ASSESSORS' HANDBOOK
SECTION 513

ASSESSMENT OF SHOPPING CENTERS

JANUARY 1983
REPRINTED JANUARY 2015

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Reprint Note

This manual has been renumbered from AH 510E, and renamed Assessment of Shopping Centers.

This manual has been reprinted with a new format and minor corrections for spelling and math errors. The text of the manual has not changed from the prior edition. It has not been edited for changes in law, court cases or other changes since the original publication date.
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CHAPTER 1: INTRODUCTION

Shopping centers appeared in the United States about 1915. They were located first in the eastern cities and were distinctly different from the shopping centers we know in California today. The early centers were smaller, had fewer stores, and had no parking areas because most of the buyers either walked or rode streetcars.

The shopping center concept "took root" in California during the late years of World War II. The influx of military personnel and defense workers launched a growing demand for goods and services that has continued to spread during the intervening years. Today approximately fifteen million of the twenty million people in California reside in urban areas. This concentration of population combined with a continually rising economy has resulted in the development of more than three thousand shopping centers throughout the state.

This handbook deals with the appraisal of shopping centers. It includes a discussion of the development, operation, and valuation of shopping centers as well as a bibliography and case studies.

A discussion of the appraisal techniques suitable for the appraisal of property generally may be found in other manuals or sections of the Assessors' Handbook. We recommend that the appraiser be familiar with such techniques before he contemplates the appraisal of shopping centers.¹

Source material for the handbook has been taken from many places. Assessors' offices in the several counties have been especially helpful. Private institutions, agencies of the federal government, and people dealing in the real estate market have contributed basic data.

While it has been our attempt to cover generally the appraisal of all shopping centers, we recognize there is not always a clear distinction between stores that comprise a shopping center and other stores. The reader is cautioned that this book is not intended as a reference for the appraisal of free-standing stores or stores outside a shopping center.

¹ Rates, factors, and dollar amounts contained in this handbook are based upon 1970 price levels.
CHAPTER 2: SHOPPING CENTER BACKGROUND

A shopping center has been defined as:

A group of commercial establishments, planned, developed, owned, and managed as a unit related in location, size, and type of shops to the trade area that the unit serves; it provides on-site parking in definite relationship to the types and sizes of stores.\(^2\)

Shopping centers are planned and developed for one reason—profit—profit for the investor and profit for the merchants. In order for profits to be maximized there must exist, in balance, many factors peculiar to the complex business of merchandising. Some of these factors, such as financing, size, shape, and rental agreements, may be adjusted, added, deleted, or extended, but one factor must always be present and vigorous. That one is purchasing power. There must always be a concentration of people nearby who have money or credit available with which to purchase goods and services.

**Classes**

There are four general classes of shopping centers: neighborhood, community, regional and super-regional. The distinction between each is not absolute, but the appraiser should be able to recognize each one and realize that each class constitutes a slightly different valuation problem.

**Neighborhood Shopping Centers**

This class sells daily needs such as foods, drugs, sundries, and personal services. It has from 10 to 15 stores and will be supported by approximately 5,000 to 30,000 residents. It will be developed on 3 to 5 acres of land, and the most prominent store will be the grocery market.

**Community Shopping Centers**

This class will sell apparel, hardware, and equipment in addition to the everyday needs of the shoppers. It will include 20 to 40 stores, will be supported by 30,000 to 130,000 people, and will require 10 to 30 acres of land. The most prominent store will be a junior department store.

**Regional Shopping Centers**

This class of shopping center provides almost the complete spectrum of consumer goods and services. It usually is designed in strip (mall) fashion with one or both ends anchored by a major department store and smaller shops located along the mall. A more recent design calls for a large major department store that serves as a central core with smaller shops clustered about it.

The average regional center contains from 300,000 to over 1,000,000 square feet of gross leasable area. It requires between 35 and 100 acres of land and is supported by about 300,000

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people. This class of shopping center offers the same goods and services as many commercial core areas in major cities.

**Super-Regional Shopping Centers**
A super-regional center is one containing over 1,000,000 square feet of leasable area, and over 6,000 parking spaces. It offers the complete spectrum of goods and services to consumers. This type center is relatively new in California and few are presently in existence.

**Development**

**Feasibility**
The feasibility of any shopping center depends on the purchasing power in the area and on the type and amount of competition. The successful developer always depends upon complete and thorough investigations to determine feasibility.

**Financing**
The larger centers are usually financed by insurance companies, pension trusts, banks, and other lending institutions. In some instances more than one lender will be involved. In the case of neighborhood centers, local banks or savings and loan associations may be capable of handling the financial requirements. Ground leases are becoming more and more important in the financial structure of shopping centers; and if the ground lease can be subordinated, a very large percentage of the total investment can be financed.

The amount of financing is controlled by government regulations or by lending institutions' policies. Ordinarily only 75 percent of the appraised value will be financed. Lenders usually only consider guaranteed minimum rents in determining the amount to be financed; overages are believed to be too speculative, especially with new developments. Loan terms, conditions, and interest rates vary with the lending institution, the money market, the project, and the developer. The appraiser will need to investigate the current lending conditions applicable to his local area and study financing terms and conditions common to shopping center lending markets generally. It is not uncommon to find that lending institutions are demanding a share of the profits and even the right to participate in the management of a center prior to granting a loan.

Developers have found that the return from land and improvements leased to major department stores is usually below an economic return. For this reason land is often sold to department stores at or below market. The developer will compensate for this expenditure by developing a rental income from the smaller shops that reflects the advantage of being located near the major department store.
SIZE
The three general classes of shopping centers--neighborhood, community, and regional--have already been mentioned. However, within each class the size may vary because purchasing power remains the controlling factor.

The developer strives to develop a shopping center that:

• Is large enough to meet the demands of the shoppers in "his" trade area,
• Leaves no excess demand that might encourage additional shopping center development in his trade area, and
• Reserves an area, by acquisition or by option, for expansion.

The many studies undertaken to determine the criteria upon which to base the size of a particular center have only served to prove that an exact mathematical formula for this purpose does not exist.

IMPROVEMENTS
The goal of the shopping center developer is to present an interesting and functional array of attractive shops that can be leased to produce an economic return for the investor. The intent is to create an environment in which shoppers will feel comfortable and happy while shopping for goods and services desired.

In support of the intention noted above, and in addition to the general store areas, the appraiser will find space used for offices, storage, maintenance, machinery, equipment, and access. Included also will be malls, facades, restrooms, and kiosks. Quality as well as quantity of construction must be noted.

Sometimes the developer will carry the construction only to the building shell stage, leaving the tenant the choice of store front, floor covering, air conditioning, interior decor, and signs. In this case the tenant may be given an allowance by the developer to complete this work, or he may invest his own capital; in either case the arrangements will be evident in the leasing agreements. The center may be a "turn-key" operation where the developer has carried construction to completion and the tenant need only add his sales promotion decor.

The appraiser must determine ownership, quantity, and quality of construction. In most instances this information is available from the developer's files, but the appraiser may also check building permit records, consult professional cost estimators, and review the individual leasing agreements.

The quantity of building space, parking, etc., can usually be ascertained from the blue prints. Quality of construction may also be identified from this source, but the appraiser must make a thorough inspection of the property. The type of construction may vary from a heavy reinforced-concrete structure to a light wood-frame structure.
PARKING REQUIREMENTS

Shopping center developers capitalize on the demand for "nearby" parking spaces by placing parking under, over, and around the stores. One of the features that distinguishes a shopping center from a commercial core is an ample parking area with good access.

The number of parking spaces needed is one of the problems that must be solved early in the design of a center. Many studies have been made by various agencies to determine the optimum amount of parking. Certainly it is not reasonable to design the parking lot to accommodate the peak load—say at Christmas. On the other hand, ample parking is the key to success. Two general methods of computing necessary parking are used. One bases the number of square feet of parking area on the total number of square feet of building area. This method is not viewed favorably because the total building area includes administrative offices, maintenance areas, storage space, etc., that do not require customer parking. The second method bases the number of spaces on the square footage of gross leasable area. The latter method is believed to be best.

While every center has its peculiar parking needs, it has been estimated that 5.5 spaces per 1,000 square feet of gross leasable area is a reasonable amount. Parking spaces, including maneuvering and access areas, average about 400 square feet, or approximately 100 spaces per acre. In addition to considering parking requirements in terms of need, a developer must also comply with local city and county planning ordinances that regulate minimum parking facilities. An appraiser must be aware of these ordinance requirements when analyzing planned, existing, and potential land use.

DELIVERY FACILITIES

Occasionally, truck tunnels are constructed beneath shopping centers (usually directly beneath the mall), so that merchandise can be delivered to the stores without interfering with shopper traffic. Complete tunnels are very expensive and are found in only the largest regional centers. However, variations of the tunnel are used in community centers. These variations usually are merely a method of screening a sub-surface central loading dock that serves all stores—or at least the major stores.

In almost all neighborhood centers goods are unloaded at the rear of the shops, or are unloaded over the front walkway prior to shopping hours.

IMPROVEMENT CHECKLIST

The following is a checklist of major improvements found in a typical shopping center. For a detailed list of capital cost items see Chapter V, The Cost Approach.

- Utility measuring and transmission systems.
- Parking areas and traffic control improvements.
- Landscaping and miscellaneous outside improvements.

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Ownership and Accessibility

Fee Ownership

Neighborhood shopping centers may be owned entirely in fee by the developer or investor. This is not so with community and regional centers. Often the land and improvements occupied by major department stores and sometimes those occupied by junior department stores are owned in fee by the store and not by the developer. This type of ownership arises because of the strong bargaining position enjoyed by the large stores. Store executives as well as developers realize that at least one "anchor" store is absolutely essential for a successful center. As a result, leasing negotiations favor the department store. To counter his unfavorable bargaining position the developer usually chooses to sell the site and the building, if constructed, to the department store. Often the price will be at or near cost.

Combined ownership, such as just described, necessitates an intricate network of easements and access agreements covering individually owned areas used jointly by all owners. The appraiser will need to discover the fee owner of each portion of the shopping center.

Sale-Leasebacks

Sale-leasebacks occur where a merchant has a structure built to his specifications on his land and then sells the land and building to an investor or lending institution with stipulation that the property will be immediately leased back to the original merchant. In this situation an appraiser could encounter a structure owned by "A", leased by "B", and located in a shopping center developed by "C". The obvious advantage of this arrangement is that owner "A" will receive rents that include an amount equal to amortization of the cost of the property and a fair return on the invested capital. Owner "A" will also have the advantage of claiming depreciation on the improvements as well as receiving any value that accrues to the land by appreciation (capital gains). The user of the property, "B", frees his capital for merchandising purposes, and he claims the rental paid to owner "A" as a business expense. A sale-leaseback transaction may provide the appraiser with good income information that can be analyzed as an indicator or value.

Sale-Buyback

In a sale-buyback situation a property is sold to an investor and then simultaneously bought back by the developer under long-term financing. In this way the developer obtains 100% financing

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4 Sale-leaseback and sale-buyback transactions are primarily methods of financing. While certain useful information may be obtained from such arrangements, the appraiser is cautioned that all terms and conditions of such transactions may not be evident, and those that are evident may be misleading if considered in the absence of complete and accurate data.
and pays for the property using a long-term installment contract. The advantage to the developer is that it frees his capital for development purposes. The investor usually will demand a percentage of the income produced by the property in addition to regularly scheduled contract payments. In some rare instances the investor will insist that he be allowed to participate in the management of the property.

Like the leaseback, the saleback may provide the appraiser with market information that can be utilized as an indicator of value.

**FIXTURES**

Real property includes land, improvements, and fixtures. A fixture may be defined as a thing that was originally personal property but which has been attached to the land or an improvement in such a way that it is considered as part of the real property. The fixture need not be attached directly to the land but may be attached to an improvement which in turn is attached to the land--a kitchen sink for example.

There are tests to determine the class of property but the courts generally view these tests as merely factors to consider when determining the parties' intent. The tendency of the courts has led to the formulation of the following three-pronged test for determining if a property is a fixture:

- The manner of the property's annexation to the realty,
- The property's adaptability to the use and purpose for which the realty is used, and
- The intention of the parties to make or not to make permanent the annexation of the property to the realty.

For the purpose of taxation, the intention of the parties must be determined by the physical facts or the reasonably manifested outward appearances without regard to the annexor's status as landlord or tenant.

Each item classified as a fixture should be identified according to ownership, appraised according to present depreciated value, and added to either the secured roll or the unsecured roll in the name of the person owning the fixture. Information relative to ownership, costs, age, and location of fixtures should be verified by inspecting the records of tenants as well as the developer/owner. This can become a laborious and complicated undertaking unless an organized system of classification, identification, and tabulation is developed. Real property appraisers are advised to coordinate this part of the appraisal with the personal property appraisers so that fixtures will not be exposed to double taxation or escape taxation altogether. **Always read leasing agreements to determine ownership and property tax liability.**
In the event of changes in tenancy several possible situations may develop regarding the valuation of the tenant and owner interests:

- If the shopping center owner owns the building and the fixtures, before and after the change in tenancy, and no changes are made for the new tenant, then no changes are necessary by the appraiser unless the terms and conditions of the new lease differ from the old lease.

- If the center owner owns only the building and acquires title to improvements installed by the former tenant--including fixtures--the appraiser must adjust the economic rent to reflect the change in ownership and shift the value of such improvements from the former owner to the new owner.

