report – Faster</li> <li>▪ Appraisal Report - Longer</li> </ul> </li> </ul> |  <b>Intended Use</b>  |  <b>Property List or Tax Bills</b> |
| <ul style="list-style-type: none"> <li>▪ Complexity               <ul style="list-style-type: none"> <li>▪ (Class A 10+ Story Office Building)</li> </ul> </li> </ul>                                |  <b>Report Type</b>   |  <b>Known Conditions</b>           |
| <ul style="list-style-type: none"> <li>▪ Required Turn-Around               <ul style="list-style-type: none"> <li>▪ Is It a RUSH?</li> </ul> </li> </ul>  |  <b>Type of Value</b> |   |

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## DOCUMENTS REQUEST LIST

- Financials for the prior three years of Income and Loss Statements and U.S. Tax Returns
- Current Rent Roll, as of the Date of Value
- List of Capital Improvements made within the last 3-5 years, if available
- List of Deferred Maintenance, if any
- Copies of Building Plans, if available
- Copies Broker Opinion Letter(s), if available
- Copies of Soil/Environmental Report(s), if available
- Copies of available Title Report(s), if available
- Any other documents or agreements which you think could have an impact upon the value of the real property which has not been indicated above

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**BONUS MATERIAL**

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**BONUS MATERIAL**

**Common USPAP Violations Made by Appraisers**

- Improper comparable selection
- Failing to analyze lease(s)
- Failing to analyze sales history
- Failure to account for deferred maintenance
- Failure to account for functional obsolescence
- Failure to summarize the reconciliation process
- Appraisal report does not meet USPAP requirements
- Poor or Vague Report Writing
- Using Outdated Data
- Flawed Income Capitalization
- Incorrect Lease Analysis
- Overlooking Property-Specific Issues
- Inaccurate Highest and Best Use Analysis
- Mischaracterization of the S.P.

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## FREQUENTLY ASKED QUESTIONS

- **CAN AN APPRAISER RE-ADDRESS A REPORT TO ANOTHER PARTY ONCE IT HAS BEEN COMPLETED?**
  - No. However, the appraiser can consider it a new assignment, with a new engagement letter, new fee, new client-appraiser relationship, and take the necessary steps to ensure confidentiality of any prior information. Criminal charges now being filed against appraisers for complying with re-address requests.
- **FOR ESTATE APPRAISALS, WHO DETERMINES DATE OF VALUE?**
  - Since DOV can be DOD or 6 months later, always have the client (often an attorney or CPA) indicate which DOV they wish to use.
- **WHO SHOULD ORDER THE APPRAISAL?**
  - If this is a federally regulated transaction-the lender should place the order.
- **CAN AN APPRAISER DISCLOSE THE RESULTS OF AN ASSIGNMENT TO ANYONE OTHER THAN THE CLIENT?**
  - No, not without the client's permission, due to a confidentiality obligation to the client.

## FREQUENTLY ASKED QUESTIONS

- **IF THE PROPERTY OWNER HAS PAID FOR AN APPRAISAL FOR ESTATE PLANNING PURPOSES, IS THE OWNER ENTITLED TO A COPY OF THE APPRAISAL?**
  - Yes, the Attorney/CPA – not the appraiser - is responsible for providing a copy to the client.
- **ARE CLIENT AND INTENDED USER ALWAYS THE SAME ENTITY?**
  - No. Client is the person who engages the appraiser in a specific assignment. This may or may not also be the intended user. The intended user(s) is identified in the report and was established at the time of the assignment.
- **A PERSON CONTACTS THE APPRAISER AND HAS QUESTIONS REGARDING THE APPRAISAL. CAN THE APPRAISER RESPOND?**
  - If it is the client asking, appraiser may answer. If it is not the client, appraiser may not.
- **CAN AN APPRAISER WHO PREVIOUSLY APPRAISED A PROPERTY DO SO AGAIN FOR ANOTHER PARTY?**
  - Yes, as long as the results & any confidential information are not disclosed to the new client. It is considered a new assignment, new client appraiser relationship, new engagement letter, and new fee.

# THANK YOU

## Q & A

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