



Public Works Department – Facilities Management Division – **REAL PROPERTY SECTION**  
 115 S. Andrews Avenue, Room 326 • Fort Lauderdale, Florida 33301 • 954-357-6808 • FAX 954-357-6292

**APPRAISAL REVIEW REPORT**

September 12, 2013

TO: Daniel A. Rosemond, Deputy City Manager/CRA Director  
 City of Hallandale Beach

THRU: Purvi Bhogaita, Director   
 Real Property Section

FROM: C. Kevin Bokoske, MAI, Due Diligence Officer   
 Real Property Section

SUBJECT: **412 NW 2<sup>nd</sup> Avenue**  
**Property Owner: Josh Brown, Jr**  
**ID: 5142 22 04 0150**  
**City of Hallandale Beach, Florida 33009**

This is to confirm that I have reviewed the appraisal report for the referenced property by Murdo Mackenzie of L. B. Slater and Company, Inc., and a State-Certified General R. E. Appraiser, dated August 27, 2013. I found the appraisal report to be USPAP-compliant and acceptable. The appraiser was engaged by the Community Development Agency of Hallandale Beach; not by the Real Property Section of Broward County. The appraiser does not appear on the *Broward County and School Board of Broward County Approved List of Qualified State Appraisers*.

<b>Appraiser's Opinion of Value:</b>	<b>\$160,000</b>
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<b>Reviewer's Opinions required by USPAP Standards Rule 3-1 (a) through (g)</b>
<b>Completeness of the material within the Scope of Work:</b> <i>Adequate.</i>
<b>Apparent adequacy and relevance of the data and the propriety of the adjustments to the data:</b> <i>Sufficient for the assignment at hand.</i>

**Appropriateness of the appraisal methods and techniques used (within the Scope of Work) and reasons for any disagreement.** *The methods used, the Sales Comparison Approach and Income Capitalization Approach, were appropriate for this assignment.*

**Appropriateness and reasonableness of analyses, opinions, and conclusions in the work under review (given the Scope of Work) and reasons for any disagreement.** *We find reason for disagreement with some of the work reported therein. We find it to be USPAP compliant, but the analyses, opinions, and conclusions in the work under review are not entirely appropriate or reasonable.*

**Type of Review:** There are generally recognized two types of reviews that can be performed; a *technical review* and an *administrative review*. This is a *technical review*. In a technical review, the reviewer renders an opinion concerning whether the opinions of value are adequately supported and in compliance with all appropriate standards, laws, and regulations relating to the appraisal of property. We did not develop our own independent estimate of value.

**Scope of Work:** Technical reviews may be conducted as either *desk reviews* or *field reviews*. This is a *desk review*. A desk review involves a confirmation that the appraisal report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP") and any other appropriate Supplemental Standards that apply. The desk review also involves a thorough review and analysis of the information and analysis contained in the appraisal report under review and a careful examination of the internal logic and consistency. Our review was limited to the information and analysis presented within the appraisal report

**Reviewer's Client:** City of Hallandale Beach CRA.

**Intended Use of the Reviewer's Opinion:** To evaluate compliance with USPAP requirements.

**Intended User of the Reviewer's Opinions:** City of Hallandale Beach for a possible acquisition.

**Purpose of the Assignment:** To perform a technical desk review of the appraisal report furnished to this office for that purpose. We did not develop our own opinion of value.

**Subject of the Appraisal Review Assignment:** See page 1.

**Property Rights Appraised:** Fee simple estate.

**Date of the Review:** September 12, 2013.

**Date of the Appraisal Under Review:** July 31, 2013, was the effective date of the conclusion of the work under review; August 27, 2013, was the date of the appraisal report.

**Appraiser Completing the Work Under Review:** Murdo Mackenzie.

### **Subject Property Being Reviewed**

The property is described in the appraisal report as follows:

**412 NW 2<sup>nd</sup> Avenue**

**Owner: Josh Brown, Jr.**

**Property ID: 5142 22 04 0150**

**City of Hallandale Beach, Florida 33009**

This property consists of an improved, rectangular-shaped, interior parcel containing approximately 6,904 square feet, or 0.16 acres. It is located on the east side of NW 2<sup>nd</sup> Avenue, just south of Foster Road in Hallandale Beach. There is an older (1970) mixed-use, one-story structure on the property that is used for a restaurant and a residence.