- If the owner of the center clears and remolds a vacated store, the cost of doing so must be prorated as an operating expense to clear the store, and a capital investment to remodel the store. Value added as a result of remodeling must be picked up in the cost approach, and changes in income and expense figures must be reflected in the income approach. The appraiser must also make certain that when the newly created value is added to the cost approach, the value of the removed improvements is likewise deducted.

**OPERATION AND MANAGEMENT**

The major activity of the owner and/or manager of a shopping center is directed to the three primary areas--leasing and tenant relations, day-to-day operation of the center, and sales promotion.

**LEASING AND TENANT RELATIONS**

A successful leasing program is the economic foundation of a shopping center. Lenders almost always insist that enough space is leased prior to final commitment to guarantee monthly debt service and operating expenses, including real estate taxes. Leasing arrangements are usually handled by a representative of the developer or by an experienced real estate firm.\(^5\)

The terms and conditions of the leases are usually quite standard, but many have mutually acceptable amendments. Most leases today are based upon a guaranteed minimum rent plus a percentage of the gross income above a certain amount. This type of lease protects the lessee as well as the lessor. It is a business contract that provides for the sharing of risks as well as profits.

Usually leases will include paragraphs that cover the following:

- Identification of lessee
- Identification of lessor
- Property description
- Date of lease

\(^5\) See leasing costs - page 18.
• Term of lease
• Rental rate and due date
• Extensions
• Cancellations
• Transferability
• Sale of the property
• Parking allowance and arrangements
• Acquisition by condemnation.

The leases further identify the party responsible for:

• Taxes
• Insurance
• Maintenance
• Furnishings
• Damage
• Utilities
• Security and protection, and
• Audit expense

**Merchants Association**

Each center ordinarily has a merchants association. Such associations are comprised of interested parties, especially the lessor and lessees. As a matter of fact, membership in the association may be condition in the leasing agreements.

The purpose of the association is to promote the gross sales volume of the center and to serve as a common meeting ground where lessees, lessors, and others may air their views regarding the operation of the center. The members usually must contribute financially for mutually beneficial sales promotion programs adopted by the association.

**Tenant Mix**

Tenant mix is the array of the different types of stores found in a center. Tenant mix depends upon many factors, but typically the developer attempts to match the tenant mix to the people in the trade area in order to produce the greatest possible sales volume. Factors such as average income, age, climate, basic industry, etc., influence the type of tenant desired.

Generally speaking, the rate of return on invested capital is in proportion to the risk the investor is willing to accept. This principle holds true for shopping center properties as well as other investments. For example, a "triple A" (prime) tenant may be charged a reduced rent because the
lessor knows that the rent contracted for will be received over the period of the lease. On the other hand a less desirable (marginal) tenant may be charged an increased rent because the lessor knows there is a chance (risk) that all of the rent may not be received.

Tenant mix is an important factor in balancing risk. The developer must have tenants who will provide the goods and services demanded by the consumers, yet he must maintain a risk balance that meets his risk limits. An unbalanced tenant mix may be indicated by an abnormal vacancy factor and an unusually high credit and collection loss.
CHAPTER 3: TENANTS

There are five general types of tenants in shopping centers:

LARGE NATIONALLY KNOWN STORES

This group is comprised of such stores as Macy's, Sears Roebuck & Company, and Montgomery Ward. Usually these stores require more than 100,000 square feet of gross leasable area, and where the land and structures are owned by the developer, the total yearly rent will average about $1.25 per square foot. Usually these stores require long-term leases--twenty to thirty years. Most often these companies will build their own stores on land leased or purchased in the center.

SMALL NATIONALLY KNOWN STORES

This group is comprised of such stores as W. T. Grant Company, F. W. Woolworth, Safeway, and Lucky. They usually require about 30,000 square feet of gross leasable area and pay about $1.50 total annual rent per square foot. Leases usually run between ten and fifteen years.

LARGE LOCALLY OWNED STORES

This group is comprised of such stores as Breuners, Roos/Atkins, and Desmonds. These stores usually require between 10,000 and 30,000 square feet of gross leasable area. The total yearly rental averages about $2.00 per square foot, and lease terms run about ten years.

SMALL LOCALLY OWNED STORES

There are a great many types of stores in this group. They require from 1,000 to 5,000 square feet of gross leasable area, and total annual rent varies from about $3.00 to $9.00 per square foot. Business mortality is highest in this group, and leases are usually quite short, ranging from one to five years with mutual cancellation clauses.

SPECIALTY BUSINESSES

Included in this group are such businesses as service stations, auto repair and accessories, motion picture theaters, car wash facilities, and kiosks. Size, rent, and terms of the leases for specialty businesses vary so widely that the appraiser is advised to search his own area for economic data.
CHAPTER 4: VALUATION COMMENTS

As with any valuation problem, the first step in appraising a shopping center is to identify the property rights to be valued. Included should be all taxable rights in the land improvements, and fixtures. Such rights may be the sole and separate property of one owner, or they may be divided among many owners.

After the appraiser has completed the preliminary survey and planned the appraisal, he should proceed with the data collection phase. Any information concerning the cost, income and expense, or sales of comparable properties attention should be compiled in a logical and useful manner. Particular attention should be paid to those data intrinsic to the income approach.

A large shopping center is an extremely complicated type of property that functions properly only when many agents of production are skillfully brought together as a unit. There must always be a candid exchange of information between the developer and the assessor if the property is to be properly valued for property tax purposes.

UNIT TO BE VALUED

The unit to be valued is the entire shopping center. However, the appraiser must ultimately apportion the unit value to the separate ownerships giving full consideration to size, location, and existing encumbrances that result from the interrelation that each parcel has with every other parcel, separately and collectively, within the shopping center. For purposes of allocation an appraiser will look to the traditional approaches to value and will use the most reliable data.

APPROACHES TO VALUE

The three classic approaches to value are usable in shopping center appraisals. The cost approach is considered the weakest since it includes no provisions for entrepreneurship and adjustments for appreciation and depreciation are difficult to make. The sales comparison approach may be the strongest approach if comparable sales data are available; such is usually not the case, and this approach is ordinarily subordinate to the income approach. The income approach is generally most reliable when valuing a seasoned shopping center if reliable sales information is not available.

LAND VALUE

Land value may be estimated by two methods. The subject may be compared with recently sold parcels of land deemed comparable, making due allowances for land preparation; or the estimate may be made using a land residual technique. The sales comparison approach is straight-forward and should present no special problems. The land residual technique can be slightly complicated, and several precautions must be taken. In all cases current economic rent and typical expense items must be used. Land values vary from location to location and according to size. However,
the usual unit of reference is price per square foot. Land used for parking, store sites, mall, and access will normally be appraised at the same unit value.

**EXCESS LAND**

Excess land is idle land owned by and contiguous to a developed shopping center. Such land may be unimproved and idle, or it may be improved for parking and idle. In either case excess land does not contribute to the shopping center's income stream.

Land under vacant stores is not considered excess. This condition is covered by the vacancy factor in the income approach.

The amount of excess land can usually be found by subtracting from the total land area the sum of the land needed for building and for parking, i.e.:

<table>
<thead>
<tr>
<th>Description</th>
<th>Acres</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total land (including excess)</td>
<td>50</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Building sites</td>
<td>10</td>
</tr>
<tr>
<td>Land for parking, access, etc.</td>
<td>20</td>
</tr>
<tr>
<td><strong>Excess land</strong></td>
<td><strong>20</strong></td>
</tr>
</tbody>
</table>

In estimating the value of excess land, it is suggested that the sales comparison approach be applied. To the value of the excess land must be added the estimated (depreciated) value of such improvements as parking surface, roads, lights, etc., installed on excess land.

The use of double-deck parking is becoming more common at regional and super-regional shopping centers. Ordinarily it is used where the value of land is higher than the cost of installing such parking. It is also used where topography of the center is hilly or where it would be advantageous to serve a multi-level mall.

Land should not be declared excess simply because multi-level parking is a possibility unless raised parking clearly will release the potential excess land for a use that is obviously higher and better than the present use. If an appraiser does choose to consider the possibility of multi-level parking as a method of estimating excess land, he must not overlook the land that would be required for ramps and traffic control.
CHAPTER 5: COST APPROACH

INTRODUCTION

It is generally recognized that a cost estimate is an important and valuable tool in appraisal work. Important facts which will be useful in the other approaches to value can be learned about the subject property while making the cost estimate.

DEFINITION OF COST

It is clear that there is no necessary relation between the cost concept and the actual costs experienced by any one builder in any specific case. The cost concept for appraisal purposes may be thought of as the full economic costs. The full economic costs are defined as the necessary payments that must be made to secure the continued supply of all the agents of production as experienced by the representative firm.

APPRAISAL COST CONCEPTS

A discussion of cost concepts can be found in Assessors' Handbook, Section 501, General Appraisal Manual.\(^6\)

ACCOUNTANT'S CONCEPT OF DEPRECIATION

The accountant's definition of depreciation is quite different from the appraiser's, and the appraiser should be aware of this fact. The accountant's depreciation charge consists of writing off or amortizing of some previously incurred outlays that could not properly be written off in a single accounting period. The accountant's action in establishing book depreciation is usually influenced by income tax laws.

CAUSES OF DEPRECIATION

Depreciation decreases the utility of an improvement in two different ways. First, and probably more important, it shortens the remaining life of the property. Instead of yielding benefits for, say 40 or more years, the property has only 30 years of service left. Second, it decreases the amount of each net benefit by either yielding smaller total benefits or yielding the same total benefits at a higher cost. Depreciation decreases the remaining life and efficiency of property.

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There are three generally recognized causes of depreciation. They are physical deterioration, functional obsolescence, and economic obsolescence. It is useful to categorize depreciation in this manner since this knowledge is often helpful in making a percent good estimate.

**Physical Deterioration**
Physical deterioration is a lessening of value because of some physical change in the structure which lowers its utility. The actions of man, pests, and elements cause this depreciation. Peeling of paint, wearing out of water heaters, termite action, flood damage, etc., are all illustrations of physical deterioration. Virtually all structures deteriorate with age. Good maintenance will lessen this factor, while lack of maintenance will increase the amount of physical deterioration a building will experience. The physical factors set a maximum possible life for any structure.

The physical factors have not in general been the major limiting factors for the economic life of shopping centers in California. Typically, the life of structures has been ended by obsolescence and not by physical deterioration. With proper and normal maintenance, buildings will have a slow rate of physical deterioration.

**Functional Obsolescence**
Functional obsolescence is a lessening of value because of some nonphysical changes in the desirability of a structure. It is a much more intangible factor than physical deterioration but nonetheless, a more potent one. Functional obsolescence may be attributable to changes in tastes and in the arts or to poor initial design.

**Economic Obsolescence**
Economic obsolescence is a lessening of value because of some adverse factors which decrease the desirability of the neighborhood, or the loss of revenue to competing centers. These factors are outside the subject property. The loss of value occurs because of the immobility of real estate. This is an environmental factor and is illustrated by shifting of the basic means of employment from a community or movement into a neighborhood by a different cultural and economic group or by increased competition. Losses in value which are called economic obsolescence are usually beyond the power of any one individual to influence. This depreciation affects both land and buildings.

**Percent Good Tables**
Percent good tables have validity only to the extent that the subject property has experienced the usual depreciation for one of its age, quality, and use type. Because they are constructed by relating actual sales prices to replacement cost new for structures of different ages, the tables reflect normal depreciation, which includes typical physical deterioration and the usual functional obsolescence. Obsolescence due to poor initial design, and unusual physical deterioration, if any, must be calculated by some other means. No general guides can be provided for the estimation of economic obsolescence.
Any depreciation or percent good table can be used **only** as a guide in the estimation of value. A percent good table may reflect more or less depreciation than the market indicates. Wherever possible, replacement cost new less normal depreciation should be verified by other approaches before it is accepted as representing value.

**LAND VALUE**

In the cost approach, the land value, derived from the market comparison and income approaches, and from the developer's actual land costs, is added to the depreciated cost of the improvements. It is important to note that this addition produces a summation appraisal. This is not considered to be the best appraisal procedure, because the market usually values the property as a whole or a unit. What must be remembered is that this is just one approach to value and that it should be supported by other approaches.

Briefly stated then, the cost approach is the summation of all costs incurred prior to opening. These include both direct and indirect costs and may include but are not restricted to the following items.

**Land**
- Undeveloped land costs
- Land acquisition cost
- Escrow and recording fees, brokers' fees

**Off Site Improvements**
- Street and sidewalk costs
- Streets and utilities
- Traffic controls

**On-Site Preparation and Improvements**
- Surveys and engineering
- Clearing and grading
- Utilities
  - Water
  - Gas
  - Electricity
  - Waste and sewer lines
  - Telephone lines
Parking
  Paving
  Curbs
  Striping
  Traffic control features
  Lighting
Landscaping

**Building Costs**
  Planning and design costs
  Architect's fees
  Construction costs
  Stores
  Offices
  Theaters
  Community halls
  Restrooms
  Escalators and elevators
  Air-conditioning (heating and cooling)
  Tenant-installed fixtures owned by the developer
  Store fronts
  Window backs
  Interior finishing
  Wiring, piping, electrical and plumbing fixtures
  Signs, doors, and hardware
  Individual air-conditioning

**Interim Development and Management Cost Prior to Opening**
  Interest on construction loan
  Interest on permanent loan if granted prior to opening
  Management and insurance costs during construction
Legal fees
Taxes
Miscellaneous
Leasing costs, promotion and publicity

ENTREPRENEUR’S PROFIT

When using the cost approach to value, an appraiser must not over-look the value added by the developer’s skill, knowledge, management, ability, and access to development funds. This increment of value is indicated by the difference between the sum of the foregoing costs and the price at which the developer would sell the shopping center at any given time.

