

MEMORANDUM

To: Mayor and City Council
From: Warren Hutmacher, City Manager
Date: November 30, 2011
Subject: Purchase of Property Located at 4470 North Shallowford Road

ITEM DESCRIPTION

At the November 14, 2011 Council meeting, the City Manager was directed to contact the seller of the property located at 4470 North Shallowford Road to request a reduction in price due to one of the appraisals ordered that valued the property lower than list price.

BACKGROUND

Two independent MAI (Member of the Appraisal Institute) appraisals of the property listed above were completed in accordance with City purchasing rules. The results are as follows:

1. Weibel and Associates, Inc. (Georgia Certified General Real Property Appraiser) determined the Market Value "As Is" of the fee simple interest of the subject property, based on market conditions as of September 29, 2011, is one million five hundred fifty thousand dollars (\$1,550,000). This appraisal is above our purchase price of \$1,436,000.
2. Alex Rubin and Company. (Georgia Certified General Real Property Appraiser) determined the Market Value "As Is" of the fee simple interest of the subject property, based on market conditions as of November 3, 2011, is one million three hundred thousand dollars (\$1,300,000). This appraisal is below our purchase price of \$1,436,000.

The variance between the two appraisals is 16%. The City's purchasing policy requires two appraisals if the purchase price is above \$500,000. If the variance between the two appraisals is greater than 20% a third appraisal is required. A third appraisal is not required for this property.

The average of the two appraisals is \$1,425,000. This is \$11,000 less than the purchase price, amounting to a .8% variance.

REQUEST FOR A PRICE DECREASE

At the direction of the City Council, staff sent a letter to the Seller requesting a reduction in the sales price to \$1,300,000 due to one of the appraisals ordered that valued the property lower than the contract price. The City's broker also contacted the seller's broker and attempted to negotiate a lower price for the property. Seller responded via a letter to the City denying the request for a price reduction. The Seller believes the contract price is "fair market value". Both letters are attached to this memorandum.

APPRAISAL ANALYSIS

A comparison of the land value comparables in the two appraisals is listed below:

ALEX RUBIN AND CO.	Acreage	Price	\$ per Acre
Subject Property	5.18	\$1,436,000	\$277,220
Sale 1	8.009	\$2,185,000	\$272,818
Sale 2	50.656	\$12,686,730	\$250,449
Sale 3¹	1.305	\$900,000	\$689,655
Sale 4	3.47	\$845,000	\$243,516
Total	63.44	\$16,616,730	\$261,928

Average Land Value: \$261,928 * 5.18 = \$1,356,787

Appraisal Estimate: \$1,300,000

WEIBEL & ASSOCIATES	Acreage	Price	\$ per Acre
Subject Property	5.18	\$1,436,000	\$277,220
Sale 1	16.00	\$5,000,000	\$312,500
Sale 2	4.35	\$575,000	\$132,184
Sale 3	12.09	\$5,100,000	\$421,836
Sale 4¹	1.31	\$900,000	\$687,023
Sale 5	3.90	\$750,000	\$192,308
Sale 6	5.54	\$800,000	\$144,404
Total	43.19	\$13,125,000	\$303,890

Average Land Value: \$303,890 * 5.18 = \$1,574,150

Appraisal Estimate: \$1,550,000

(All 10 land sales): \$278,925 * 5.18 = \$1,444,829

Purchase Price: \$1,436,000

¹ Sale 3 (Alex Rubin) and Sale 4 (Weibel) are the same property. All others are unique

At the suggestion of Bill Grant (builder/developer), and to better understand the methodology contained in the appraisal reports, staff contacted both appraisers. Staff spoke with Alex Rubin on November 28th and Clay Weibel on November 30th. My notes from these conversations are listed below.

Notes from my conversation with Alex Rubin:

1. Averaging appraisals is customary and appropriate in this instance.
2. Appraiser feels that the sales comparisons used are good comparables.
3. Alex Rubin normally will not appraise a property for higher than the asking price.
4. The appraisal did not include the City's recent purchase of 16 acres in 2011 for \$5,000,000 as a comparable land sale because he considers government purchases outliers due to the city's ability to condemn property.

Notes from my conversation with Clay Weibel:

1. Averaging the appraisals makes good sense.
2. Suggested that the City average the comparable land values from both appraisals since the two appraisers different properties to compare values.
3. Noted that he was pleased that the two appraisals were so close in value.

ATTACHMENTS

1. Letter from City Manager to Seller requesting a price reduction
2. Response letter from Seller to City Manager regarding the request for a price reduction
3. Memorandum (updated) regarding the full due diligence activities

RECOMMENDATION

The Seller is remaining firm with the contract price for the property despite our attempts to convince them to lower their price. Staff recommends moving forward with the purchase at this time at the contract price for the following reasons:

1. The Peachford Extension project was recommended and approved in both the Master Transportation Plan and the Georgetown/North Shallowford Master Plan.
2. The property is currently “for sale” and to move forward with the Peachford Extension project without the use of condemnation, now is the right time to purchase the property.
3. When averaged, the appraisal value is nearly identical to the purchase price.
4. The Seller received a written offer equal to the asking price prior to our final offer being accepted. This helps to determine real market value (what someone else would pay for the property).
5. The net effect of averaging all 10 comparable land sales from both appraisers equals a value of \$1,444,829. This is within 6/10 of 1% compared to the purchase price.

Staff recommends the City Council hold a public hearing and pass a Resolution at the December 5, 2011 Special Call City Council meeting to authorize the City Manager to finalize and close the purchase of the 5.18 acre property located at 4470 North Shallowford Road. Purchase price is set at \$1,436,000 and funding has been approved and budgeted by the City Council for this purpose.