

The slide features a light beige background with two horizontal black lines, one near the top and one near the bottom. On the left side, a curved black line starts from the top line and curves downwards. On the right side, a curved black line starts from the bottom line and curves upwards.

Office Vacancy and Commercial Valuation Trends

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Valuation Basics

From the Assessors Perspective



Valuation Basics

Institutional Grade Vs Non-Investment Grade Property

- **Different Buyers/Different Motivations**
 - **Investors vs Owner Occupiers**
- **Use of Survey Data**
- **Affect of Financing- Rates and Availability**
- **Direct Capitalization**
 - **One year NOI vs Normalized NOI**

Valuation Basics

Use of Income & Expense Data and Benchmarking

- **Income and Expense Return Data**
 - Are you getting good returns?
 - What property types should be providing good returns?
 - Make the most of your time
 - Sales
 - New tenants/leases
 - Renewals
 - Benchmarking- A Downtown Row Sale Example

Valuation Basics

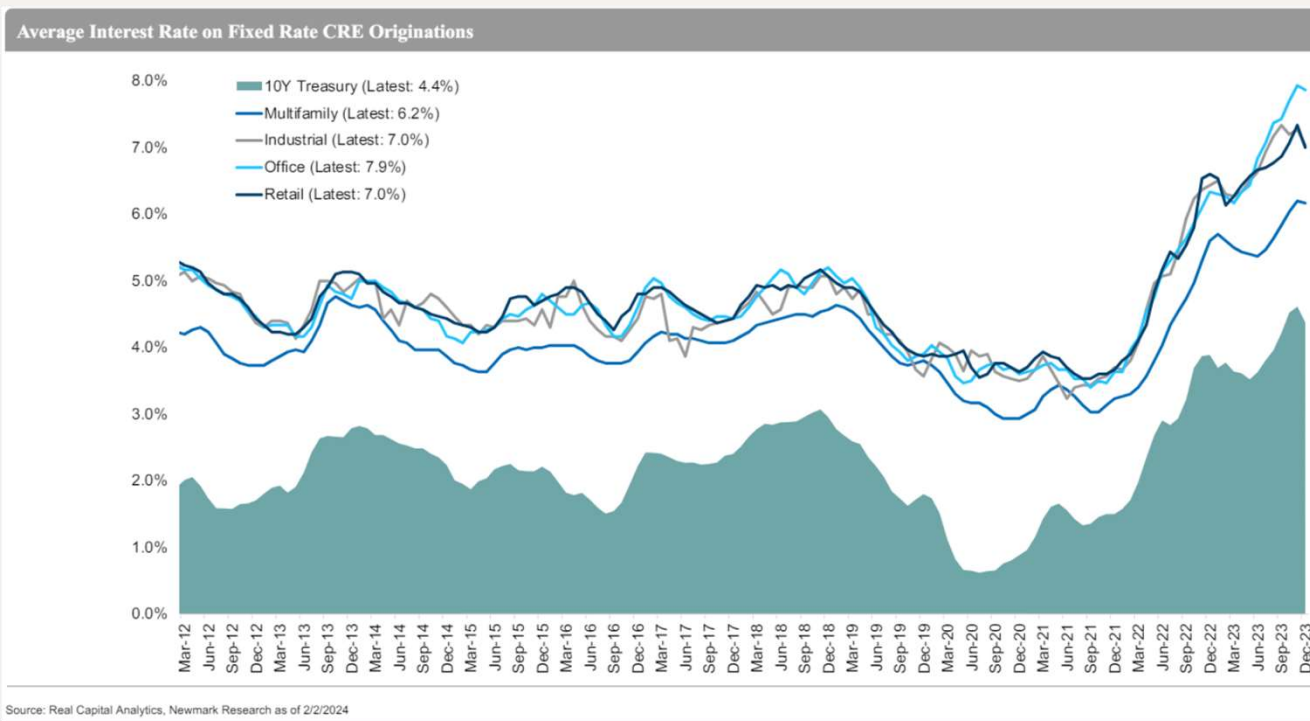
Income Modeling for Mass Appraisal

- Are they in Excel?
- Are Cap rates loaded for all classes?
- Interim Year Adjustments- A valuable tool