COST APPROACH SUMMARY

A commercial building record should be completed for each structure in the shopping center. The appraiser should note all modifying factors and mathematical procedures used. If historical costs are utilized, they must be factored to reflect both appreciation and depreciation. If replacement costs are used, they also must be factored to compensate for depreciation. The greater portion of the depreciation at any center will ordinarily be functional and/or economic obsolescence. Physical depreciation is not of major importance in many shopping center appraisals. Changes in architectural design and construction technology coupled with changes in marketing techniques create a desire to shop in the newest, most modern centers. Unless the aging centers are perpetually modified to keep abreast of these demands, functional obsolescence will develop at an accelerated rate.

Economic obsolescence usually cannot be corrected since it originates off the property, beyond the control of the developer. Occasionally, economic obsolescence is the permanent result of poor planning prior to development, but more often it is caused by aggressive competition or changes in local land-use patterns.

Because loss in value from all sources is very difficult to measure, the cost approach tends to weaken as an indicator of value after the first few years of operation.

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7 Leasing costs are necessary to bring a shopping center to a completed and operating condition. Should a completed center be sold the developer would certainly recover leasing costs in the sale price.
CHAPTER 6: INCOME APPROACH

The income approach is the capitalization of a net income stream into an indication of value. The data needed are:

1. Gross income
2. Vacancy factor
3. Operating expenses
4. Land or building value if a residual technique is used
5. Capitalization rate
   - Yield component
   - Recapture component
   - Real estate tax component

We must recognize that the market for shopping centers is made up of investors controlling large amounts of capital. Included are individuals, corporations, associations, syndicates, and fund managers. Such investors purchase shopping centers for one reason--to earn the greatest possible return at a given risk in a given period of time on the capital invested during that period. The return can be in the form of net income, capital gain, and income tax shelter. Since the owners of shopping centers measure the benefits of ownership in these terms, it seems logical to estimate the centers' value for property tax purposes using these same terms. However, of the three types of benefits noted, the net income is the only one that can be directly capitalized into an indicator of value. Because we always work with economic rent, we must analyze the income information from as many centers as possible in order to insure the accuracy of the projected income stream. Shopping center account records should be inspected and data from a reasonable number of years analyzed.

GROSS SALES VOLUME

The common denominator in the consumer merchandising business is the total annual gross sales per square foot of gross leasable area. This amount usually totals between $40 and $60 but may reach $100 or more for high-volume markets; it will vary from center to center depending upon size, age, and overall successfulness of the center.8

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8 A more detailed analysis of typical sales volume in all types of shopping centers can be found in Dollars and Cents of Shopping Centers, Urban Land Institute, 1972.
The purpose of the income approach is to indicate the present value of future net income expected from the prudent use of the land and existing improvements. This approach can only be used correctly for property tax purposes, if current, and future economic rental information is used. Information taken from rental agreements negotiated prior to the date of appraisal will indicate the value of the property on the prior date; obviously this would be an improper value to assess.

It is often necessary to adjust contract rental information, or to impute current economic rent discovered in the market in order for the income approach to be meaningful. To do this, rental information from similar stores and shopping centers should be carefully analyzed.

The total gross income received by the owner of a shopping center comes from several sources. The major portion is rent, minimum and percentage (overage), paid by the tenants who lease the stores and offices. Additional income is derived from charges made for the use of common areas and for taxes.

**Minimum Rent**

Minimum rent is a fixed payment in a percentage lease, usually expressed as an amount per square foot per year. The amount is negotiated at the beginning of the lease and usually is subject to renegotiation at predetermined times during the term of the lease. Minimum monthly rent is usually a function of the supply of, and demand for, retail stores.

**Percentage Rent**

Percentage (overage) is rent paid in addition to minimum rent. The amount is computed by taking a prenegotiated percentage of the portion of the monthly gross sales that exceeds a certain sales volume. The percentage rate and the volume of sales necessary for the percentage rate to apply are negotiable, and like minimum rents may be subject to renegotiation at predetermined times during the term of the lease.

**Other Income**

Other income is collected to pay for the use of common areas, to pay taxes, and to meet publicity and promotional expenses that benefit the whole center. Income from vending machines and service contracts should be included.

All of the above types of income should be considered in arriving at a projected long-term income stream. Total gross incomes vary widely from center to center, but on a leasable square-foot basis there are average figures. According to a recent study conducted by the Urban Land Institute, median annual operating receipts (including percentages and guaranteed minimums) per leasable square foot of store area are as follows:

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9 *Dollars and Cents of Shopping Centers*, Urban Land Institute, 1972.
Regional Centers $2.64  
Community Centers $2.38  
Neighborhood Centers $2.34

It has been found that a strong relationship exists between the total square foot area of a store and the square foot rent; the larger the store, the lower the total square foot rent. For example, bowling alleys, furniture stores, and movie theaters are considered low-rent tenants that pay from $1.00 to $2.00 per square foot. Camera shops, tobacco shops, and other small shops are considered high-rent stores and pay between $4.00 to $15.00 annually per square foot of gross leasable area. There is also a relationship between the rental rate and the distance between a particular small store and the anchor store. The greater this distance is, the lower the rent will be.

**ECONOMIC RENT**

The total gross income earned by an entire center is the *contract income* which may or may not be the *economic income*. If contract income is capitalized and it includes a percentage of the gross earnings of the individual tenants, then the result of extraordinary management skills of the individual merchants may be inextricably woven into the total capitalized earning ability of the center. In order to recognize such unusual circumstances, the appraiser should make a wide-ranging rental survey so that *economic* rent can be isolated for processing.

An appraiser should be concerned with the identification of tenant-owned improvements when estimating economic rent. Leasing agreements vary from center to center and even from tenant to tenant within the same center. One tenant may lease only the building shell, while the neighboring tenant may lease shell, floor, ceiling, front, etc. Thus, to repeat, when estimating economic rent, it is extremely important to identify the ownership of the improvements involved and to know all of the benefits the tenant receives for his rent money.

Additional income received from a tenant for his use of the common areas (mall, parking, restrooms, etc.) is usually based upon the fraction of the whole center occupied by him. Such charges can also be based upon the amount of his gross sales as a percentage of the total gross sales in the center. These same methods may also be followed to recover costs of lighting, air-conditioning, security, etc.

**VACANCY**

The economic health of any shopping center depends upon the percentage of the total space rented. Shopping centers are rarely fully occupied, and the appraiser must take this fact into consideration when refining gross income into economic gross income. There is no statewide average vacancy factor. However, data recently collected show that some of the better centers have approximately three percent of the total leasable area vacant. This figure is *not typical* statewide, but it does prove that vacancies do exist and that they must be recognized in the appraisal process.
OPERATING EXPENSES

Total operating expense is the sum of the monthly expense items incurred by the owner of the center during a given year's operation. Individual items of expense are many and varied but generally can be associated with one of the following categories.

- Management
- Insurance
- Payroll and employee benefits
- Leasing fees and commissions
- Supplies and materials
- Communication and transportation
- Licenses and permits
- Equipment charges
- Common areas and outside services
- Utilities not paid by tenants
- Promotion and advertising
- Merchants association
- Miscellaneous

The appraiser must know the typical annual expense in order to process gross income into net income. To ascertain the typical expenses, a number of centers should be studied using some type of common denominator. Expenses may be expressed per square foot of gross leasable area or as a percentage of the gross income. Studies indicate that expenses (not including real estate taxes) may equal 50¢ to 80¢ per square foot, or about 20 to 25 percent of the gross income. Extreme care must be taken in collecting expense data, since individual centers may follow different leasing policies regarding rental rates and expense responsibility. For example, a tenant in center "A" may pay real estate taxes and be charged a lower rent, while in center "B" he may not pay real estate taxes but he pays a higher rate.

CAPITALIZATION RATES

A capitalization rate is composed of several components. If the capitalized earning ability of land, a nondepreciable asset is desired, the rate will be comprised of only a yield component and a real estate tax component. If the capitalized earning ability of a depreciable asset is desired, the rate must contain components for yield, real estate tax, and recapture.

If capitalization rates are not available because there have been no shopping center sales in the area, an appraiser may have to search a broader market. Super-regional, regional, and sometimes...
community centers are bought by investors who invest on a statewide and even a nationwide basis. In addition to searching a broader market, an appraiser should also consider information resulting from the sale of other types of commercial property. This must be done carefully however, because a subject center cannot be compared directly with different types of commercial properties. The appraiser should analyze rates of return anticipated by investors in commercial properties that have similar risk and income potential. He must keep in mind that expenses as a percentage of gross income, remaining economic life, and the ratio of land value to improvement value will be reflected in such rates.

**Yield Component**

The yield component is the rate of return that a prudent investor could expect to receive on funds invested in property similar to the subject property. This component can be found by analyzing recent comparable sales in the following way:

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale price</td>
<td>$5,000,000</td>
</tr>
<tr>
<td>Land value</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Improvement value</td>
<td>3,500,000</td>
</tr>
<tr>
<td>Gross income</td>
<td>$730,000</td>
</tr>
<tr>
<td>Less expenses</td>
<td>-125,000</td>
</tr>
<tr>
<td>Net before recapture and taxes</td>
<td>605,000</td>
</tr>
<tr>
<td>Less recapture (33-yr. life)</td>
<td>$3,500,000 x 0.03 = -105,000</td>
</tr>
<tr>
<td>Net to yield and taxes</td>
<td>500,000</td>
</tr>
<tr>
<td>Less real estate taxes</td>
<td>$5,000,000 x 0.025 = -125,000</td>
</tr>
<tr>
<td>Yield</td>
<td>375,000</td>
</tr>
<tr>
<td>Yield rate</td>
<td>375,000 ÷ $5,000,000</td>
</tr>
</tbody>
</table>

**TAX COMPONENT**

When appraising for property tax purposes, an allowance for property taxes should be provided by including a property tax component in the capitalization rate rather than subtracting taxes as an expense item. The subtraction of taxes necessarily involves an assumption that the appraiser knows the assessed value and consequently the market value of the property. The amount of the property taxes is dependent upon the result of the appraisal and should not be predetermined in the capitalization process.

The tax component of any capitalization rate is determined in the following way:

<sup>10</sup> This rate is not to be considered typical.
**Recapture Component**

The recapture component is the amount of money expressed as a percent that must be recovered annually in order to recapture the investment in depreciating improvements.

**Capitalization Methods**

Shopping center improvements are relatively long-lived assets that are expected to produce an income stream throughout their economic life. There are two major points to consider in analyzing such an income stream. The first point is the quality, or, the risk inherent in the income stream. The second point is the shape (amount and duration) of the income stream.

An appraiser reflects the quality of a subject income stream by using a capitalization rate derived from sales of shopping centers having tenants whose risk characteristics are similar to those possessed by the tenants in the subject shopping center.

The second point is not so easy to handle because the shape of an income stream has two dimensions that vary from center to center and even from time to time in the same center. An appraiser must estimate the amount of income the center will earn year by year and the economic life of the center. His decisions on these points can only be based upon the income history of the subject center, the history of similar shopping centers, and the effect of expected future economic conditions.

Obviously, all centers will not have similarly shaped income streams of similar quality. Therefore, it is not possible to recommend a particular "best shaped" income curve. However, we can point out that several counties have collected data to indicate that well-planned, well-managed centers generally show increasing income streams during the first three to six years, followed by a general leveling-off period. This could suggest that the capitalization process might be based upon an inclining premise, or upon a constant income premise. But an appraiser must keep in mind that the forces of depreciation and competition are always going to be working on the shape of the income stream, and at some time in the future income may decline. Therefore, an income premise should only be selected after carefully considering all available economic data. There are several capitalization techniques that may be employed: land residual, building residual, property reversion, and an overall rate.

**Land Residual**

This technique of capitalization assumes that the land is developed to its highest and most profitable use. The capitalization process is accomplished by dividing the residual net income attributable to the land by a capitalization rate comprised of a current yield component and a real estate tax component. To this quotient must be added the depreciated value of the improvements. This technique is sensitive to small variations in residual net income, and the appraiser must employ it cautiously.
**Building Residual**
This technique is similar to the land residual technique except that in this case the residual net income attributable to the improvements is divided by a capitalization rate that includes components for recapture, yield, and real estate taxes. To this quotient must be added the estimated land value. This technique is usually more reliable than the land residual technique.

**Property Reversion**
This technique is similar to the residual technique except that the present worth of the total annual net income earned by both land and improvements is computed for the period of time equal to the estimated remaining economic life of the improvements. To this amount must be added the reversionary value of the land. This technique usually will result in a lower value indicator than the residual technique. The reason for the difference lies solely in the fact that the property reversion techniques is, through the declining income premise, providing for a decline in the *entire* income stream while the other methods provide for a constant income from that portion of the income imputable to the land.

**Overall Rate**
An overall rate is "the percentage which combines within itself the interest rate for land and the capitalization rate for building, and which expresses the relationship between the entire property and the net income before recapture imputable to it." An overall rate is found by taking the quotient of the net income before recapture and the sales price in terms of cash of recently sold centers. This rate is then applied to the net income before recapture earned by the subject.

This is an excellent method when comparable sales information is available. It is essential that the comparable and subject properties have similar remaining economic lives. The method does not segregate land and improvements values, however, and it will be necessary to do so by some other method or approach.

