ATTACHMENTS TO LRPMP STAFF REPORT

Attachment 3:

Allan Kotin Memorandum Regarding Appraisal

ADK&A

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Memorandum

TO: Bob Moran **DATE:** August 4, 2013
CC:
FROM: Allan D. Kotin
RE: **COMMENTS ON APPRAISAL FOR 7718 SANTA MONICA BOULEVARD, WEST HOLLYWOOD**

At your request, Allan D Kotin and Associates (ADK&A) has reviewed an appraisal of a 10,000 square foot property at 7718 Santa Monica Boulevard in the City of West Hollywood. This appraisal was prepared for the law firm of Jenkins & Hogin, the law firm which serves as City Attorney and presumably counsel to the Successor Agency in West Hollywood. This appraisal has been prepared in connection with the West Hollywood LRPMP apparently to facilitate the transfer of the property to the City.

The purpose of the appraisal appears to be to set a value for transfer of the property of the property to the City which currently operates a public/valet parking lot and rents out a large billboard on the site. The terms of the appraisal, as prescribed in the Oversight Committee staff report[1] and also set forth in the appraisal itself, limit the appraisal to the land "as if vacant" and explicitly exclude any consideration of either billboard or parking lot impact on value.

General Observations

Within the limitations stated in the appraisal the value conclusion of $2,470,000 ($247 per square foot) appears to be reasonable. Subject to comments below on exclusions, there would be no reason to challenge this valuation.

Whether or not the limitations are appropriate is of some interest. These are not typical exclusions as acknowledged in the staff report. The City may well get substantial revenue as discussed below.

Comments on the Appraisal

Syn-Mar Associates, the appraisal firm retained for this purpose, prepared—perhaps appropriately—a very formulaic appraisal which included extensive discussions of procedure and assumptions, much of which was irrelevant to the narrowly focused nature of this appraisal which excludes any discussion of improvements, cost, and income, and deals only with valuing the land as vacant.

The selection of comparables, which is always the most sensitive issue in an appraisal that uses only the comparable sales approach, is generally acceptable. Although the inclusion of several parking lots in much less popular parts of Los Angeles did seem to load the list somewhat with lower

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[1] Since the material transmitted to ADK&A did not provide the needed background on the basis for the appraisal instructions, the Successor Agency Staff Report for the Oversight Committee Meeting dated July 11, 2013 was obtained on the web and reviewed so as to better understand the otherwise rather unusual exclusion from valuation of two key sources of revenue to the property.

values for comparison, the few direct and recent local comparable sales in West Hollywood do support the value conclusion.

Impact of the Exclusionary Assumptions

Two key sources of income to the property are excluded from consideration in the appraisal and the resulting valuation, the billboard rental and parking revenues. The rationale for excluding the billboard revenue from consideration is reproduced from the staff report below:

> *The appraisal addressed the fee simple value of the underlying land for the property, because if the land were sold to a third party it would likely be redeveloped as a mixed-use, retail, or residential project. Additionally, the current billboard improvements are only permissible as long as the property remains a public asset; a zoning waiver was granted that allowed the billboard to be constructed only if the lot remained a public use.*

No direct rationale is given for excluding parking use or income which, in my view, could augment the sales price by providing a potentially valuable source of interim income.

I do not know whether the City's revenue realization is in any way a consideration in establishing the transfer price, but I thought it might be useful to estimate the revenue.

Without any detailed research and relying only on my general knowledge I created the following range estimates[2] of annual revenue to the City.

	Parking Net/Space Per Month	Monthly Billboard Rental	Annual Total Revenue
LOW	$100	$500	$39,600
MEDIUM	$150	$1,250	$65,400
HIGH	$200	$2,000	$91,200

Even with the high revenue, the property would be worth more than the appraised value only if the cap rate were less than 4%. ($2.47 million earning 4% creates $99,000 per year.) Since clearly capitalization rates for such uses are much higher than 4%, the "as vacant" value is higher. Whether or not there is any other advantage that could be obtained in consideration of the City's revenue potential is something to possibly consider.

[2] These assume that the billboard is not a high premium digital billboard.