Appraisal of Historic Property

Appraisal Methods:

- Sales Comparison Approach
- Income Approach
- Cost Approach
Sales Comparison Approach

• Find recent sales data for comparable properties
• Adjust for differences (age, amenities, location, square footage)

Income Approach

• Estimate Gross Expected Income
• Estimate Operating Expenses
• Calculate Net Operating Income
• Capitalize income

Income Approach

• Capitalize income

<table>
<thead>
<tr>
<th>Gross Income:</th>
<th>$500,000</th>
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<tbody>
<tr>
<td>Operating Expenses:</td>
<td>-400,000</td>
</tr>
<tr>
<td>Net Income:</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Capitalization Rate 10%

Value = NOI/Cap Rate = $100,000/0.10 = $1,000,000
Cost Approach
• Define all replacement costs
• Calculate total cost of complete replacement

Economic Analysis

Pro Forma
• Schedule of all projected cash flows related to a potential project.
• Used to provide analysis of potential returns.
Efficiency (%):

Net Rentable Floor Square Footage (NRSF) / Gross Square Footage (GSF)

Depreciation: Schedule of costs associated with the repair and maintenance of the building.
   27.5 Years for Residential
   39.0 years for commercial

Amortization: Schedule of payments needed to retire the principal of the loan.
Term: Length of time the loan will be paid (divided into equal periods).
Interest Rate: Percentage of loan paid as cost of using the funds.
Principal: Remaining balance of the loan

Annual Debt Service (ADS): Total of interest and principal paid in one year
Net Present Value: current value of all future cash flows.
Internal Rate of Return: annualized rate of all cash flows.
**Loan to Value (LTV) (%)**:  
\[
\frac{\text{Loan Amount}}{\text{Total Value of Project}}
\]

**Debt Coverage Ratio**:  
- **Net Operating Income (NOI)**  
- **Annual Debt Service (ADS)**

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**Payment**: determined by using the capital recovery factor

\[
\text{CRF} = \frac{i (1+i)^n}{(1+i)^n-1}
\]

- **n** = periods  
- **i** = periodic interest rate

**Example**: $100,000, i=6%, p=30 years  
**Payment**: $599.55/month
Economic Incentives

- Tax Credits
- Tax Abatements
- Revolving Loan Funds
- Grants

SUMMARY OF RESULTS

<table>
<thead>
<tr>
<th>Project</th>
<th>Economic Analysis</th>
<th>Other Notes</th>
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<tbody>
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</table>

This table summarizes the economic performance of the project:

Economic Feasibility
- The project will most likely produce a positive NPV.
- The project will most likely produce a positive IRR.

Economic Acceptability
- The project will most likely produce a positive IRR.
- The project will most likely produce a positive NPV.

Based on the economic performance requirements, the project is economically acceptable.
Tax Credits
- State and National programs
- Separate criteria
- Specific market segments
- Specific costs covered
- May be combined with other programs

Federal Tax Credits
- Income producing industrial, commercial or rental residential property
- Certified historic structure
- 20% of rehabilitation costs: at least $5000 or the adjusted basis for the property; whichever is greater
  - Exterior walls 75%/50%
  - Interior Structure: 75%
- Carry-forward/Recapture

Utah Tax Credits
- Residential only
- Certified historic structure
- 20% of qualified rehabilitation costs of at least $10,000
- Carry-forward/Recapture
Tax Abatements
- State and Local programs
- Separate criteria
- Specific market segments
- Specific costs covered

Loan Programs
- Revolving funds
- Below market interest rates
- Self-replenishing

Grants
- Federal, State, and Local
- No repayment
- May require matching funds