---

EXAMPLE: **Overall Yield Rate Extraction from a Sale**

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale Price (Adjusted to cash)</td>
<td>$500,000</td>
</tr>
<tr>
<td>Gross Income</td>
<td>$77,000</td>
</tr>
<tr>
<td>Less Vacancy &amp; Credit Loss</td>
<td>-2,000</td>
</tr>
<tr>
<td>Effective Gross Income</td>
<td>75,000</td>
</tr>
<tr>
<td>Less: Operation Expenses</td>
<td>-14,000</td>
</tr>
<tr>
<td></td>
<td>61,000</td>
</tr>
<tr>
<td>Less Property Taxes</td>
<td>-13,500</td>
</tr>
<tr>
<td>Net Income Attributable to Land and Improvements</td>
<td>$47,500</td>
</tr>
<tr>
<td>Overall Yield Rate: $47,500 ÷ $500,000 =</td>
<td>9.5%</td>
</tr>
</tbody>
</table>

EXAMPLE: **Overall Yield Rate Application**

The overall rate extracted in the above example is used here to demonstrate its use in capitalizing the income stream from a subject property. Note that property taxes are not deducted from the income stream and that a property tax component has been added to the overall rate prior to capitalization.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Income</td>
<td>$160,000</td>
</tr>
<tr>
<td>Less Vacancy and Credit Loss</td>
<td>-4,000</td>
</tr>
<tr>
<td>Effective Gross Income</td>
<td>156,000</td>
</tr>
<tr>
<td>Less Operation Expenses</td>
<td>-30,000</td>
</tr>
<tr>
<td>Net Income Attributable to Land and Improvements</td>
<td>$126,000</td>
</tr>
<tr>
<td>and Property Taxes</td>
<td></td>
</tr>
</tbody>
</table>

Capitalization

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall Yield Rate</td>
<td>9.5%</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>2.5%</td>
</tr>
<tr>
<td>Total Rate</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

$126,000 ÷ 12% = $1,050,000

Total Estimated Value by This Technique $1,050,000

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12 Note that property taxes have been deducted.
CHAPTER 7: SALES COMPARISON APPROACH

DIRECT COMPARISON

The sales comparison approach is based upon the comparison of like with like, that is, comparison of the subject center with similar centers that have sold recently. Here are some factors that are helpful in establishing comparability.

SIZE
- Acres
- Gross leasable area
- Parking Spaces

SALES
- Total gross sales for the entire center
- Average gross sales per square foot of gross leasable area

INCOME
- Total income earned by the center (rent, etc.)
- Average gross income per square foot of gross leasable area
- Total net income earned by the developer
- Average net income per square foot of gross leasable area

RECIPROCAL EASEMENT AGREEMENTS

EXPENSES—TOTAL EXPENSE FOR THE ENTIRE CENTER
- Average expense per square foot of gross leasable area

RATIOS
- Ratio of expense to gross income
- Ratio of expense to net income
- Ratio of gross income to sales price (GRM)
- Ratio of land area to total building area
- Ratio of land area to gross leasable store area
- Ratio of gross income to parking space
**Yield Rate**

- Net rate of return after deducting amounts for operating expenses, property taxes, and recapture.

Where comparability can be established the sales comparison approach must be heavily weighted as an indicator of the final value estimate.

**Gross Rent Multiplier (GRM)**

A GRM can be used as a valuation tool as well as an indicator of comparability. It is generally viewed as a check against the classic approaches to value and is awarded something less than the status of a technique. The reliability of a GRM is only as good as the sales from which it is derived. If a sold property, for example, has potential for large capital gains, the value indicated by using the resulting GRM will include the capital gain potential and will be a poor value indicator for an appraisal subject that lacks such potential. If a sold property has excess land while the subject has none, the use of a GRM from such a sale will indicate a value that includes excess land value. With these examples we can readily see that the selection and use of gross rent multipliers must be carefully made to avoid misleading results.
CHAPTER 8: SUMMARY

The factors related to the physical and economic structure of a shopping center are many and varied. Included are size, location, access, competition, parking area, malls, climate, sales area, tenant mix, leasing agreements, etc. It is the appraiser's job to analyze these factors and any other pertinent information and to employ approaches to value that individually and/or jointly weigh these factors so that a logical and well-supported opinion of value can be derived.

We believe the most logical method of estimating the value of an income-producing property, such as a shopping center, is to capitalize the net income that the property is capable of producing.

It is reasonable to emphasize the use of the cost approach during the early life of a shopping center because during this period the income stream is unstable. To assist with the cost approach the State Board of Equalization periodically updates and publishes cost factors in Assessors' Handbook Section 532, Commercial Cost Manual. These cost factors are reliable and can be utilized in the appraisal of many kinds of store buildings. The value of land, a "cornerstone" in most approaches to value and especially important to the cost approach, varies greatly from place to place and from time to time. There is no way to provide fresh land value data in the same way that building cost data are supplied. Each appraiser must search the market area in which he is working to ascertain current land values and to meet his valuation responsibilities. The cost approach is a good and helpful tool and should be attempted in every appraisal unless the improvements have suffered severe economic obsolescence.

We have found that sellers of shopping centers are often more concerned with tax shelter and/or capital gains than with cash. It is not uncommon to find sales transactions that include traded property, traded equity, or traded stock. When such conditions are encountered, the sale terms must be refined to a cash equivalent basis before the sale can be used. Sometimes the terms of an otherwise "good" sale will render that sale unreliable, and on some occasions sales information will be so weak that the entire sales comparison approach is meaningless. However, if good information is available, the sales comparison approach should be weighted heavily.

Some knowledgeable appraisers have expressed the opinion that the use of an overall rate is a reliable method of estimating the value of a shopping center. We concur, but we buffer our concurrence with the knowledge that an overall rate must be derived from sales of fairly comparable shopping centers, or other commercial properties having similar characteristics.

We believe the appraiser must possess a certain amount of pertinent basic data and the knowledge to utilize that data correctly in appraising a shopping center. This handbook is not designed to provide either of these items per se. It is designed only to assist an appraiser in acquiring such information and knowledge for himself.
CHAPTER 9: BIBLIOGRAPHY


The Urban Land Institute:

- *Dollars and Cents of Shopping Centers*, 1969.


S. O. Kaylin, *"Terms of Leases For Space In Centers", Chain Store Age*, May 1968.

Homer, Hoyt, *"Land Values in Shopping Centers", Traffic Quarterly*, July 1968.


This case study is fictitious.

The dollar amounts, rates, and factors shown are utilized to demonstrate appraisal procedures only and should not be considered typical.
### COMMERCIAL PROPERTY APPRAISAL RECORD

**NAME OF PROPERTY** Golden Bear Shopping Center  
**ADDRESS** 3000 Golden Bear Blvd.

**SUBDIVISION**

**CHARACTER OF SUBJECT PROPERTY**

<table>
<thead>
<tr>
<th>USE</th>
<th>TOPOGRAPHY</th>
<th>LAND IMPS.</th>
<th>BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store</td>
<td>x Proper</td>
<td>x Level</td>
<td>x Sidewalk</td>
</tr>
<tr>
<td>Office</td>
<td>Marginal</td>
<td>x Bank</td>
<td>x Curb</td>
</tr>
<tr>
<td>Hotel</td>
<td>Sub Marq'1</td>
<td>Hole</td>
<td>x Gutter</td>
</tr>
<tr>
<td>Zoning</td>
<td>COMMERCIAL</td>
<td>x Slope</td>
<td>x Pavement</td>
</tr>
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**CHARACTER OF NEIGHBORHOOD**

<table>
<thead>
<tr>
<th>USE</th>
<th>TOPOGRAPHY</th>
<th>TREND</th>
<th>GENERAL</th>
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</thead>
<tbody>
<tr>
<td>Residential</td>
<td>Commercial</td>
<td>Industrial</td>
<td>x Level</td>
</tr>
<tr>
<td>Single</td>
<td>Retail</td>
<td>Light</td>
<td>Low</td>
</tr>
<tr>
<td>Income</td>
<td>Wholesale</td>
<td>Heavy</td>
<td>High</td>
</tr>
</tbody>
</table>

**ZONING** COMMERCIAL  
**UTILITIES** Over Imp.  
**All Installed** | Under Imp. | Zoning:  
**Poles, Front** | Ribbon |

### SUMMARY

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>19</th>
<th>Improvement Replacement Cost (Structures) $4992, 651</th>
</tr>
</thead>
<tbody>
<tr>
<td>Appraiser And Date</td>
<td>207-1-71</td>
<td></td>
</tr>
<tr>
<td>Improvement R.C (Fixtures And Equipment) $30, 176</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personality R.C (Furniture And Equipment) $0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Land Value $1,860, 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Improvement R.C.L.N.D (Structures) $4,386, 608</td>
<td></td>
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<tr>
<td>Improvement R.C.L.N.D (Fixtures And Equip.) $21, 448</td>
<td></td>
<td></td>
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<tr>
<td>Personality R.C.L.N.D (Furniture And Equip.) $0</td>
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<td></td>
</tr>
<tr>
<td>Total Property R.C.L.N.D $6,266, 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capitalized Earning Ability $6,266, 000</td>
<td></td>
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<tr>
<td>Indicated Sale Price $6,266, 000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Listed Price $6,266, 000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### APPRAISAL

| Total Property Value $6,266, 000 |
| Land Value $1,860, 000 |
| Improvement Value (Structures) $4,386, 608 |
| Improvement Value (Fixtures And Equip.) $21, 448 |
| Personality (Furniture And Equipment) $0 |

### ASSESSED VALUES

| Land $465, 000 |
| Improvements $1,075, 000 |
| Personality $6, 750 |
| Total Property $1,546, 750 |

**PARCEL** XXX - X - XX
CASE STUDY

INTRODUCTION

The subject is a regional shopping center located within the limits of a growing California city. The center has two major department stores (one is owner-occupied on land leased from the center) that serve jointly as power anchors. There is an enclosed mall, ample parking, and an overall land-to-building ratio of 2.7 to 1.

The center is five years old and has reached maturity. The annual gross income flows from the rent of the department store, department store ground lease, and many smaller stores and shops. A bank and a service station are located in the center but are not owned by the center and are not included in this appraisal.

Six community shopping centers are located within the subject's trade area. They appear not to be expanding and at present do not compete directly with the subject. Also within the trade area are twelve neighborhood centers featuring everyday needs of the nearby residents. These small centers do not detract significantly from the sales volume of the subject.

The subject is well managed and holds a challenging position in the overall scheme of retail merchandising in the city.

SUBJECT PROPERTY INFORMATION

Description

The taxable property included in this appraisal consists of the following:

- 42 acres of land (1 acre used for bank and Service Station is excluded)
- 3 store buildings containing a total of ± 314,000 square feet of gross leasable area. There is a separately owned department store containing 186,000 square feet.
- An enclosed mall containing 59,900 square feet of useable area.
- Miscellaneous building area containing 22,600 square feet of useable area
- Parking area improvements, including surfacing, wheel blocks, painted lines, landscaping, and lighting
- Miscellaneous improvements

Identification

The subject is identified in the official county records as Assessor's Parcel 123-04-001 and is located in tax-rate area 23-002.
Owner of Record

John Q. Owner               Business Phone
11647 Countryside Lane      111-333-4444
Storetown, California 19999

Address

The subject is located at 3000 Bear Boulevard. This address is the southwesterly corner of the intersection of Interstate 110, a full freeway, and Bear Boulevard, an intra-city street that has three lanes of traffic in each direction.

Site Description

The subject land is level and at grade with the adjacent streets. No extraordinary site development costs were incurred in development of the center.

Soils

The soils appear to be stable and suitable for shopping center development.

Utilities

The following utilities and services are available to the property

- Natural gas
- Water
- Electricity
- Sewer
- Telephone
- Municipal bus service
- Garbage collection (city contract)

Highest and Best Use

The highest and best use of the subject is the present use.

NEIGHBORHOOD

Commercial Development

The neighborhood includes, besides the subject center, four franchise quick-order restaurants, three automobile dealers, two franchised hardware stores, and two theaters. All of these businesses are located opposite the center on Bear Boulevard. The commercial neighborhood is 75 percent developed.

Residential Development

Residential development extends in all directions away from the commercial development. Strips immediately behind the commercial strips are zoned and used for multi-residential purposes.
Beyond the multi-residential zones single-family residences occupy approximately 80 percent of the land; the remaining 20 percent is still undeveloped.

**Income Level**

There is a relatively wide range in annual income levels. A recent study showed (1) 22 percent of the residents are retired with annual gross incomes averaging $6,000, (2) 75 percent of the residents are employed and have an average annual gross income per residence of $11,000, (3) 3 percent of the population is unemployed.

If a center is to be successful, sales must average about $60 per square foot of gross leasable area per year. With a gross sales area of 500,000 square feet, the subject center must take in about $30,000,000 annually. Viewed differently, 120,000 people must spend about $250 annually at the center. These figures appear reasonable when applied to the subject, especially since the subject is a regional center and is attracting customers from an area containing more than 100,000 people.

**Access**

The subject is accessible via Bear Boulevard, which separates from I-110. It can also be reached via Green and Blue Streets, which bound the center on the east and the west.

**Public Transportation**

The subject is served by a municipal bus line which has "feeder lines" originating in the four general directions from the center. A recent survey showed that only a small percent of the shoppers arrived by bus, and on this basis no special loading facilities have been arranged.

**History**

Seven years ago the firm of Population Scientific contracted and completed a feasibility study of the subject site for use as a shopping center. The final report was favorable, and zoning was varied to meet the conditions of the city plan. One year later the land was acquired from the Ace Real Estate Company for $860,000 (43 acres @ $20,000). The seller would only accept 29 percent down payment, with the balance due in five equal annual payments plus accrued interest on the unpaid balance.

