
Self-Storage Appraisal Cost Approach

Everett (Allen) Greer, MAI, FRICS
Greer Advisors, LLC

R. Christian Sonne, MAI, MRICS
Cushman Wakefield, Self Storage Industry Group

Sept. 12, 2014 – Appraisal Institute, Iowa

Cost Approach

- **Considers the value of the land as vacant, plus the cost of the improvements, including profit, less accrued depreciation from physical, functional, and external causes.**

Cost Approach

Although rarely used as a primary valuation method, the Cost Approach is very helpful:

- **Test of Reasonableness of the Other Approaches**
- **Determine if it's feasible to build**
- **Determine potential for additions to supply, i.e. new competition**
- **Identify potential Highest and Best Use issues...**

Highest and Best Use

- **Physically Possible**
- **Legally Permissible**
- **Financially Feasible**
- **Maximally Productive**

Site Characteristics - What Influences Value

- **HBU (Use)**
- **Size**
- **Visibility**
- **Access**
- **Configuration / Shape**
- **Demolition / Cleanup**
- **Environmental**
- **Zoning / Use Restrictions**
- **Incentives / Fees**
- **Many other features...**

Building Characteristics - That Influence Cost

- **Quality (consider earlier slides)**
- **Size**
- **Configuration**
- **Access**
- **Local ordinances**
- **Exaction Fees / Incentives**
- **Availability of Materials / Labor**
- **Site Access**
- **Many other features....**

Construction Cost Sources

- **Marshall & Swift:**
 - Books**
 - On-Line: SwiftEstimator**
 - CD**
- **R.S. Means**
- **Lee Saylor**
- **YOUR FILES!...**

Entrepreneurial Profit

- **RealtyRates.com**
- **PwC Survey**
- **YOUR FILES**

Depreciation Examples

- **Physical - Age**
- **Functional**
If demand changes, property could become functionally obsolete (eg. Lack of “functional” elevators)
- **External**
Positive example bonus density or land was subsequently down-zoned

Negative due to market deterioration

Cost Approach Summary

COST APPROACH VALUE SUMMARY

MARKET VALUE TYPE

Market Value As Is

COST SOURCE

Marshall & Swift (Commercial Cost Explorer)

IMPROVEMENTS (Structures)

Adjusted Costs	\$1,423,063
PLUS: Indirect Costs	\$142,306
PLUS: Entrepreneurial Profit	\$234,805
LESS: Total Depreciation	(\$253,344)

TOTAL DEPRECIATED VALUE OF IMPROVEMENTS (Structures)

\$1,546,831

IMPROVEMENTS (Site)

Cost New	\$429,300
PLUS: Indirect Costs	\$42,930
PLUS: Entrepreneurial Profit	\$70,835
LESS: Total Depreciation	(\$144,817)

TOTAL DEPRECIATED VALUE OF IMPROVEMENTS (Site)

\$398,247

Depreciated Improvements (Structures)	\$1,546,831
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Depreciated Improvements (Site)	\$398,247
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TOTAL DEPRECIATED VALUE OF IMPROVEMENTS

\$1,945,078

Depreciated Value PSF of GBA	\$50.98
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PLUS: Land Value (Primary Site)	\$540,000
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INDICATED VALUE BY THE COST APPROACH

\$2,485,078

Rounded to the Nearest	\$10,000	\$2,490,000
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TOTAL GBA	38,151 SF
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Conclusion PSF of GBA	\$65.27
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Conclusion PSF of All Structures	\$65.27
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Questions / Answers



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www.GreerAdvisors.com

NOTE: This is Bicycle 2, "BEFORE" renovation