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Your Accounting for a New Economy

How to Determine the Market Value of Your Commercial Real Estate Property

If you're considering the purchase or sell of a property in the near future, the ability to estimate the market value of the property can be an indispensable skill. When a commercial real estate investor hires a professional appraiser to determine market value on a property, the appraiser analyzes current market conditions and compares your property with comparable property listings as well as recently sold properties. However, investors can use some of the same methods (albeit in less detail) in order to obtain a rough estimate of the value of a commercial property.

1. Commercial Market Analysis

Once you've identified a target property you would like to estimate a market value on, begin with a commercial market analysis as your starting point. Knowing what the target property will most likely sell for will help you obtain financing if you're looking to buy or will help you validate your asking price if you're looking to sell.

2. Comparable Properties

The next step is to find at least two other properties similar to your target that have sold recently. As you know, both location and timing can have a huge impact on pricing, so it's best to select comparable or "comps" that have sold within the last six months and preferably within a few miles of your identified target property.

3. Bring the Comps in Line with the Target

After identifying your target and two comps, list all three. Next to your comps write in the price each one eventually sold for and next to your target, write in the price you got from the commercial market analysis. This will be your starting point. Now, look at the specifics of each of your comps

such as square footage, structure, location, interior finish and amenities. Then add or subtract from the value of the comps to bring them in line with the specifics of your target property. For example, if one of your comp properties is 1,000 square feet, but your target property is 700 square feet you would subtract what you think is a reasonable amount for the additional 300 square feet from the price of the comp.

4. Finalization

The final results from step three will give you an excellent idea of what those comp properties would have sold for if they were in the same condition, location or size as your target property. A listing price for your target property should fall comfortably in between the price estimates of your two comps. That price should be a good indication of what the target property will eventually sell for.

5. Determine Repair Costs

Finally, contact contractors to determine the costs of repairs and renovations necessary to either attract tenants or make the property saleable. Keep these expenditures in mind when making an offer or establishing your sales price for a target property.

It's important to keep in mind that a real estate investor may still make any offer or set any sales price they wish. The steps outlined in this article simply gives you insight into what the eventual sales price of a target property is likely to be.

If you have any questions or would like to speak with a member of LGT's experienced real estate group, do not hesitate to call either your trusted LGT advisor or Richard Trubitt, the partner-in-charge of LGT's Real Estate group at (214) 461-1433 or by email at rtrubitt@lgt-cpa.com.