Valuation Basics

Effects of Financing



Effects of Financing

3%

\$4,216

Monthly Payment on
a \$1 million loan
2020

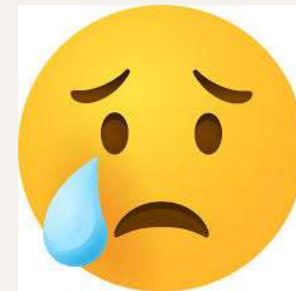
7%

\$6,653

Monthly Payment on
a \$1 million loan
April 2024

57.8%

Increase



02

Office Market

The Great Unknown



Office- The Great Unknown

Whats Happening

- The work from home model
 - Unknown Future
- Location Matters
 - Metro Boston vs The Burbs
- Quality Matters
 - High End Class A amenities in demand
 - Getting people back to the office-Cafeterias, Onsite Gyms, Daycare



Office- The Great Unknown

Whats Happening

- **Vacancy and Renewals**
 - Vacancy can be skewed based on leases in place
 - Many businesses looking to reduce footprint
 - Owners forced to offer concessions
 - Same space/less rent
 - Rent concessions



Office- The Great Unknown


Cap Rates...

Post Covid-19

Cap Rates and Vacancy continue to increase (aka Value down)
Fed rate changes and risk

REGIONAL RATES COMPARISON - OFFICE						
	CAP RATE	DISCOUNT RATE	MARKET RENT (\$/SF)	VACANCY RATE	Q3'22 - Q3'23	
					CAP RATE ▲	VACANCY RATE ▲
EAST REGION						
CBD Class A	8.02%	9.14%			▲ 90 bps	
Suburban Class A	8.48%	9.59%	\$40.04	16.82%	▲ 90 bps	▲ 160 bps
CBD Class B	8.65%	9.73%			▲ 85 bps	
Suburban Class B	9.16%	10.20%	\$27.60	17.85%	▲ 77 bps	▲ 16 bps

Source: IRR Viewpoint 2024



Office- The Great Unknown

The approach we took...

- **Post Covid Valuation Date Model Adjustments**
 - **Vacancy Up**
 - **Cap Rate Up (Risk)**
- **Two Post Covid Office Sales (late 2022)-**
 - **Multi Tenant Buildings +/- 25,000**
 - **Prices / Foot at 147/159 per foot**
 - **ASR's at .93/.92**
 - **Actual vacancies likely in 30% range**
 - **Different Buyers-Owner Occupiers vs Investors**



03

Retail Market

A Period of Transition



Retail- A Period of Transition

Whats Happening

- **Big Box Getting Smaller**
 - Footprints shrinking
 - Keeping less inventory on hand
 - Rear space less value
- **Grocery Stores**
 - Investor Preference towards Grocery Anchored
 - New grocery conversion with smaller footprints
 - Aldi/Mom's Organic



Retail- A Period of Transition

Whats Happening

- **Live/Work/Play Model**
 - High End retail and restaurants
 - On site living- apartments and condominiums
- **Non-Typical Uses**
 - Minute Clinics/Medical Offices
 - Daycares



Retail- A Period of Transition

Whats Happening

- The Death of the Anchor Store?
 - Entertainment- Dave and Busters, Pickleball, Indoor Golf, Escape rooms
 - Concerns of the “fad” slowing down and over saturation
- Other Conversions
 - Self Storage
 - Distribution Centers
 - Medical use



04

Hotels

On the way back?



