

RESOLUTION NO. 84-006

ADOPTED BY THE ADMINISTRATION, INVESTMENT AND FISCAL MANAGEMENT BOARD OF THE
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM

September 17, 1984

A RESOLUTION ESTABLISHING PROCEDURES FOR VALUATION
OF REAL ESTATE EQUITY PORTFOLIO

WHEREAS, the Board has determined that it is prudent to have a periodic estimate of the fair market value of real estate in the system's real estate equity portfolio; and,

WHEREAS, W. J. Smith, real estate advisor, has submitted a report to the Board, a copy of which is attached as Exhibit A, outlining his recommendations for a valuation procedures; and,

WHEREAS, W. J. Smith is competent to perform market analysis and appraisals of system-owned real estate periodically, but it is also prudent for the Board to obtain, when and if necessary, periodic appraisals by independent appraisers;

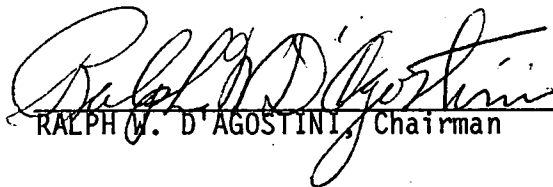
NOW, THEREFORE, BE IT RESOLVED THAT:

1. On the next June 30th following one complete year of ownership of a parcel of real property, and on each succeeding June 30th thereafter, a real estate advisor shall present to the Board a detailed analysis of the fair market value of each property in the system's real estate equity portfolio, based upon the factors specified in Exhibit A, together with any other factors specified by the Board or deemed prudent by the real estate advisor.

2. On the next June 30th following three complete years of ownership, an outside MAI appraisal shall, subject to the Board's decision as specified below, be done on each parcel of real property in the system's real estate equity portfolio.

- a. At the regular April Board meeting, the Board's secretary shall place on the regular agenda the matter of employment of an independent MAI appraiser.
- b. At that same meeting, the real estate advisor shall present to the Board a written report containing an opinion as to whether, with respect to each individual property, an outside, independent appraisal is needed.
- c. The Board shall require an independent MAI appraisal unless the Board finds, based upon all facts and circumstances with respect to each individual property, that it is not necessary to conduct such an appraisal.


- d. In the event that Board determines that such an appraisal is not immediately necessary, the Board may postpone the appraisal for such period of time as the Board, in its discretion, determines is appropriate.


RALPH W. D'AGOSTINI, Chairman

ATTEST:


RICHARD E. SNYDER, Secretary to the Board

APPROVED AS TO FORM:


WILLIAM P. CARNAZZO, Deputy City Attorney

August 10, 1984

EXHIBIT A

Sacramento City Employees' Retirement System
800 - 10th Street
Sacramento, California

Attn: Board Members

Re: Annual Valuation of Real Estate Equity Portfolio

At the July meeting the Committee requested information as to what method should be used in placing a current value on the System's real estate equity portfolio. In reviewing the problem we have been in touch with other real estate advisors and other pension fund managers seeking guidance as to the best and proper method for evaluating a real estate equity portfolio. Some funds appraise properties each year while others appraise only once every three years. Most of the commingled funds "value" the properties yearly by "pulling data from the market" utilizing capitalization rates, square foot selling prices and replacement costs. Others only appraise when they sell the property.

An appraisal is nothing more than an estimate of value. The objective of most real estate appraisals is to estimate market value by following a logical systematic process. Since value is the expected selling price, an appraisal requires the prediction now of a price which will be determined by the behavior of buyers and sellers in the future. Hence, there is very much of a human element in an appraisal and now just a counting of bricks and mortar. Individual property values are affected by national and local economic forces. The appraiser must be able to project future trends in the community and neighborhood and understand how these trends affect the value of the subject property. This background analysis is the study of the general physical, economic, social, political and competitive influences that bear upon the subject property's value. Together these forces interact and create the environment within which real estate is valued.

For the Systems needs, which is to estimate a value for reporting in the annual report, a full blown appraisal would not be needed. As reported last month the cost of an MAI appraisal would be approximately \$4,500 per property. To update the last appraisal, made when the property was purchased, would cost approximately \$2,000 - \$2,500. This updating is nothing more than an analyzation of the properties sold in the intervening time, which analysis (sic) would include capitalization rates, square foot costs, rental rates and selling prices. This data is available for the Sacramento market from several very reliable sources. Using this data an opinion can be made as to the value of the property at this time. To the extent that the values

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differ from the cost of the subject properties, these values represent unrealized potential gains or losses. Gains or losses would only be realized upon the sale or other disposition of the subject properties.

As your advisor I would recommend "valuing" the existing real estate equity portfolio by this method and securing an appraisal on the properties once every three years.

Sincerely,



W. J. Smith
Real Estate Advisor