The CBS freestanding building on the property contains 1,906 square feet, and reported to be in average condition. The front portion serves as a neighborhood restaurant and the rear portion serves as a 3-bedroom, 2-bathroom apartment.

The appraiser reported that the site is level and at road grade elevation. It is designated a "B-L" Business-Limited and considered a legal conforming use. The land uses in the area are primarily residential. The appraiser reported that there are adequate utilities to develop the property. There were no concurrency issues reported by the appraiser, and the neighborhood was described as lower to middle income, and foreclosures and abandoned properties were reported as a factor in the market area. The median home price was reported as \$79,000.

The appraiser considered the highest and best use, as improved, as the highest and best use, as the site as improved was worth more than the site as if vacant.

### **Valuation**

#### **Sales Comparison Approach**

The appraiser used the Sales Comparison Approach to form an opinion of value. Four sales of smaller mixed-use properties were used as comparables.

The comparables ranged in size from 1,735 square feet to 2,538 square feet in building size. (The subject building has 1,906 square feet).

All the comparable sales were of similar vintage as the subject, and the sales prices ranged from \$46.05 to \$88.65 per square foot of building area. The appraiser made adjustments for changes in market conditions ("time"), location or overall market appeal, and resulted in a range of adjusted sales prices of \$57.56 to \$80.17 per square foot of building area. The appraiser concluded to a value opinion of \$80.00 per square foot of building area.

Then, \$80.00 per square foot times 1,906 square feet equals \$152,480, rounded to \$152,000, as the value by Sales Comparison.

### Income Capitalization Approach

The appraiser used \$1,000 per month as the market rental rate for the retail/restaurant space and \$1,200 per month as the market rental rate for the apartment. This computes to a Potential Gross Income of \$26,400 annually.

*Reviewer's Comment: For a Market Value appraisal, the appraiser should use market rents. The report does not contain any evidence of market-derived rental rates for either the restaurant space or the apartment to the rear. The appraiser appears to have used owner-supplied rental information.*

The appraiser used the national average of 8.4% for apartments, based on a national reporting service, which resulted in a Vacancy loss of \$2,218. Deducting the \$2,218 from the Potential gross Income produced an Effective Gross Income of \$24,182.

Real estate taxes and other expenses were estimated at \$8,129 or 34% of the Effective Gross Income. No management expenses were included, as the appraiser said the property is self-managed.

*Reviewer's Comment: The use of a national average for a local vacancy is not a standard appraisal practice. Local or neighborhood vacancy and market data should be used, especially for a non-institutional grade investment property like the subject is. Excluding the management fee from the expenses is also not standard appraisal practice; property management is a proper expense against the property that should be included, regardless of who performs the management function.*

The appraiser subtracted the \$8,129 Operating Expenses from the \$24,182 Effective Gross Income, resulting in a Net Operating Income of \$16,503. This is the amount that is converted (capitalized) into a value.

The conversion of income into a value is accomplished by dividing the Net Operating Income (NOI) by the Capitalization Rate. These rates are typically extracted from

recent local sales of similar properties. In the case at hand, the appraiser used a national reporting service and averaged the cap rates of restaurants and apartments.

*Reviewer's Comment: The use of national reporting services is a poor proxy for data that can be derived from local or regional sales of similar mixed-use properties. There has been sufficient sales activity to indicate local cap rates.*

The appraiser selected a cap rate of 10.0%, which he divided into the \$16,053 NOI, for an indicated value of \$160,530, rounded to \$161,000, as the value indicated by the Income Capitalization Approach.

### **Final Estimate of Value**

The appraiser reconciled the \$152,000 value from the Sales Comparison Approach and \$161,000 value from the Income Capitalization Approach into a Final Value opinion of \$160,000, saying that mixed-use buildings are usually purchased for their income potential.