On August 1, six years ago, Mr. Owner designated the real estate firm of Do, Well, and Good as his leasing agent. It was agreed that this service would cost 5 percent of the rent for the first 5 years of each lease, 3 percent of the rent for the remaining term of each lease, and 3 percent of the rent for optional periods.

Mr. Owner then contacted the loan correspondent for the Long Life Insurance Company and subsequently entered into an agreement whereby Long Life would finance the entire center,
including land. Final documents providing for financing would not be signed until 80 percent of
the total gross leasable space had been leased to reliable tenants and the income therefrom would
accommodate loan repayment, including interest, operating expenses, and real estate taxes.

Leasing arrangements moved along smoothly; final financing documents were signed; and
construction started. The center opened five years ago.

**OPERATION AND MANAGEMENT**

**Manager**

The manager occupies an office in store number one. He employs a secretary and a maintenance
superintendent. He deals directly with the accounting firm that provides record service for the
subject and that periodically audits the individual stores. He contracts for cleaning services,
utilities, and security and takes the lead in coordinating "center" sales promotion and publicity.

The manager usually **does not** handle leasing arrangements since this is a specialized field
requiring the services of a processional leasing agent and/or an attorney.

**Staff**

As noted above, the staff of the center includes only two people besides the manager. However,
many services are acquired from outside sources on a bid or retainer basis.

**Tenant Mix and Income Schedule**

See the income schedule on page 58.

**VALUATION**

**General**

The value indicators employed in this appraisal are the income approach, the sales comparison
approach, and the cost approach. The subject is a mature commercial property producing a long-
term income stream; the income approach is therefore emphasized.

Data analyzed and employed in this appraisal came from the records of the subject and of other
commercial properties. The official public records have also been used. Several people
considered to be entrepreneurs in this shopping center business have been interviewed, and their
opinions are carefully weighed.
LAND VALUE

The following recently sold land parcels are considered to be relatively comparable to the subject, and their sales prices have been adjusted to cash or its equivalent. In all cases the sales information has been verified with both seller and buyer.

<table>
<thead>
<tr>
<th>Sale</th>
<th>Size (Ac)</th>
<th>Total Price (Cash Equiv.)</th>
<th>Price Per Acre (Cash Equiv.)</th>
<th>Imp. Value</th>
<th>Cash Equivalent Price Adjusted for Time, Location Size, Shape, Etc.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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<td></td>
<td>Per Acre</td>
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<td>48,000</td>
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<td>1,640,000</td>
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<td>45,000</td>
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<tr>
<td>D</td>
<td>45</td>
<td>1,350,000</td>
<td>30,000</td>
<td>0</td>
<td>41,500</td>
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</table>

Sale A

The subject of Sale A was acquired for a total price of $860,000. This price was paid for land only; there were no improvements. This parcel was zoned C-2 at the time of sale and appears to have been ready for development. It is superior to the subject in marketability and access. It is as well located as the subject, and the shape is well suited to commercial use. Overall, this parcel is superior to the subject site.

20 acres at $.98 per sq. ft.

Sale B

The subject of Sale B was acquired for use as a large automobile dealership. The sale included land only. The land was zoned C-2. The sold property is superior to the subject in marketability, location, and access. This sale sets the upper limit of the subject's land value.

35 acres at $1.10 per sq. ft.

Sale C

The property transferred in Sale C is located 27 miles from the subject and was acquired for use as a shopping center site. The sold property included land and several small, older buildings. The buildings were removed for a cost equal to salvage value. Although this property is somewhat removed from the subject, it is nevertheless very comparable in size, location, access, and use potential. This sale is believed to be the most comparable land sale.

40 acres at $1.03 per sq. ft.
Sale D

The buyer in Sale D acquired the property for speculation. The property is zoned C-2, and the buyer has no plans for immediate development. He is looking for an opportunity to sell the parcel in smaller parts or hopes to find a "build-to-suit tenant."

This property was acquired for $1,350,000 and included land only. It is similar to the subject in size but is in a less desirable location and has poorer access. This sale sets the lower limit of the subject's land value.

45 acres at $.95 per sq. ft.

Recapitulation

The properties involved in Sales A and B are both superior to the subject in location, access, and utility. Both are recent sales and, in the opinion of the appraiser, set the upper limit of the subject land at $1.10 per square foot. Sale C covered a property very similar to the subject even though it is 27 miles distant. The location is such that the property probably would be as productive a site as the subject.

Sale D involved a parcel that is definitely inferior to the subject. The subject has better access and location in relation to densely populated areas (purchasing power). Commercial development as well as residential growth appears to be proceeding at a much faster rate near the subject. It is the appraiser's opinion that Sale D sets the lower limit of the subject land value.

After considering all of the above information and the comments and opinions of people qualified in the valuation and use of commercial property, it is the appraiser's opinion that the fair market value of the subject land unimproved and ready for development to its highest and best use is $1,830,000 derived as follows:

\[
42 \text{ Ac. x 43,560 sq. ft.} = 1,829,520 \text{ sq. ft.}
\]
\[
1,829,520 \times 1.00 = \$1,830,000 \text{ (Rounded)}^{14}
\]

Land development costs must be added to this figure to obtain total land value - See back of Commercial Property Appraisal Record, at page 34.

---

\(^{14}\) Land used for bank and service station is excluded.
THE COST APPROACH

There are three major structures owned by the developer and included in this appraisal. Each structure is treated separately on a separate Commercial Building Record. The separately owned department store building, service station, and bank are not included.\textsuperscript{15}

The cost factors employed are from Assessors' Handbook 532, \textit{Commercial Building Cost Manual}, published by the State Board of Equalization in June 1968. The costs used are replacement costs adjusted to current dollar values and are "unit in use" figures.\textsuperscript{16}

It is the appraiser's opinion that the shopping center has a remaining economic life of 33 years and that the improvements are 93 percent good. Miscellaneous improvements are recorded on separate pages entitled "Miscellaneous Building Record" and "Equipment Replacement Cost Record". The land value is based on comparable land sales.

In this case study "replacement costs" have been used exclusively. We suggest that adjusted "historical costs" also be analyzed in appraising shopping centers that have been developed recently.

\textsuperscript{15} The shopping center improvements have not been treated as a unit in the cost approach because this would simply involve combining the cost of the separately owned properties and then reapportioning the resulting sum into the same amounts that were combined in the first place. The entire land area has been treated as a unit, however, by using sales of similar land of similar size and adding land development costs.

\textsuperscript{16} "Unit in use" cost is the total cost of the store building in typical use condition. Figures are on a square-foot basis.
Calculations (RCLND)

**Land Value**, based on comparable land sales:

\[
42 \text{ Ac.} \times 43,560 \text{s/f} \times 1.00 = 1,830,000
\]

(Rounded)

(Service station & bank are excluded)

Land Development Cost

\[
30,000
\]

**Total**

\[
1,860,000
\]

**Improvement Value** - See individual building cost records for detailed cost analysis:

- **Bld. #1**: Cost new $1,387,608 x 93% good = $1,290,475
- **Bld. #2**: Cost new $1,594,838 x 93% good = $1,483,200
- **Bld. #3**: Cost new $1,257,070 x 93% good = $1,169,075
- **Enclosed Mall**: Cost new $371,400 x 93% good = $345,400
- **Miscellaneous Improvements**: Cost new $331,735 x varying % good = $167,812
- **Center-Owned Fixtures & Equipment**: Cost new $30,474 x varying % good = $26,646

Less estimated value of lessee-installed/owned fixtures (see below) -46,000

**Total Indicated Value (RCLND)**

\[
4,436,608
\]

**Total estimated value excluding separately owned department store, bank & service station**

\[
6,296,000
\]

**Lessee Owned Fixtures Not Assessed to Shopping Center Owner**

- **Restaurant Front**: 8,000
- **Dress Shop Front**: 3,800
- **Snack Bar Front, Floor, Ceiling**: 4,200
- **Children's Shoes Front**: 3,100
- **Men's Clothing Front**: 5,600
- **Sewing Center Front**: 4,100
- **Ladies Frocks Front**: 4,000
- **Jewelry Front**: 3,700
- **Maternity Shop Front**: 2,100
- **Knit Shop**: 2,300
- **Beauty Shop Floor**: 5,100

**Total**

\[
46,000
\]

\[17\] Includes value of lessee owned signs.
### Commercial Building Record

**Golden Bear Shopping Center**

**Address:** 3000 Golden Bear Blvd.

**Bldg. No. 1**

**Unit Cost Method**

**Parcel:** XXX 1 XXX

**Sheet** of **SHEETS**

---

#### Description of Building

<table>
<thead>
<tr>
<th>Class &amp; Shape</th>
<th>Construction</th>
<th>Structural</th>
<th>Exterior</th>
<th>Front</th>
<th>Lighting</th>
<th>Air Condition</th>
<th>Rooms</th>
<th>Floors</th>
<th>Floor Finish</th>
<th>Trim</th>
<th>Interior Finish</th>
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</thead>
<tbody>
<tr>
<td>C 7 D</td>
<td>Light</td>
<td>Tilt-Up</td>
<td>Brick</td>
<td>AV 1</td>
<td>Transom</td>
<td>VAR</td>
<td>X</td>
<td>1 2 3</td>
<td>X 2</td>
<td>X</td>
<td>ASPH. TI. 6 VAR</td>
</tr>
</tbody>
</table>

**Architectural:**
- X Stucco
- Concrete
- S C. Brick
- X Transom VAR

**Type:**
- 1 Story
- X Reinforced
- Terra Cotta
- Parking VAR
- Sea (Porcelain Floor)

**Use & Design:**
- Office
- Shop
- Garage
- Storage
- X Condo
- X Condo
- X Condo
- X Condo
- Lobby

**Roof:**
- X Condo
- X Condo

**Plumbing:**
- Steam
- Bath
- Lavatory

**Conduit & Wiring:**
- X Condo
- X Condo
- X Condo

**Construction Record:**
- X Condo
- X Condo
- X Condo

**Normal % Good:**
- X Condo
- X Condo
- X Condo

**Rating (E,G,A,F,P):**
- X Condo
- X Condo
- X Condo

**Bath & Lavatory Detail:**
- Shower
- Special Features
- Refrigeration: NONE
- Elevators: NONE
- Sprinklers: YES, DOUBLE HEAD

---

#### Computation

<table>
<thead>
<tr>
<th>Appraiser &amp; Date</th>
<th>Unit</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>Unit Cost</th>
<th>Cost</th>
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<th>Unit Cost</th>
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<td>PARTITIONS AND</td>
<td>STOREFRONTS ARE INCLUDED IN STORE COSTS</td>
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**Total:** 1,337,408

**Normal % Good:**
- X .92

**R.C.L.N.D.:** 1,290,475
### Description of Building

**Architecture:**
- Structure: 2-story
- Exterior: Concrete, Brick
- Foundation: Poured Slab
- Roof: Flat
- Finishes: Trim

**Use and Design:**
- Use: Office
- Design: Old Fashion

**Construction Details:**
- Materials: Steel, Wood
- Fixtures: Metal, Glass

**Construction Record:**
<table>
<thead>
<tr>
<th>Permit</th>
<th>Age</th>
<th>Cost</th>
<th>Date</th>
<th>Year</th>
<th>Year</th>
<th>Site</th>
<th>% Good</th>
<th>Rating</th>
<th>Bath &amp; Lavatory Details</th>
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</thead>
</table>

**Special Features:**
- Refrigeration: None
- Heaters: None
- Sprinklers: See Below

### Computation

<table>
<thead>
<tr>
<th>Unit</th>
<th>Area</th>
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<th>Cost</th>
<th>Cost</th>
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**Total:** 1,499,944

**Normal % Good:** X .95

**R.C.L.I.D.:** 1,499,944
BUILDING NO. 2

( FRONT PARKING )
**COMMERICAL BUILDING RECORD**

**ADDRESS**: 3000 Golden Bear Blvd

**PARCEL**: XXX XXX

**SHEET**: 0

---

**CLASS & SHAPE**: B-6

**CONSTRUCTION**: Light

**STRUCTURAL**: X Conc., Frame

**EXTERIOR**: X Flor

**FRONT**: X Roof

**LIGHTING**: X WIRING

**AIR CONDITION**: X HEATING X COOLING

**ROOMS**: B 1 2 3

**FLOORS**: 1 2 3

**FLOOR FINISH**: TRIM

**INTERIOR FINISH**:

---

**DESCRIPTION OF BUILDING**

- **ARCHITECTURE**: Standard
  - X Concrete Reinforced
  - X Brick

- **TYPE**: Special
  - X Reinforced

- **USES**: Foundation
  - X Concrete
  - X Concrete Mains

- **ROOF**: X Exposed X Builtup 45°

- **PLUMBING**: Steam

- **CONSTRUCTION RECORD**
  - **Effective Year**: 1965
  - **Appraised Year**: 1965
  - **Area**: 1,100,000

- **NORMAL % GOOD**: 93

- **RATING**: G G G G G

---

**COMPUTATION**

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**A.C.**

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**Sprinklers**

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<tbody>
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**Partitions**

**Fronts**

**Loading Dock**

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**Sprinklers**

**PARTITIONS**

**TOTAL**

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**NORMAL % GOOD**: 93

**RCL.N.D.**

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<tr>
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</table>
BUILDING NO. 3

LOADING DOCK

300' 30'

140' 160'

150' 20'