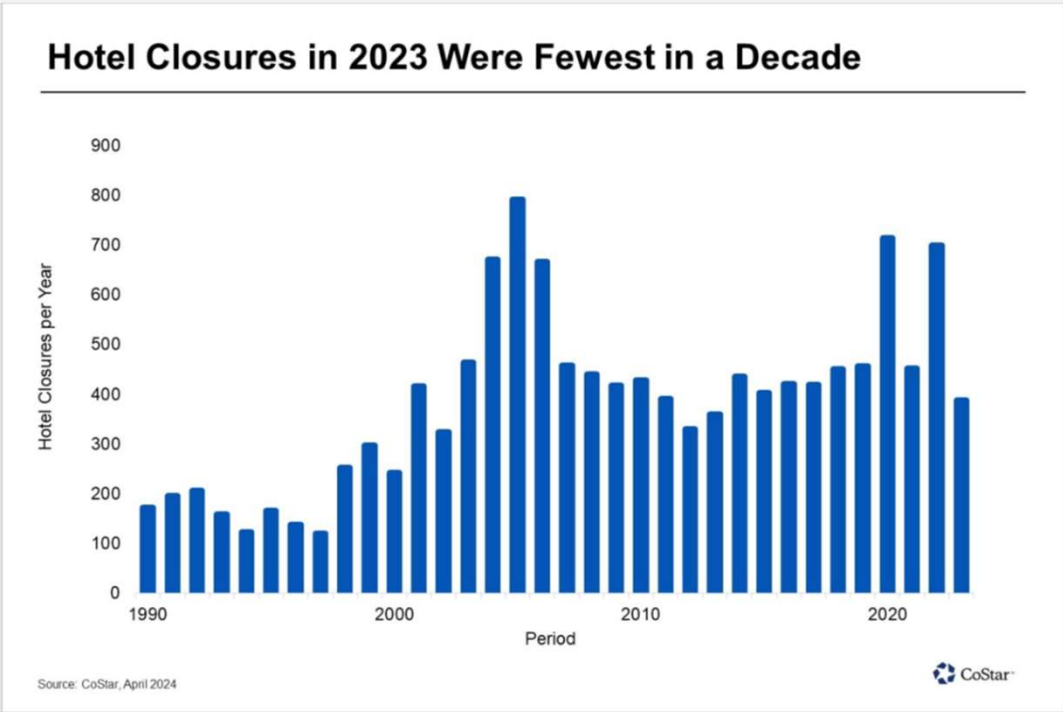
Hotels- On the way back?

Whats Happening

- **Occupancy Improving**
 - **Business Travel still down**
 - **Local trend- refugee occupancy**
 - **Low to Mid priced hotels**
 - **Not permanent income stream**



Hotels- On the way back?



Hotels- On the way back?

What to do

- Review 38D's (should be providing!)

	Occupancy	ADR	% Chg	RevPAR	% Chg
2019	65.9 %	\$131		\$86	
2020	44.0	103	-21.1 %	45	-47.4 %
2021	57.5	125	21.0	72	58.3
2022	62.7	149	19.1	93	29.8
2023	63.0	156	4.6	98	5.1
2024	63.4	159	2.0	101	2.7