### **Final Value Opinion: \$160,000**

*Reviewer's Comment: It appears counter-intuitive that a typical buyer of this property would say to himself or herself, "These properties seem to be selling for \$152,000, but, I will pay \$160,000 for this one because the income is so good." A prudent buyer will not pay more for the subject property than for competing properties. In this case, that is exactly the implication from the appraiser's Final Value conclusion.*

### **Reviewer's Comment**

The concluded value is not strongly supported, based on the data in the appraisal report. The Sales Comparison Approach and Income Approach were the appropriate techniques to use, but there were so many weaknesses in the Income Approach, a reader is forced to default to the value indicated by the Sales Comparison Approach of \$152,000. My opinions as a reviewer do not constitute evidence of an appraisal by me, and I am not expressing my opinion of value.

### **Assessed Value Compared to Appraised Value in this Report**

The Broward County Property Appraiser assessed this parcel for \$209,240 for 2013. In the appraisal report being reviewed, the property is appraised at \$160,000.

Note: The assessed and appraised values are included in our appraisal reviews for the convenience of others who request that this information be provided as part of the appraisal review process performed by Real Property. We do not usually attach any significance to the similarity or dissimilarity in the assessed and appraised values.

## CERTIFICATION

**SUBJECT: 412 NW 2<sup>nd</sup> Avenue**  
**Property Owner: Josh Brown, Jr**  
**ID: 5142 22 04 0150**  
**City of Hallandale Beach, Florida 33009**

According to Standards Rule 3-6 of the Uniform Standards of Professional Appraisal Practice ("USPAP"), each written appraisal review report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

- The facts and data reported by the reviewer and used in the review process are true and correct.
- The analyses, opinions, and conclusions stated in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no personal interest with respect to the parties involved with this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- I have not performed prior appraisal review service for the subject property within the three year period immediately preceding the acceptance of this appraisal review assignment
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use, nor is my continued employment by Broward County, Florida, the Client for this review, contingent upon my findings in this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- I visited the subject property under review to familiarize myself with the property and the surrounding area, on September 12, 2013.
- No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute. This education certification is effective until December 31, 2015.



C. Kevin Bokoske, MAI  
September 12, 2013



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**APPRAISAL REVIEW REPORT**

September 12, 2013

TO: Daniel A. Rosemond, Deputy City Manager/CRA Director  
City of Hallandale Beach

THRU: Purvi Bhogaita, Director   
Real Property Section

FROM: C. Kevin Bokoske, MAI, Due Diligence Officer   
Real Property Section

SUBJECT: 412 NW 2<sup>nd</sup> Avenue  
Property Owner: Josh Brown, Jr  
ID: 5142 22 04 0150  
City of Hallandale Beach, Florida 33009

This is to confirm that I have reviewed the appraisal report for the referenced property by Thomas Wachtstetter, ASA, IFA, of Wachtstetter Enterprises, and a State-Certified General R. E. Appraiser, dated September 3, 2013. I found the appraisal report to be non-USPAP-compliant and unacceptable. The appraiser was engaged by the property owner; not by the Real Property Section of Broward County. The appraiser does not appear on the *Broward County and School Board of Broward County Approved List of Qualified State Appraisers*.

<b>Appraiser's Opinion of Value:</b>	<b>\$190,000</b>
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<b>Reviewer's Opinions required by USPAP Standards Rule 3-1 (a) through (g)</b>	
<b>Completeness of the material within the Scope of Work:</b> <i>Adequate.</i>	
<b>Apparent adequacy and relevance of the data and the propriety of the adjustments to the data:</b> <i>Sufficient for the assignment at hand.</i>	

**Appropriateness of the appraisal methods and techniques used (within the Scope of Work) and reasons for any disagreement.** *The methods used, the Cost Approach, the Sales Comparison Approach and Income Capitalization Approach, were appropriate for this assignment.*

**Appropriateness and reasonableness of analyses, opinions, and conclusions in the work under review (given the Scope of Work) and reasons for any disagreement.** *We find reason for disagreement with the work reported therein. We find it to be not-USPAP compliant, and the analyses, opinions, and conclusions in the work under review are not appropriate or reasonable.*

**Type of Review:** There are generally recognized two types of reviews that can be performed; a *technical review* and an *administrative review*. This is a *technical review*. In a technical review, the reviewer renders an opinion concerning whether the opinions of value are adequately supported and in compliance with all appropriate standards, laws, and regulations relating to the appraisal of property. We did not develop our own independent estimate of value.