140'
## COMMERCIAL BUILDING RECORD

**Enclosed Mall**  
**Address:** 3000 Golden Bear Blvd.  
**Parcel:** XXX XX XXX  
**Sheet:** 1 of 1 Sheets

### DESCRIPTION OF BUILDING

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<th>CLASS &amp; SHAPE</th>
<th>CONSTRUCTION</th>
<th>STRUCTURAL</th>
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<th>FRONT</th>
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### ARCHITECTURE

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### TYPE

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### USE DESIGN

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<th>Design</th>
<th>Foundation</th>
<th>Use</th>
<th>Dimensions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
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</tbody>
</table>

### FOUNDATION

<table>
<thead>
<tr>
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<th>Use</th>
<th>Dimensions</th>
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</thead>
<tbody>
<tr>
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</table>

### CONSTRUCTION RECORD

<table>
<thead>
<tr>
<th>Year</th>
<th>Normal</th>
<th>% Good</th>
<th>Rating (E,G,A,F,P)</th>
<th>Bath &amp; Lavatory Detail</th>
</tr>
</thead>
</table>

### BATH & LAVATORY DETAIL

<table>
<thead>
<tr>
<th>Fixture</th>
<th>Description</th>
<th>Type</th>
<th>Grade</th>
<th>Size</th>
<th>Color</th>
<th>Finish</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### SPECIAL FEATURES

- Refrigeration
- Elevators
- Sprinklers

### COMPUTATION

<table>
<thead>
<tr>
<th>Unit</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALL</td>
<td>59,906</td>
<td>$300,000</td>
<td>$59,906</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unit</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Auto Doors</td>
<td>6</td>
<td>$32,000</td>
<td>12,000</td>
</tr>
</tbody>
</table>

### TOTAL

<table>
<thead>
<tr>
<th>Unit</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALL</td>
<td>$59,906</td>
</tr>
<tr>
<td>Auto Doors</td>
<td>$32,000</td>
</tr>
</tbody>
</table>

**TOTAL** 371,400

**NORMAL % GOOD** 73%
# MISCELLANEOUS BUILDING RECORD

**Golden Bear Shopping Center**

**Address:** 3000 Golden Bear Blvd

**Sheet: 1 of 2 Sheets**

## DESCRIPTION OF BUILDINGS

<table>
<thead>
<tr>
<th>Bidg. No.</th>
<th>Structure</th>
<th>Size</th>
<th>Founded</th>
<th>Wall &amp; Exterior</th>
<th>Roof Type</th>
<th>Roof Cover</th>
<th>Floor &amp; Interior Detail</th>
<th>Second Story or Loft</th>
<th>Year Built</th>
<th>Est. Tot. Life Yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Parking Surface</td>
<td>1,219 680'</td>
<td></td>
<td></td>
<td>Asphalt</td>
<td></td>
<td></td>
<td></td>
<td>1965</td>
<td>10</td>
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<td>2</td>
<td>Parking Lines</td>
<td>90,000 sf</td>
<td></td>
<td></td>
<td>White Paint 6&quot; wide</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>3</td>
<td>Electric Poles</td>
<td>30</td>
<td></td>
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<td>30 Standards double line</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Sign (Entr Sign)</td>
<td>10' x 20'</td>
<td></td>
<td></td>
<td>Metal &amp; Plastic 30' Pylon</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>5</td>
<td>Flag Pole</td>
<td>10' x 50'</td>
<td></td>
<td></td>
<td>50' Tall</td>
<td></td>
<td></td>
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<td>6</td>
<td>Directory Board</td>
<td>48' x 78'</td>
<td></td>
<td></td>
<td>Metal, Lighted</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>7</td>
<td>P.A. System</td>
<td>10 speaker</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Burglar Alarm</td>
<td>30 unit</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>9</td>
<td>Drinking Fountain</td>
<td>6 steel</td>
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## COMPUTATION

### Appraiser - Date

<table>
<thead>
<tr>
<th>Bidg. No.</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1,219 680</td>
<td>3.20</td>
<td>243,935</td>
<td>40</td>
<td>97.562</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>2</td>
<td>90,000</td>
<td>1.00</td>
<td>90,000</td>
<td>80</td>
<td>5,040</td>
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</tr>
<tr>
<td>3</td>
<td>30</td>
<td>7.640</td>
<td>19,200</td>
<td>70</td>
<td>3,440</td>
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<td></td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>4</td>
<td>(Each) 8,000</td>
<td>1.00</td>
<td>8,000</td>
<td>70</td>
<td>5,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>5</td>
<td>(Each) 2,000</td>
<td>2.00</td>
<td>4,000</td>
<td>70</td>
<td>1,400</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6</td>
<td>(Each) 1,500</td>
<td>1.50</td>
<td>1,500</td>
<td>40</td>
<td>600</td>
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<tr>
<td>7</td>
<td>System 1,600</td>
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<td>40</td>
<td>640</td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>8</td>
<td>System 3,000</td>
<td>3.00</td>
<td>3,000</td>
<td>40</td>
<td>1,200</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>9</td>
<td>6</td>
<td>2.00</td>
<td>1,200</td>
<td>40</td>
<td>480</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Total**

**Appraiser - Date**

<table>
<thead>
<tr>
<th>Bidg. No.</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>L.N.D.</th>
</tr>
</thead>
</table>

**Total**

SBE-DAS AH 530E 3-54
### MISCELLANEOUS BUILDING RECORD

**Golden Bear Shopping Center**  
**Address:** 3000 Golden Bear Blvd.

### DESCRIPTION OF BUILDINGS

<table>
<thead>
<tr>
<th>Bldg No.</th>
<th>Structure</th>
<th>Size</th>
<th>Found.</th>
<th>Wall &amp; Exterior</th>
<th>Roof</th>
<th>Floor &amp; Interior Detail</th>
<th>Second Story or Loft</th>
<th>Year Built</th>
<th>Est. Tot. Life Yrs</th>
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</thead>
<tbody>
<tr>
<td>10</td>
<td>Conc. Flatwork</td>
<td>Irreg.</td>
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### COMPUTATION

**Appraiser - Date:** 207-1-2-71

<table>
<thead>
<tr>
<th>Bldg No.</th>
<th>Area</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
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<tbody>
<tr>
<td>10</td>
<td>90,000</td>
<td>45,000</td>
<td>93</td>
<td>41,850</td>
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<td></td>
<td></td>
<td></td>
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</table>

**Total:** $331,735  
$167,612

**Appraiser - Date:**

<table>
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<tr>
<th>Bldg No.</th>
<th>Area</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
<th>Unit</th>
<th>Cost</th>
<th>% Good</th>
<th>R.C.N.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Total:**
## EQUIPMENT REPLACEMENT COST RECORD

**Owner**  Golden Bear Shopping Center  
**Address**  3000 Golden Bear Blvd.  
**Appraiser**  207  
**Date**  1-2-71  
**Data as of**  1-2-71  
**Data Source**  Owner  

<table>
<thead>
<tr>
<th>ITEM NO.</th>
<th>DESCRIPTION</th>
<th>MODEL OR CAPACITY</th>
<th>QUALITY</th>
<th>CONDITION</th>
<th>DATE OF PURCHASE</th>
<th>INSTALLED COST</th>
<th>FACTOR REF.</th>
<th>FACTOR</th>
<th>R.C.N.</th>
<th>DEPRECIATION</th>
<th>% DEP.</th>
<th>R.C.L.N.D.</th>
<th>REMARKS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Benches (mall)</td>
<td>50 L.F.</td>
<td>B</td>
<td></td>
<td>1965</td>
<td>¥480</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10</td>
<td>40</td>
<td>192</td>
</tr>
<tr>
<td></td>
<td>Statues</td>
<td>2</td>
<td>B</td>
<td></td>
<td>&quot;</td>
<td>4,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34</td>
<td>93</td>
<td>3,720</td>
</tr>
<tr>
<td></td>
<td>Murals</td>
<td>30 sqft</td>
<td>B</td>
<td></td>
<td>&quot;</td>
<td>8,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34</td>
<td>93</td>
<td>7,440</td>
</tr>
<tr>
<td></td>
<td>Reflecting Pool</td>
<td>8' x 16'</td>
<td>B</td>
<td></td>
<td>&quot;</td>
<td>4,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34</td>
<td>93</td>
<td>3,720</td>
</tr>
<tr>
<td></td>
<td>Landscaping - Incl. Planters</td>
<td>Misc.</td>
<td>B</td>
<td>&quot;</td>
<td>6,534</td>
<td>34</td>
<td>10</td>
<td>6,534</td>
<td></td>
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<td></td>
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</tr>
<tr>
<td></td>
<td>Chandeliers</td>
<td>1</td>
<td>B</td>
<td></td>
<td>&quot;</td>
<td>7,200</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20</td>
<td>70</td>
<td>5,040</td>
</tr>
</tbody>
</table>

Deviations from R.C.L.N.D. shall be explained in a footnote

30,214

$26,646.0
THE INCOME APPROACH TO VALUE

The income approach involves converting the income stream into an estimate of value. The basic data, actual or imputed, necessary to accomplish this are: (1) total gross income, (2) total operating expense, (3) the remaining economic lives of the improvements, (4) the independently estimated land value or the independently estimated improvements value, and (5) the capitalization rate.

Income

The income processed in this example is economic income based on actual rental agreements within the subject center and typical store rents (minimum plus overage) in similar shopping centers. Income derived from common area charges, real estate tax recovery, and other charges is also included. The forms used to record income and expense data were developed in cooperation with the assessors of several counties. The Los Angeles and Ventura County assessors were especially helpful.

Expenses

The total expense figure used in this approach is based upon actual expense items found at the subject center. These expense items have been found to be typical of this type of operation. The form used to record expense information was developed in Los Angeles and Ventura counties.

Remaining Economic Life

The remaining economic life of the subject is estimated to be 33 years.

Capitalization Rate

The capitalization rate is based upon information taken from the market by analyzing recent shopping center sales.

Yield Component

The sales indicate net yield rates ranging from 4.6% to 6.4%. It is believed the most meaningful yield rate is 6.4%. This figure has been rounded to 6.5% to accommodate the use of interest tables.

Tax Component

The tax component of the capitalization rate has been determined in the following way:

\[
\frac{10.00 \times 0.025}{100} = 0.025 = 2.5\%
\]

Recapture Component

It is the appraiser's opinion that the subject has a remaining economic life of 33 years. On this basis the rate of recapture must be 3% annually.
Capitalization Rate:

Yield Component 6.5%
Tax Component 2.5%
Recapture Component 3.0%
Total 12.0%

Building Residual Technique

The residual technique is an algebraic process by which "known" quantities are used to fine "unknown" quantities. In applying a residual technique, the appraiser strives to take the fullest advantage of reliable "known" data to formulate an estimated value of an unknown quantity.

In this case study the building residual technique has been selected for use because it is believed the land value estimate, which is based upon comparable land sales, is more reliable than the building value estimate. Moreover, the buildings appear to contribute approximately three times as much value to the total property as the land, and since it is the purpose of an income approach to relate income to total value, it follows that the technique selected should relate the known quantity, income, to the unknown quantity contributing the greater part of the whole value.

Building Residual

Gross income (see schedule) $1,058,000
Less: Vacancy and credit loss @ 3% - 32,000
Effective gross income $1,026,000
Less: Expenses (see schedule) - 200,000
826,000
Less: reserve for short lived components (see schedule) - 8,700
Net Income to Land, Improvements, and Taxes $817,300
Net income, including tax component, earned by 42 $1,860,000 x (6.5% + 2.5%) - 167,400 acres of land (bank and service station excluded)
Residual income attributable to improvements $647,900
Capitalized Earning Ability of Improvements
Inwood Factor for 1.00 per annum for 33 years discounted at 9%(6.5% + 2.5%) = 10.464
10.464 x $647,900 = (rounded) $6,800,000
Recap
Land value from comparable sales plus land development cost $1,860,000
Improvement value - CEA 6,800,000
Short lived improvements RCLND 52,000
Total Indicated Value of Entire Center by Income Approach Including Separately Owned Department Store $8,741,000
## Recapture Schedule—Short Lived Items

<table>
<thead>
<tr>
<th>Item</th>
<th>RCN</th>
<th>RCLND</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reseal parking surface and repaint lines</td>
<td>$ 50,000</td>
<td>$ 25,000</td>
</tr>
<tr>
<td>Recapture cost of replacing air conditioning machinery</td>
<td>50,000</td>
<td>25,000</td>
</tr>
<tr>
<td>does not include ducting or vents</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Recapture cost of replacing automatic door machinery</td>
<td>4,000</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$104,000</strong></td>
<td><strong>$ 52,000</strong></td>
</tr>
</tbody>
</table>

Estimated life of short lived property is 12 years. This requires an 0.0833 rate of recapture and will reserve $8,663 annually.\(^{18}\)

## Mortgage Equity Approach

### Income

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross income</td>
<td>$ 1,058,000</td>
</tr>
<tr>
<td>Less vacancy and collection loss @ 3%</td>
<td>- 32,000</td>
</tr>
<tr>
<td>Effective Gross Income</td>
<td>1,026,000</td>
</tr>
<tr>
<td>Less expenses</td>
<td>- 200,000</td>
</tr>
<tr>
<td>Net income earned by land and improvements</td>
<td>$ 826,000</td>
</tr>
</tbody>
</table>

### Mortgage Position

Probable mortgage available to any potential buyer is 80% for 30 years at 6.5% interest

### Mortgage Constant\(^{19}\)

Mortgage constant equals the "Partial Payment Factor" for the term and interest rate of the loan, multiplied by the amount of the loan expressed as a percentage of the value of the total property:

\[
0.0766 \times 80\% = 0.0613\]

### Equity Position

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>20% equity at 6.55% return</td>
<td>0.0130</td>
</tr>
<tr>
<td>Property Tax Component</td>
<td>0.0250</td>
</tr>
<tr>
<td><strong>Total Combined Capitalization Rate</strong>--including taxes</td>
<td>0.0993</td>
</tr>
<tr>
<td><strong>Capitalized Earning Ability</strong></td>
<td>$826,000 \div 0.0993 = $8,318,227(^{21})</td>
</tr>
</tbody>
</table>

\(^{18}\) 12 years may not be reasonable for short-lived property in your situation. Use your own estimated lives and corresponding reserves.