Source: HVS, Hotel Industry Outlook 2024

05

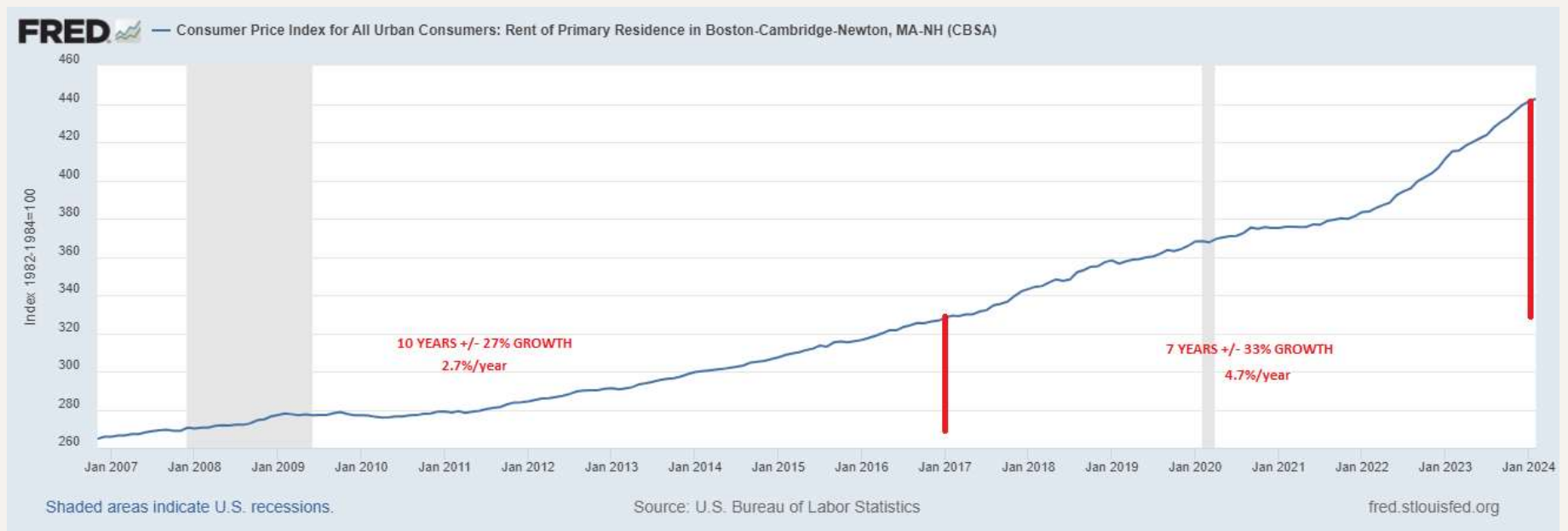
Apartments

Wow, rents are high?



Apartments- Wow, rents are high!

Whats Happening



Apartments- Wow, rents are high!

What to do?

- Review 111's and 112's separately- Different investors and markets (and models)
 - 111's
 - May need other rent sources- Craigslist, etc.
 - Cap rates harder to determine
 - 38D returns not generally normalized;
 - I.e. expenses taken as the occur



Apartments- Wow, rents are high!

What to do?

- 112's
 - Investment grade-can utilize Cap rate surveys
 - Should be providing full returns
 - Account for Affordable units

PROPERTY	LOCATION	# UNITS	SALE DATE	PRICE	PRICE/UNIT
MATRIX	HUDSON	176	NOV 2022	\$ 55,500,000	\$ 315,341
WOODVIEW	HOPKINTON	240	FEB 2023	\$ 82,500,000	\$ 343,750
ROLLING GREEN	MILFORD	304	JAN 2022	\$ 87,000,000	\$ 286,184
THE RETREAT	MARLBOROUGH	205	APRIL 2022	\$ 101,000,000	\$ 492,683
ORCHARDS	MARLBOROUGH	156	MAY 2022	\$ 59,200,000	\$ 379,487
	FRAMINGHAM	72	NOV 2022	\$ 24,000,000	\$ 333,333
ELLINGTON	WESTBOROUGH	280	NOV 2021	\$ 100,000,000	\$ 357,143
AVENU	NATICK	164	SEPT 2022	\$ 86,500,000	\$ 527,439
	AVERAGE	200			\$ 379,420
	MEDIAN	191			\$ 350,446



Sales from Worcester Business Journal

06

Industrial/Flex

Will the trend continue?



Industrial/Flex- Will the Trend Continue

Whats Happening

- Warehouse/Truck terminal demand driven by “click” shopping
 - Same day delivery goal-need to be close to major markets
 - Accelerated by Covid-19, not going away
- BIO Tech and Medical Lab space
- Increasing Rents- may have stabilized
- Marketing is everything “flex” space
- Rush to build slowing