**Scope of Work:** Technical reviews may be conducted as either *desk reviews* or *field reviews*. This is a *desk review*. A desk review involves a confirmation that the appraisal report was prepared in accordance with the Uniform Standards of Professional Appraisal Practice ("USPAP") and any other appropriate Supplemental Standards that apply. The desk review also involves a thorough review and analysis of the information and analysis contained in the appraisal report under review and a careful examination of the internal logic and consistency. Our review was limited to the information and analysis presented within the appraisal report

**Reviewer's Client:** City of Hallandale Beach, Florida.

**Intended Use of the Reviewer's Opinion:** To evaluate compliance with USPAP requirements.

**Intended User of the Reviewer's Opinions:** City of Hallandale Beach for a possible acquisition.

**Purpose of the Assignment:** To perform a technical desk review of the appraisal report furnished to this office for that purpose. We did not develop our own opinion of value.

**Subject of the Appraisal Review Assignment:** See page 1.

**Property Rights Appraised:** Fee simple estate.

**Date of the Review:** September 12, 2013.

**Date of the Appraisal Under Review:** September 2, 2013, was the effective date of the conclusion of the work under review; September 3, 2013, was the date of the appraisal report.

**Appraiser Completing the Work Under Review:** Murdo Mackenzie.

### **Subject Property Being Reviewed**

The property is described in the appraisal report as follows:

**412 NW 2<sup>nd</sup> Avenue**

**Owner: Josh Brown, Jr.**

**Property ID: 5142 22 04 0150**

**City of Hallandale Beach, Florida 33009**

This property consists of an improved, rectangular-shaped, interior parcel containing approximately 6,904 square feet, or 0.16 acres. It is located on the east side of NW 2<sup>nd</sup> Avenue, just south of Foster Road in Hallandale Beach. There is an older (1970) mixed-use, one-story structure on the property that is used for a restaurant and a residence.

The CBS freestanding building on the property contains 1,858 square feet, and reported to be in average condition. The front portion serves as a neighborhood restaurant and the rear portion serves as a 3-bedroom, 2-bathroom apartment.

The appraiser reported that the site is level and at road grade elevation. It is designated a "B-L" Business-Limited and considered a legal conforming use. The land uses in the area are primarily residential. The appraiser reported that there are adequate utilities to develop the property. There were no concurrency issues reported by the appraiser, and the neighborhood was described as lower to middle income, and foreclosures and abandoned properties were reported as a factor in the market area. The median home price was reported as \$79,000.

The appraiser considered the existing use as the highest and best use, as improved, as the site as improved was worth more than the site as if vacant.

### **Valuation**

#### **Cost Approach**

The appraiser applied the Cost Approach and arrived at an indicated value of \$193,000 by this method.

*Reviewer's Comments: The land was stated to have a value of \$90,000 after rounding, or \$13.00 per square foot. No comparables were shown or referred to, the appraiser simply stated the value. In a summary report, the appraiser is expected to support the value conclusions; not simply state the value. There was no support for the \$90,000 land value.*

The appraiser used replacement costs of \$90.00 per square foot, total depreciation of 38%, and the \$90,000 land value to arrive at the \$193,000 indicated value.

*Reviewer's Comments: An appraiser is expected to provide the reader the source of the data used in the Cost Approach, whether it is a national reporting service or a local builder. No source was shown in the subject case. The appraiser is supposed to analyze and summarize the accrued depreciation. This does not appear in the report.*

### Sales Comparison Approach

The appraiser used the Sales Comparison Approach to form an opinion of value. Six sales of smaller free-standing commercial or multifamily properties were used as comparables. The appraiser did not report the building area of the comparable sales. (The subject building has 1,858 square feet).

All the comparable sales appear to be of similar vintage as the subject, and the sales prices ranged from \$64 to \$209 per square foot of building area. The appraiser made adjustments for location, age/condition, or use, and resulted in a range of adjusted sales prices of \$73 to \$147 per square foot of building area. The appraiser concluded to a value opinion of \$102 per square foot of building area.

Then, \$102 per square foot times 1,858 square feet equals \$189,516, rounded to \$190,000, as the value by Sales Comparison.