\(^{19}\) For a discussion of these components of the Mortgage Equity Approach see pages 66 and 67 of *Income Property Valuation*, written by William N. Kinnard, Jr. and published by Heath Lexington Books, D. C. Heath and Company, Lexington, Massachusetts.

\(^{20}\) Mortgage and equity rates have purposely been distorted to discourage their adoption for use in current market appraisals.

\(^{21}\) The estimated earning ability presented here includes an economic income imputed to the separately owned department store on ground leased from the center. The value of the separately owned improvement is apportioned on the basis of net sales as a percentage of the total net sales in the **total center**. See page 57 for apportionment computations.
Apportionment of Total Value
(Based on net income from sales)

Total estimated value of entire center.\(^{22}\) $8,500,000

Total net income from sales of all stores in the center. $3,500,000

Net sales of separately owned department store. 930,000

Less net sales income earned by land only. - 10,000

Net sales income earned by department store building. $ 920,000

Net sales income earned by department store as a percentage of the total net sales income earned by entire center:

\[
\frac{920,000}{3,500,000} = 26.28\%
\]

Apportioned value of separately owned department store building.

\[
8,500,000 \times 26.28\% = -2,234,000
\]

Apportioned value of shopping center. $6,266,000

\(^{22}\) This opinion of value is based on the correlation of the mortgage-equity and residual methods in the income approach to value.
## Income Record

### Golden Bear Shopping Center

<table>
<thead>
<tr>
<th>Name of Tenant Type Business</th>
<th>Gross Lease Area sq/ft</th>
<th>Minimum Annual Income</th>
<th>Overage Income</th>
<th>Total Annual Income</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$/SF</td>
<td>Total</td>
<td>Real Estate Tax</td>
<td>Comm Area</td>
<td>Other</td>
</tr>
<tr>
<td>Dry Cleaning</td>
<td>x x x x x x x x x x x</td>
<td>5,000</td>
<td>3.50</td>
<td>7,000</td>
<td>600</td>
</tr>
<tr>
<td>Optimist</td>
<td>x x x x x x x x x x x</td>
<td>2,000</td>
<td>3.50</td>
<td>7,000</td>
<td>600</td>
</tr>
<tr>
<td>Photographer</td>
<td>x x x x x x x x x x x</td>
<td>1,800</td>
<td>2.80</td>
<td>5,000</td>
<td>500</td>
</tr>
<tr>
<td>Toys</td>
<td>x x x x x x x x x x x</td>
<td>2,000</td>
<td>3.50</td>
<td>7,200</td>
<td>900</td>
</tr>
<tr>
<td>Gifts &amp; Cards</td>
<td>x x x x x x x x x x x</td>
<td>2,000</td>
<td>3.50</td>
<td>7,000</td>
<td>600</td>
</tr>
<tr>
<td>Stores &amp; DJ's</td>
<td>x x x x x x x x x x x</td>
<td>2,000</td>
<td>3.50</td>
<td>7,000</td>
<td>600</td>
</tr>
<tr>
<td>Candy Shop</td>
<td>x x x x x x x x x x x</td>
<td>800</td>
<td>6.75</td>
<td>5,000</td>
<td>240</td>
</tr>
<tr>
<td>Pharmacy</td>
<td>x x x x x x x x x x x</td>
<td>2,000</td>
<td>3.50</td>
<td>7,000</td>
<td>600</td>
</tr>
<tr>
<td>Restaurant</td>
<td>x x x % x x x x x x</td>
<td>5,000</td>
<td>1.40</td>
<td>7,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Flowers</td>
<td>x x x x x x x % x x</td>
<td>800</td>
<td>6.85</td>
<td>5,580</td>
<td>240</td>
</tr>
<tr>
<td>Books</td>
<td>x x x x x x x x x x</td>
<td>5,000</td>
<td>1.40</td>
<td>7,000</td>
<td>1,500</td>
</tr>
<tr>
<td>Maternity</td>
<td>x x x x x x x x x x</td>
<td>1,800</td>
<td>2.75</td>
<td>4,150</td>
<td>500</td>
</tr>
<tr>
<td>Art Store</td>
<td>x x x x x x x x x x</td>
<td>1,000</td>
<td>5.15</td>
<td>3,150</td>
<td>300</td>
</tr>
<tr>
<td>Mens Clothing</td>
<td>x x x x x x x x x x</td>
<td>12,000</td>
<td>1.50</td>
<td>19,800</td>
<td>3,400</td>
</tr>
<tr>
<td>Impounds</td>
<td>x x x x x x x x x x</td>
<td>2,000</td>
<td>2.50</td>
<td>7,000</td>
<td>900</td>
</tr>
<tr>
<td>Yoga &amp; Bliss</td>
<td>x x x x x x x x x x</td>
<td>2,000</td>
<td>2.50</td>
<td>7,000</td>
<td>900</td>
</tr>
<tr>
<td>Music &amp; Records</td>
<td>x x x x x x x x x x</td>
<td>4,000</td>
<td>1.65</td>
<td>6,600</td>
<td>1,200</td>
</tr>
<tr>
<td>Furniture</td>
<td>x x x x x x x x x x</td>
<td>25,000</td>
<td>1.10</td>
<td>28,160</td>
<td>7,660</td>
</tr>
</tbody>
</table>

(1) No rear door; Minus $.10/sq/ft.
<table>
<thead>
<tr>
<th>Name of Tenant Type Business</th>
<th>Gross Lease Area sq/ft</th>
<th>Rent $/SF</th>
<th>Total Rent</th>
<th>Real Estate Tax</th>
<th>Comm Area</th>
<th>Other</th>
<th>Total Guaranteed Income</th>
<th>Overage Income $</th>
<th>Overage Rate %</th>
<th>Total Overage Income</th>
<th>Year: 1971</th>
</tr>
</thead>
<tbody>
<tr>
<td>Candy Shop</td>
<td>x x x x x x x</td>
<td>1,100</td>
<td>10/4</td>
<td>4.87</td>
<td>5,360</td>
<td>350</td>
<td>110</td>
<td>5,800</td>
<td>16,000</td>
<td>50%</td>
<td>800</td>
</tr>
<tr>
<td>Brass Shop</td>
<td>x x x x x x x</td>
<td>5,000</td>
<td>15/4</td>
<td>1.58</td>
<td>7,900</td>
<td>1500</td>
<td>500</td>
<td>8,800</td>
<td>22,000</td>
<td>50%</td>
<td>1,100</td>
</tr>
<tr>
<td>Snack Bar</td>
<td>x x x x x x x</td>
<td>600</td>
<td>10/4</td>
<td>10.10</td>
<td>6,060</td>
<td>180</td>
<td>60</td>
<td>6,300</td>
<td>12,000</td>
<td>50%</td>
<td>600</td>
</tr>
<tr>
<td>Children's Show</td>
<td>x x x x x x x</td>
<td>1,100</td>
<td>15/4</td>
<td>5.05</td>
<td>5,560</td>
<td>350</td>
<td>110</td>
<td>6,000</td>
<td>12,000</td>
<td>50%</td>
<td>600</td>
</tr>
<tr>
<td>Men's Clothing</td>
<td>x x x x x x x</td>
<td>5,000</td>
<td>15/4</td>
<td>1.54</td>
<td>7,700</td>
<td>1500</td>
<td>500</td>
<td>9,700</td>
<td>16,000</td>
<td>50%</td>
<td>800</td>
</tr>
<tr>
<td>Record Shop</td>
<td>x x x x x x x</td>
<td>2,000</td>
<td>15/4</td>
<td>3.40</td>
<td>6,800</td>
<td>600</td>
<td>200</td>
<td>7,600</td>
<td>18,000</td>
<td>50%</td>
<td>900</td>
</tr>
<tr>
<td>Sewing Center</td>
<td>x x x x x x x</td>
<td>4,000</td>
<td>15/4</td>
<td>1.90</td>
<td>7,600</td>
<td>1200</td>
<td>600</td>
<td>9,200</td>
<td>8,000</td>
<td>50%</td>
<td>400</td>
</tr>
<tr>
<td>Family Show</td>
<td>x x x x x x x</td>
<td>4,500</td>
<td>15/4</td>
<td>1.62</td>
<td>7,275</td>
<td>1500</td>
<td>500</td>
<td>9,975</td>
<td>12,000</td>
<td>50%</td>
<td>600</td>
</tr>
<tr>
<td>Ladies Fashions</td>
<td>x x x x x x x</td>
<td>4,500</td>
<td>15/4</td>
<td>1.63</td>
<td>7,350</td>
<td>1500</td>
<td>450</td>
<td>9,150</td>
<td>29,000</td>
<td>50%</td>
<td>1,200</td>
</tr>
<tr>
<td>Men's Clothing</td>
<td>x x x x x x x</td>
<td>20,000</td>
<td>20/4</td>
<td>1.64</td>
<td>32,700</td>
<td>6000</td>
<td>2000</td>
<td>49,700</td>
<td>197,500</td>
<td>50%</td>
<td>9,300</td>
</tr>
<tr>
<td>Jewelry</td>
<td>x x x x x x x</td>
<td>1,500</td>
<td>10/4</td>
<td>8.85</td>
<td>5,820</td>
<td>360</td>
<td>120</td>
<td>6,500</td>
<td>15,000</td>
<td>60%</td>
<td>900</td>
</tr>
<tr>
<td>Gourmet Foods</td>
<td>x x x x x x x</td>
<td>2,400</td>
<td>10/4</td>
<td>9.20</td>
<td>7,140</td>
<td>750</td>
<td>250</td>
<td>8,100</td>
<td>6,000</td>
<td>50%</td>
<td>500</td>
</tr>
<tr>
<td>Restaurant</td>
<td>x x x x x x x</td>
<td>8,000</td>
<td>10/4</td>
<td>1.25</td>
<td>10,000</td>
<td>2400</td>
<td>800</td>
<td>13,200</td>
<td>70,000</td>
<td>40%</td>
<td>2,800</td>
</tr>
<tr>
<td>Variety Store</td>
<td>x x x x x x x</td>
<td>26,000</td>
<td>15/4</td>
<td>1.16</td>
<td>30,200</td>
<td>2400</td>
<td>200</td>
<td>49,600</td>
<td>382,500</td>
<td>60%</td>
<td>15,500</td>
</tr>
<tr>
<td>Maternity Shop</td>
<td>x x x x x x x</td>
<td>1,000</td>
<td>10/4</td>
<td>5.00</td>
<td>5,000</td>
<td>500</td>
<td>100</td>
<td>5,900</td>
<td>1,200</td>
<td>50%</td>
<td>600</td>
</tr>
<tr>
<td>Millinery</td>
<td>x x x x x x x</td>
<td>1,200</td>
<td>10/4</td>
<td>5.30</td>
<td>6,800</td>
<td>360</td>
<td>120</td>
<td>6,880</td>
<td>6,500</td>
<td>50%</td>
<td>300</td>
</tr>
<tr>
<td>Children's Clothing</td>
<td>x x x x x x x</td>
<td>4,000</td>
<td>10/4</td>
<td>1.72</td>
<td>6,860</td>
<td>1200</td>
<td>400</td>
<td>8,460</td>
<td>10,500</td>
<td>50%</td>
<td>540</td>
</tr>
</tbody>
</table>
## Income Record

