<u>Response of Bald Head Island Transportation Authority to</u>
<u>Review prepared by Loftis Companies reviewing the Appraisals of Newkirk Knight of the Deep Point Ferry Terminal and Parking Facility (DPM) and the Bald Head Island Ferry Terminal (Parcel A) (BHI)</u>

The staff of the North Carolina Local Government Commission has requested the Bald Head Island Transportation Authority (the "Authority") respond to the points raised in the Appraisal Review prepared by Loftis Companies dated September 3, 2021 (the "Review") of the Appraisals of Greg Becker with Newkirk[1] Knight Frank (the "Appraiser") of the Deep Point Ferry Terminal and Parking Facility (the "DPM Appraisal") and the Bald Head Island Ferry Terminal (Parcel A) (the "BHI Appraisal," and together with the DPM Appraisal, the "Appraisals"). The Appraisals are referred to as "Works Under Review" in the Review. Loftis Companies is itself an appraisal company, and the licensed appraisers undertaking the Review state that they reviewed the methodology applied in the Works Under Review.

Loftis Companies makes it clear that it did not attempt to reach an opinion of its own regarding the market value of either the Deep Point Marina property or the Bald Head Island Ferry Terminal parcels. Indeed, the Review specifically stated that, at the time of Loftis Companies' engagement, it "disclosed [the firm's] lack of competency to provide an opinion of value for the Works Under Review," and that, "[a]s such, [the] Review has been limited to the methodology applied, *not to any conclusions as to the market value reported by the Works Under Review*" (emphasis added). That is, the Review does not express an opinion that Mr. Becker's appraisal opinions are wrong, but instead, simply takes issue with aspects of the methodology used by Mr. Becker which Loftis Companies contend do not "sufficiently support[]" Mr. Becker's opinions.

The Authority has, at your request, attempted to respond to the issues raised by Loftis Companies in its Review. Please note that neither the Authority nor any of the Trustees is a licensed appraiser, and therefore are not in a position to provide a professional response relating to certain standards used under the Uniform Standards of Professional Appraisal Practice (USPAP). The Authority was able to obtain certain additional limited information from Greg Becker, which is included in the attached response.

<u>DPM Appraisal</u>:

<u>Item 1</u>: <u>Enterprise Valuation</u>. The Review criticized the Appraisals for not undertaking a "going concern" enterprise valuation of the ferry system. As has been noted on numerous occasions, the statute governing the Authority requires that "the assets used and useful for the ferry transportation system, as defined in G.S. 160A-681, as enacted by Section 1 of this act, and owned by the private ferry transportation service or its affiliates shall be acquired, by purchase, gift, lease, or otherwise, by that Authority at or below their appraised value." Session Law 2017-120, Section 6.(a).

Based on this statutory mandate, the Authority gave the Appraiser, who is a real estate appraiser with experience in maritime property, specific instructions to appraise the market value of the real property, along with the real property's associated structures, improvements, buildings, docks and terminals. The statute does not call for an appraisal of goodwill or enterprise value.

[1] Correct name of the firm is Newmark Knight Frank

Item 2: Legal Description. We agree that there is a slight discrepancy in the plats shown in the appraisal, and that the metes and bounds description was missing. However, there does not seem to be any confusion about what property is being appraised.

Item 3: Overhead and Indirect Costs. The Review states that the Marshall Valuation figures used to determine cost per square foot already include an indirect overhead figure in the base numbers to cover items such as architects and engineering costs, normal interest costs during construction, all materials and labor costs, normal site preparation, utilities, and contractors overhead and profit including insurance and liability coverage. Therefore, the Review contends, the inclusion of indirect costs in the Appraisals is in essence double counting.

As stated in the DPM Appraisal itself, the allowance for indirect costs "reflects the additional cost necessary to complete the project beyond the hard construction costs. These soft costs include financing fees, interest, permits and carrying costs throughout the construction period. Our experience with numerous proposed projects indicates that this expense can range from 15% to 35% of hard costs with the subject falling toward the lower end of the range based on the build-to-suit single tenancy but slightly above the low end to reflect the additional coordination costs of waterfront construction." It is our understanding that the indirect costs referenced in the Appraisals are those that a build-to-suit developer of the whole project would incur in land planning, permitting, etc., the entire project.