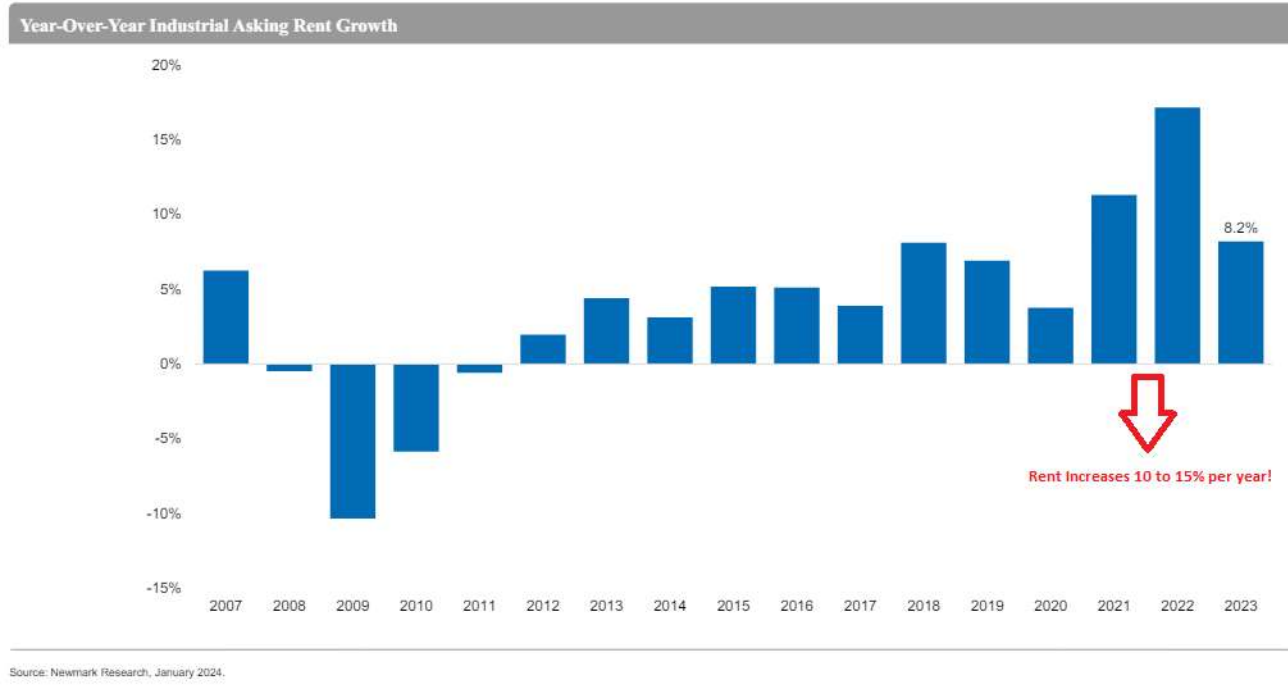


Industrial/Flex- Will the Trend Continue

Whats Happening

Rent Growth Slowing
But still strong

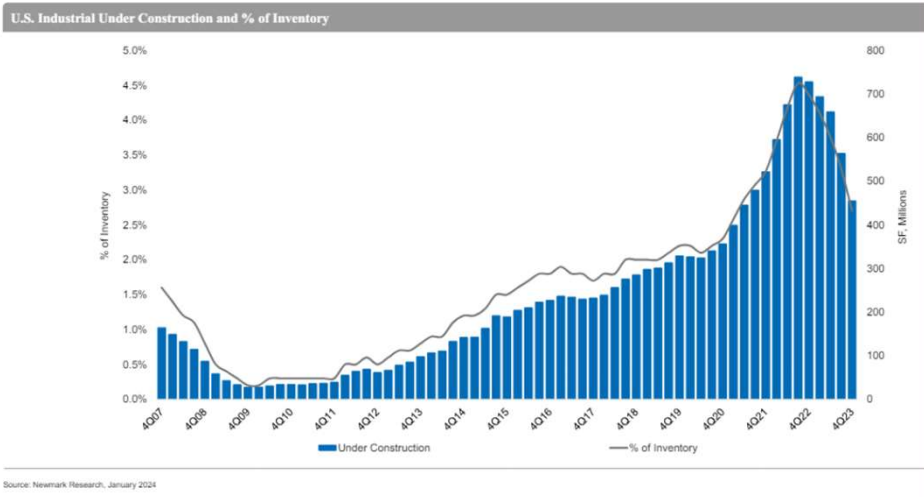
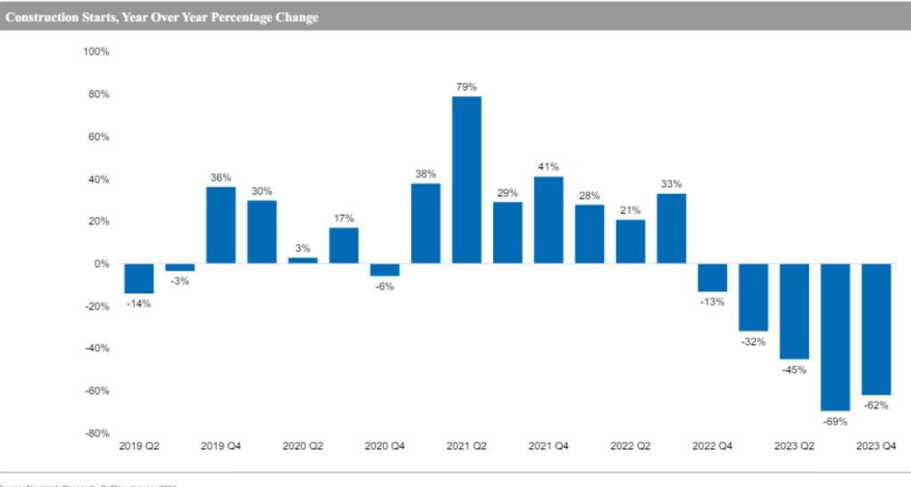
Appeals- Can't use actual
(contract) rent!