*Reviewer's Comment: USPAP requires the appraiser to present sufficient information to enable the client and users to understand the rationale for the opinions and conclusions, including the reconciliation of the data. The appraiser did not present any of this in the report under review. The \$102 per square foot was just stated; it was not explained or supported.*

### Income Capitalization Approach

The appraiser reported the restaurant had signed a \$1,000 per month lease, which was described as a gross rent, with the tenant paying their own utilities. (In a gross rent, the lessor pays all the utilities.) The appraiser used \$1,200 per month as the market rental rate for the apartment. This computes to a Potential Gross Income of \$26,400 annually.

*Reviewer's Comment: For a Market Value appraisal, the appraiser should use market rents. The report does not contain any evidence of market-derived rental rates for*

*either the restaurant space or the apartment to the rear. The appraiser appears to have used owner-supplied rental information.*

The appraiser used 5% Vacancy. No market-derived data was shown to support the projected vacancy. The Potential Gross Income of \$23,218 less the 5% Vacancy produced an Effective Gross Income of \$22,057.

Real estate taxes and other expenses were estimated at \$8,374 or 34% of the Effective Gross Income.

The appraiser subtracted the \$8,374 Operating Expenses from the \$22,057 Effective Gross Income, resulting in a Net Operating Income of \$13,683. This is the amount that is converted (capitalized) into a value.

*Reviewer's Comment: The appraiser incorrectly reported many of the expenses as "paid by tenant", but at the same time he deducted the expenses from the owner's income. USPAP requires the appraiser to be aware of, understand, and correctly employ recognized methods and techniques to produce credible appraisals. The appraisal under review does not appear to have been developed under USPAP criteria.*

*The conversion of income into a value is accomplished by dividing the Net Operating Income (NOI) by the Capitalization Rate. These rates are typically extracted from recent local sales of similar properties. In the case at hand, the appraiser used a national reporting service for cap rates of free-standing retail properties. The use of national reporting services is a poor proxy for data that can be derived from local or regional sales of similar mixed-use properties. There has been sufficient sales activity to indicate local cap rates.*

The appraiser selected a cap rate of 7.0%, which he divided into the \$13,683 NOI, for an indicated value of \$195,471, rounded to \$195,000, as the value indicated by the Income Capitalization Approach.

### **Final Estimate of Value**

The appraiser reconciled the three value indications into a Final Value opinion of \$190,000.

**Final Value Opinion: \$190,000**

### **Reviewer's Comment**

The concluded value is not strongly supported, based on the data in the appraisal report. There were so many weaknesses in the development and reporting of the various approaches to value that the result is a report that is not credible in the

opinion of the reviewer. My opinions as a reviewer do not constitute evidence of an appraisal by me, and I am not expressing my opinion of value.

**Assessed Value Compared to Appraised Value in this Report**

The Broward County Property Appraiser assessed this parcel for \$209,240 for 2013. In the appraisal report being reviewed, the property is appraised at \$190,000.

Note: The assessed and appraised values are included in our appraisal reviews for the convenience of others who request that this information be provided as part of the appraisal review process performed by Real Property. We do not usually attach any significance to the similarity or dissimilarity in the assessed and appraised values.

## CERTIFICATION

**SUBJECT: 412 NW 2<sup>nd</sup> Avenue**  
**Property Owner: Josh Brown, Jr**  
**ID: 5142 22 04 0150**  
**City of Hallandale Beach, Florida 33009**

According to Standards Rule 3-6 of the Uniform Standards of Professional Appraisal Practice ("USPAP"), each written appraisal review report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

- The facts and data reported by the reviewer and used in the review process are true and correct.
- The analyses, opinions, and conclusions stated in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no personal interest with respect to the parties involved with this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- I have not performed prior appraisal review service for the subject property within the three year period immediately preceding the acceptance of this appraisal review assignment
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use, nor is my continued employment by Broward County, Florida, the Client for this review, contingent upon my findings in this report.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- I visited the subject property under review to familiarize myself with the property and the surrounding area, on September 12, 2013.
- No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I have completed the continuing education program of the Appraisal Institute. This education certification is effective until December 31, 2015.



C. Kevin Bokoske, MAI  
September 12, 2013