

THE GREENFIELD ADVISOR

Greenfield Facilitates Major Wyoming Preservation

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In the past couple of weeks, several newspapers, particularly the *Pittsburgh Post-Gazette*, have picked up on the story of a \$7 million portion of Cook's Ranch near Wheatland, Wyoming, contributed to the scientific community. Dr. Bill Mundy, one of the world's leading authorities on trophy property and founder of Greenfield Advisors, played a prominent role in the transaction.

Allen Cook, owner of the 120,000-acre ranch, agreed to donate one of the most fossil-rich sites in America to the University of Pittsburgh, the University of Wyoming, and the Carnegie Museum of Natural History. Cook had originally engaged Dr. Mundy to facilitate selling the land.

Mundy, immediately recognized the unique significance of the site and suggested that he facilitate a donation instead. With Cook's agreement, Dr. Mundy, who has lectured at the U. Pittsburgh Honor's College, contacted his old graduate-school colleague, Dr. Alec Steward, now a Dean at Pittsburgh.

The site will be used in perpetuity by students and researchers to study geology, archeology, and paleontology. It encompasses parts of three different geological formations, valued for many important discoveries, including *Deinonychus* – the dinosaur made famous as the raptor in the film "Jurassic Park".

Dr. John Kilpatrick will speak on March 3, 2006 at the Brownfield Redevelopment Conference in Anchorage Alaska. For more information, please contact www.lawseminars.com.

The Real Estate Market

The quarterly *Market Perspective* from [Prudential Real Estate Advisors](#) just hit our desks this week. Dr. Yougou Liang and his team at PREA do one of the best jobs in the industry of explaining the impacts of the overall economy on real estate investments and returns.

They project that 2006 will continue to be a good year for real estate investments, although the attractiveness has diminished compared to recent years. The biggest challenge facing the industry is how to accommodate the need for liquidity without disrupting equilibrium in the space or capital markets.

The flattened yield curve is apparently frustrating some highly-leveraged borrowers, particularly the speculators in the condo-conversion segment of the market. Evidence suggests lenders are growing increasingly cautious in markets like Miami, Las Vegas, Chicago, and San Diego.

REITs have now outperformed the broader equity market for six straight years. The NAREIT equity REIT index came in at 12.2% for 2005, compared to 4.9% for the S&P 500. Performance was strong across most property sectors, with only manufactured homes and free-standing retail coming in with negative returns, albeit modestly. However, exchange-traded fund and hedge fund participation in the REIT market added increased volatility to the index, causing struggles in the index for the first half of the year.

REIT capital offerings were also strong in 2005, totaling \$38.2 Billion for the year, just shy of the \$38.8 Billion total for 2004. REIT equity offerings actually fell, due to a decline in REIT IPO's, but debt offerings increased significantly, from \$17.3 B in 2004 to \$22 B in 2005.

The real estate property market soared in 2005, according to Real Capital Analytics, with total transaction volume reaching approximately \$250 B, a rise of 35% over 2004 and double 2003's total. Much of this stems from improvements in fundamentals. For example, according to Torto-Wheaton, office vacancies in the top-50 markets declined to 13.6% by the end of 2005, down from 15.4% at the end of 2004. Other sectors report similar improvements in fundamentals.

AI/RICS Announce Joint Valuation Conference

The Appraisal Institute and the Royal Institution of Chartered Surveyors (RICS) have announced their first joint valuation conference, to be held in New York City on March 8. Fundamental issues of what defines real estate value will be discussed, with particular emphasis on how real estate valuation fits into the scheme of new international financial reporting standards.

Formed in the 1990's from the merger of the Society of Real Estate Appraisers and the American Institute of Real Estate Appraisers, the Appraisal Institute, headquartered in Chicago, has 18,000 members, primarily in the United States. RICS, headquartered in London with chapters throughout the U.S. and Canada, was founded in 1868. It is the world's oldest valuation organization, with 120,000 members world-wide.

Greenfield Advisors principals are members of both organizations. Dr. John Kilpatrick will represent Greenfield at this conference.

Appraisal Simplified

With increasing real estate investment by publicly traded firms, there is significant pressure to find statistically valid yet simple methods for appraising income-producing property that will satisfy financial reporting standards. Important, too, is the need for these methods to be congruent with traditional financial valuation models, such as CAPM.

In the current *Journal of Real Estate Literature*, Prof. John McDonald (U. Illinois-Chicago) has proposed an elegantly simple model that combines *Tobin's Q* with *CAPM* to produce an easy-to-use real estate valuation formula. His model shows that Market Value of an income-producing real estate asset is simply *Q* times the reproduction cost, which is also equal to the expected after-tax earnings divided by the risk adjusted discount rate, adjusted for taxes, times an adjustment term for borrowing.

Highest and Best Use... versus "Lowest and Worst"?

Real estate appraisers are fond of the term "highest and best use," to describe how an appraisal of the market value of a property is done under the explicit assumption that the property is used (or will be used) at its maximally productive use. However, we've never seen the phrase "lowest and worst use" used.... Until now.

The case was a simple condemnation in Connecticut, *Commissioner of Transportation v. Candlewood Valley Country Club, Inc.* (2005 Conn. Super. LEXIS 3308, November 29, 2005). The state needed to take a portion of the Country Club for a road widening, and after conducting what appeared to be a simple appraisal, offered the Club \$109,000. The Club countered with its own appraisal at \$390,000. The court, reviewing the condemnation, used the phrase "lowest and worst" to describe the State's appraisal, and awarded the Club more-or-less what they asked for, plus appraisers' fees and interest.

The problem? The State's appraiser only used one comparable transaction in the valuation, and that one was a semi-gift sale to a church under less-than-arms-length conditions.

Admittedly, the Club's appraiser wasn't without blemishes, either. However, the Club successfully demonstrated that the highest and best use of the property in question was for commercial development, and not for a "gift-sale" to a church.

Appraisal... versus Auction?

Appraisers render an opinion of market value. Auctioneers (many of whom are also appraisers) would contend that an absolute auction, when properly conducted, is a better indicator of market value. That was the primary question at hand in a recent Federal case involving a Wyoming auction, *Ronald L. Simek, Plaintiff-Appellant, v. J.P. King Auction Company, Defendant-Appellee* (2005 U.S. App. LEXIS 26967, December 8, 2005). Simek hired King to auction his custom-built log residence located on twenty acres of riverfront property in the vicinity of Cody, Wyoming. Simek's attorneys quietly formed an LLC to qualify as one of the bidders, and that LLC bid \$800,000 on the day of the auction. The property subsequently sold to the highest bidder for \$1,155,000. This was less than Mr. Simek's mortgage balance (\$1,256,027.27), and was a disappointment to Mr. Simek, who believed the property was worth at least \$3 million.

Simek filed suit on a number of issues, but the core of the matter was whether or not the auction actually arrived at a market-value transaction. At trial, Simek presented an appraiser who opined that the property was worth \$2.2 million, while King presented county tax assessment records showing the property was worth \$1.5 million.

The jury found for King, holding that the auction was, in fact, a market-value transaction, which was upheld on appeal.