Industrial/Flex- Will the Trend Continue

Whats Happening

New Construction boom slowing

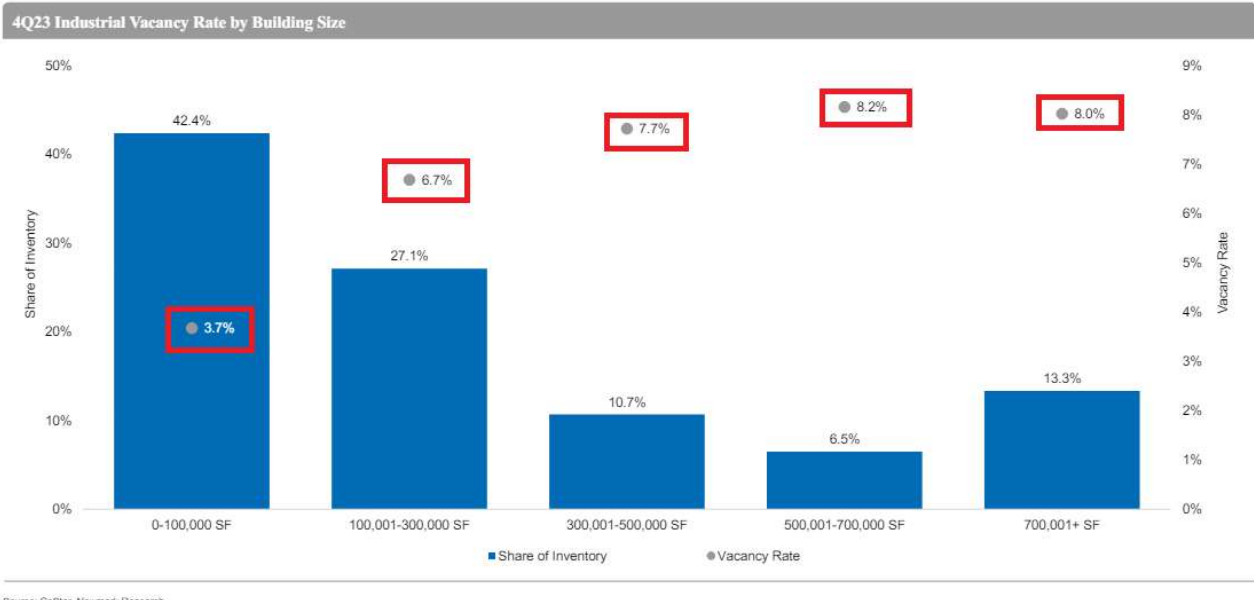


Industrial/Flex- Will the Trend Continue

Whats Happening

Where is the demand?

- Smaller space
- Often for owner occupants



Source: CoStar, Newmark Research

Conclusion

- Interim Year Adjustments
 - Great tool, avoids huge shift
 - Should be done for commercial too- small adjustments to models (rents, vacancy, cap rates) when market is shifting (interest rate changes)
 - Use of Survey Data
 - Generally more for investment grade property
 - Appeals
 - One year NOI vs Normalized NOI
 - Vacancy allowance (even when 100% occupied-single tenant)
-