Put another way, while the Marshall Valuation figures may include overhead and indirect costs for specific subcontractors or vendors in the construction of specific portions of the overall project, that does not preclude an overall project developer who would also have overhead and indirect costs which must be taken into account in order to correctly determine a cost to recreate the improvements.

Item 3: Deferred Maintenance. The Review suggests that the Appraiser took a $175,000 deduction for deferred maintenance even though the Moffatt & Nichol report did not identify any "deferred maintenance." We do not know why the Appraiser took the deduction, but we also note that this error, if it was an error, served to reduce, instead of increase, the appraised value of the property.

Item 3: Non-Inclusion of Rental Revenue From Industrial Building and Cafe. The Review asserts that in the Appraiser's assessment of the income produced by the property, he specifically included income and expense data for the significant parking operations but did not specifically discuss market rent for the industrial building (the warehouse) or the café in the terminal building. It is not clear whether Loftis Companies believes doing so would have resulted in a lower or a higher appraised value for the subject parcel. The Review also notes that the "ferry operation was part of a going concern that generated income through its operations," but, as noted above, the Authority's mandate under the statute is to assess the appraised value of the assets used in the operation of the ferry system, not a "going concern" valuation of the system itself.

Item 4:   This item seems to raise a number of different issues, although it is not entirely clear what point the Review is making. It appears that the Review again suggests that in the replacement cost approach, it is inappropriate to consider the overhead and indirect of the overall project developer given that Marshall Valuation data includes overhead and indirect cost figures for job-specific subcontractors or vendors. However, as noted above, the Appraiser has indicated that this is the appropriate approach for a marina development. There is also a generalized complaint regarding an alleged lack of analysis of depreciation; however, pages 60 and 61 of Mr. Becker's report provide a detailed analysis of depreciation and his replacement cost figures take into account a deduction of over $6 million for age/life depreciation.

Item 5: Update Requirements. Mr. Becker forwarded to us an email from Mr. Tom Lewis at the North Carolina Appraisal Board which stated that "I am aware of no requirement (rule or statute) that specifies that particular language must be used in a revised appraisal report, and while it may relate to a best practice, it is not a requirement."

BHI Appraisal:

Item 1: Enterprise Valuation. Please see Item 1: Enterprise Valuation under DPM Appraisal, above.

Item 2: Variance in the acreage. We do not know why there is a slightly different acreage figure than is shown on the plat and the tax card.

Item 2: Marina Valuation. Because this property includes docks and wharves, it appears that the Appraiser included information about marina and slip valuations for context, even though that does not appear elsewhere in the report.

Item 2: Deferred Maintenance. The Review points out that the Appraiser took a deduction for deferred maintenance in the amount of approximately $1,000,000 even though the Moffatt & Nichol report did not identify any "deferred maintenance." The Review suggests that these deductions should have been taken over 10 years. We do not know why the Appraiser took this approach to the deferred maintenance, but this was a more conservative approach and had the effect of reducing, instead of increasing, the appraised of the property.

Item 2: Tax Value. The review notes that there is a substantial difference in the estimated tax value and the assessed value. The Appraiser provides a detailed analysis and explanation of the reasons for the difference between the appraised value and the assessed value on pages 46-47 of the BHI Appraisal.

Item 3: Overhead and Indirect Costs. Please see Item 2 Overhead and Indirect Costs under DPM Appraisal, above.

Item 3: External Obsolescence. There is a discrepancy between the note on page 55 that says "no external obsolescence noted, " but at the same time the table includes $122,815 for "external obsolescence." We cannot explain that discrepancy, but we note that even if this is an error, it resulted in a lower cost, and therefore a lower valuation, of the property.

Item 4: Cost Approach. On page 62 the Appraiser notes that the cost approach is given "limited to no weight in this appraisal" and that investors would give the cost approach the "least credence." This language is different from the same section in the DPM Appraisal, which provides that:

> The Cost Approach has best applicability for properties with new or nearly new improvements. It is a summation approach in that the underlying land value is added to the depreciated replacement cost for the indicated value. In this case, the underlying land value was well established through sales comparison and is considered reliable. The replacement cost was developed through both Marshall Valuation Service data and cost

> comparables. The weakness to the cost approach is the estimate of depreciation but the newer age of the improvements limits the impact. Still, the subject property is a special purpose property and the cost approach would be given the substantial credence by investors. Accordingly, the cost approach is given strong consideration in this appraisal.

The Appraiser has confirmed that the language in the DMP Appraisal should have been included in the BHI Appraisal.