Property: Golden Bear Shopping Center

<table>
<thead>
<tr>
<th>Name of Tenant Business</th>
<th>Type</th>
<th>Building Shell</th>
<th>Front</th>
<th>Floor</th>
<th>Parking</th>
<th>Electric &amp; Plumbing</th>
<th>Sprinklers</th>
<th>Decor</th>
<th>Gross Lease Area sq/ft</th>
<th>Rent $/SF</th>
<th>Total Rent</th>
<th>Real Estate Tax</th>
<th>Comm Area</th>
<th>Other</th>
<th>Minimum Annual Income</th>
<th>Overage Income</th>
<th>Total Overage Income</th>
<th>Overage Rate %</th>
<th>Total Overage Income</th>
<th>Minimum plus Average Per sq/ft</th>
<th>Actual Total Annual Income</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latino Shores</td>
<td></td>
<td>x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>5,000 16/9</td>
<td>1.16</td>
<td>5,800</td>
<td>1500</td>
<td>500</td>
<td>7,800</td>
<td>$4,000 5.00</td>
<td>2,200</td>
<td>10,000</td>
<td>2.20</td>
<td>10,000</td>
<td></td>
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</tr>
<tr>
<td>Yardage</td>
<td></td>
<td>x x x x</td>
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<td></td>
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<td></td>
<td></td>
<td>5,000 18/6</td>
<td>1.28</td>
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<td>500</td>
<td>8,400</td>
<td>$2,000 5.00</td>
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<td>10,000</td>
<td>2.00</td>
<td>10,000</td>
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<tr>
<td>Properties</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>4,000 10/4</td>
<td>1.55</td>
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<td>$2,800 5.00</td>
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<td>2.30</td>
<td>9,200</td>
<td></td>
<td></td>
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<tr>
<td>Lamp Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>1,800 10/4</td>
<td>2.98</td>
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<td>900</td>
<td>180</td>
<td>6,050</td>
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<td>7,650</td>
<td>5.25</td>
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<tr>
<td>Hardware</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>6,000 10/4</td>
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<td>9,500</td>
<td>2000</td>
<td>800</td>
<td>12,700</td>
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<td>2.10</td>
<td>16,800</td>
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<td></td>
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</tr>
<tr>
<td>Camera Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>1,800 20/4</td>
<td>3.58</td>
<td>6,300</td>
<td>500</td>
<td>180</td>
<td>7,050</td>
<td>$18,000 1.00</td>
<td>600</td>
<td>7,650</td>
<td>9.25</td>
<td>7,650</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Pizza Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>4,000 15/9</td>
<td>1.07</td>
<td>4,500</td>
<td>2000</td>
<td>400</td>
<td>7,100</td>
<td>$30,200 5.00</td>
<td>2,100</td>
<td>9,500</td>
<td>2.30</td>
<td>9,500</td>
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<td></td>
<td></td>
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<tr>
<td>Fruit Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>1,200 10/4</td>
<td>4.23</td>
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<td>200</td>
<td>120</td>
<td>5,600</td>
<td>$28,000 5.00</td>
<td>1,400</td>
<td>7,200</td>
<td>6.00</td>
<td>7,300</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Book Store</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>2,000 15/9</td>
<td>2.85</td>
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<td>800</td>
<td>200</td>
<td>7,700</td>
<td>$42,000 5.00</td>
<td>2,100</td>
<td>9,800</td>
<td>9.10</td>
<td>9,800</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sporting Goods</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>3,000 10/4</td>
<td>2.03</td>
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<td>300</td>
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<td>1,700</td>
<td>9,000</td>
<td>3.00</td>
<td>9,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hobby Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>1,200 10/4</td>
<td>5.08</td>
<td>6,000</td>
<td>360</td>
<td>120</td>
<td>6,580</td>
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<td>6.00</td>
<td>7,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beauty Shop</td>
<td></td>
<td>x x x x x x</td>
<td>x</td>
<td>x</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td>1,200 10/4</td>
<td>4.93</td>
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<td>6.00</td>
<td>7,200</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pony Shop</td>
<td></td>
<td>x x x x x x</td>
<td>x</td>
<td>x</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td>2,000 15/4</td>
<td>3.15</td>
<td>6,300</td>
<td>600</td>
<td>200</td>
<td>7,100</td>
<td>$24,000 5.00</td>
<td>1,500</td>
<td>8,400</td>
<td>9.20</td>
<td>8,400</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Restaurant</td>
<td></td>
<td>x x x x x x</td>
<td>x</td>
<td>x</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
<td>4,000 15/9</td>
<td>1.61</td>
<td>5,500</td>
<td>1000</td>
<td>400</td>
<td>7,100</td>
<td>$52,000 5.00</td>
<td>2,100</td>
<td>9,200</td>
<td>2.30</td>
<td>9,200</td>
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<tr>
<td>Candy Shop</td>
<td></td>
<td>x x x x x</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>1,500 10/4</td>
<td>4.26</td>
<td>5,120</td>
<td>200</td>
<td>100</td>
<td>5,600</td>
<td>$32,000 5.00</td>
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<td>6.00</td>
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<tr>
<td>Tail Clothing</td>
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<td>x x x x x</td>
<td>x</td>
<td>x</td>
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<td></td>
<td>2,500 10/4</td>
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<td>1200</td>
<td>240</td>
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<td>9.10</td>
<td>9,800</td>
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<tr>
<td>Shoe Repairers</td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>800 10/4</td>
<td>4.35</td>
<td>3,480</td>
<td>240</td>
<td>80</td>
<td>3,800</td>
<td>$12,000 5.00</td>
<td>600</td>
<td>4,800</td>
<td>5.50</td>
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<td>Barber</td>
<td></td>
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<td>x</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
<td></td>
<td>500 10/4</td>
<td>4.22</td>
<td>3,560</td>
<td>240</td>
<td>80</td>
<td>3,700</td>
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<td>5.50</td>
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Total: $19,800

Note: Estimated Economic Income
<table>
<thead>
<tr>
<th>Name of Tenant Type</th>
<th>Business</th>
<th>Leasehold</th>
<th>Minimum Annual Income</th>
<th>Overage Income</th>
<th>Total Annual Income</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
<td>20/14</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>$/SF</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
<td>1.15</td>
<td>69,920</td>
<td>18,240</td>
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<td></td>
<td></td>
<td>1.15</td>
<td>60,800</td>
<td>20,700</td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
<td>20/14</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>1.5</td>
<td>38,600</td>
<td>2,100</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7,100</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>42,400</td>
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</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
<td>1.25</td>
<td>232,500</td>
<td>14,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>186,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dept Store</td>
<td></td>
<td></td>
<td>0.075</td>
<td>57,000</td>
<td>2,400</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>76,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vending Machines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service Contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Notes:

(1) Separately owned department store rent impacted in order to appraise center as a unit.

Page 4 of 4
## EXPENSE DATA

**Date** 1-71  
**Center** Golden Bear  
**Region**  
**No.**  
**Map Book**  
**Pg**  
**Par**  

**REPORTED GROSS RECEIPTS** $1,058,000

<table>
<thead>
<tr>
<th>Expenses</th>
<th>Reported</th>
<th>Reference</th>
<th>Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>%</td>
<td>c/sf</td>
</tr>
</tbody>
</table>
| Real Estate Taxes             |          |   |     |        |   |     |        |   |     | Provided for in Capitalization rate.  
| Other Taxes                   |          |   |     |        |   |     |        |   |     |  
| Insurance                     | 10,000   | 1% | 26   | 10,500 | 1% | 2.1  | 10,000 | 1% | 2   |
| Utilities                     | 30,000   | 3  | 6    | 31,740 | 3  | 6.3  | 30,000 | 3  | 6   |
| Repairs & Maintenance         | 16,000   | 1.5| 3.2  | 21,000 | 2  | 4.2  | 15,000 | 1.5| 3   |
| Common Area                   | 65,000   | 6  | 13   | 63,480 | 6  | 12.7 | 65,000 | 6  | 13  |
| Advertising & Promotion       | 10,000   | 1  | 2    | 10,500 | 1  | 2.1  | 10,000 | 1  | 2   |
| Management                    | 50,000   | 4.7| 10   | 53,000 | 5  | 10.6 | 50,000 | 4.5| 10  |
| Leasing Fees<sup>23</sup>     | 10,000   | 1  | 2    | 10,500 | 1  | 2.1  | 10,000 | 1  | 2   |
| Legal and Auditing            | 10,000   | 1  | 2    | 10,500 | 1  | 2.1  | 10,000 | 1  | 2   |

### TOTAL

**Net Expenses**  
**Final Adjusted Expenses** 201,000 19.2 40.2 211,200 20 42.2 200,000 19 40

<sup>23</sup> Leasing fees based upon average fee per year
SALES COMPARISON APPROACH

Sale A

This property is located at the intersection of Bird Boulevard and Highway 27. It was sold in April of last year for $8,700,000. This price included 40 acres of land zoned C-2 and improved with a complex of four store buildings containing 500,000 square feet of gross leasable area. This center has an air-conditioned mall and 2,500 parking spaces. It has an estimated remaining economic life of 33 years. This property is superior to the subject in gross leasable area, and the structures are equal in design and construction although the subject improvements are 8 years newer than the sold improvements. Overall, the property is superior to the subject.

<table>
<thead>
<tr>
<th>GRM</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.3</td>
<td>9.0</td>
</tr>
</tbody>
</table>

Sale B

This property is located in Bookville, 36 miles form the subject. It was sold last year for $8,600,000. The price included 32 acres of land improvement with three major store buildings. This center has 500,000 square feet of gross leasable area, an enclosed mall, and 2,250 parking spaces. It has an estimated remaining economic life of 33 years. The buildings are multi-storied and are masonry construction. This center is superior to the subject in building quality and location. It is slightly inferior to the subject in land area and overall functional utility. Overall, this property is superior to the subject.

<table>
<thead>
<tr>
<th>GRM</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.6</td>
<td>8.6</td>
</tr>
</tbody>
</table>

Sale C

This property is located on the opposite side of the city from the subject. It was sold two years ago for $9,137,000. The sale included 45 acres of land improved with four major store buildings, two service stations, and a bank. The gross leasable area is 580,000 square feet, and there are 3,000 parking spaces. The estimated economic life is 33 years. This property is superior to the subject in size and location as well as design, quality of construction, and income production.

<table>
<thead>
<tr>
<th>GRM</th>
<th>OAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.0</td>
<td>9.0</td>
</tr>
</tbody>
</table>
Sale D

This property is located in the James District and was sold last year for $8,450,000. The sale included 41 acres of land improved with four major store buildings containing 420,000 square feet of gross leasable area. This centers has an air-conditioned mall and 2,200 parking spaces. The remaining economic life is estimated to be 33 years. The property is very similar to the subject. It has more gross leasable area than the subject but has two acres less land. Its location and access are equivalent to those of the subject, and the gross income is similar. Overall this property is considered to be most comparable.

GRM  8.0
OAR  8.6

Sale E

This property is located in Bloomington, a sister city. This center was sold last year for $5,738,918. The sale included 31 acres of land improved with three store buildings containing 400,000 square feet of gross leasable area. The sold property has an enclosed mall and 2,000 parking spaces. The subject is superior to this center in land area and in quality of construction. The subject is also superior in location, access, and gross income production. This property has an estimated 25-year, remaining economic life.

GRM  8.7
OAR  9.0

Sales Comparison

The above sales indicate a range in value from $5,738,000 to $9,137,000. Sale C sets the upper limit at $9,137,000 while Sale E sets the lower limit at $5,738,918. The properties transferred in Sales A and C are superior to the subject in size (gross leasable area) and income production, and their sale prices indicate that the value of the subject is between $5,738,918 (Sale E) and $9,137,000 (Sale C). The property conveyed by Sale D is most comparable to the subject in income production, location, and access. This sale indicates that the value of the subject is $8,450,000. This indicator of value includes the entire shopping center as a unit except tenant installed fixtures.
<table>
<thead>
<tr>
<th>Center Name</th>
<th>Sale Date</th>
<th>Price</th>
<th>Adj. Price</th>
<th>Gross Area</th>
<th>Gross Income</th>
<th>% Prime</th>
<th>Expenses (Encl. Tx.)</th>
<th>Net Income</th>
<th>Overall Rate (2)</th>
<th>GRM (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sale A</td>
<td>1970</td>
<td>9,010,000</td>
<td>8,700,000</td>
<td>500,000</td>
<td>1,050,000</td>
<td>55</td>
<td>262,500</td>
<td>787,500</td>
<td>0.090</td>
<td>8.3</td>
</tr>
<tr>
<td>Sale B</td>
<td>1970</td>
<td>8,600,000</td>
<td>8,600,000</td>
<td>500,000</td>
<td>1,000,000</td>
<td>45</td>
<td>260,400</td>
<td>739,600</td>
<td>0.086</td>
<td>8.6</td>
</tr>
<tr>
<td>Sale C</td>
<td>1969</td>
<td>9,400,000</td>
<td>9,137,000</td>
<td>580,000</td>
<td>1,142,125</td>
<td>50</td>
<td>319,825</td>
<td>822,300</td>
<td>0.090</td>
<td>8.0</td>
</tr>
<tr>
<td>Sale D</td>
<td>1970</td>
<td>9,000,000</td>
<td>8,450,000</td>
<td>486,000</td>
<td>1,056,250</td>
<td>45</td>
<td>329,550</td>
<td>726,700</td>
<td>0.086</td>
<td>8.0</td>
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<tr>
<td>Sale E</td>
<td>1970</td>
<td>6,000,000</td>
<td>5,759,000</td>
<td>400,000</td>
<td>659,645</td>
<td>45</td>
<td>143,143</td>
<td>516,502</td>
<td>0.090</td>
<td>8.7</td>
</tr>
</tbody>
</table>

(1) Gross Rent Multiplier based upon adjusted (cash equivalent) sales price.

(2) Overall rate does not include tax component.
Based upon comparison with the above comparables, the value of the subject is indicated to be $8,450,000.

**Gross Rent Multiplier (GRM)**

A gross rent multiplier is simply the ratio of the annual gross income to the sale price of a particular property. Many factors such as management, location, access, etc., are automatically reflected in the ratio. However, in order for a GRM to be meaningful the properties from which it is derived must be similar to the property to which it is applied. Such comparability must include total land area, amount of excess land, the ratio of land to building value, the remaining economic life of improvements, etc.

As in the above section, Sales Comparison, the property in Sale D is believed to be the most comparable and the indicated gross rent multiplier of 8.0 is thought to be applicable. The indicated value by this technique is $8,464,000 (8.0 x $1,058,000).

**Overall Rate**

The overall rates resulting from the sales listed herein range from 0.086 to 0.090. Sales C and D are most comparable to the subject and an overall rate of 0.115 (0.090 yield plus 0.025 property taxes) appears to be reasonable. This rate applied to the subject's net income--before allowances for recapture and taxes have been deducted--indicates a value of $7,182,608 ($826,000 ÷ 0.115), say $7,200,000 rounded.

**Summary of Sales Comparison Approach**

There can be little doubt that the prices at which comparable properties were recently sold provide the strongest and best evidence of value. In this appraisal we have several good comparable sales, and for this reason the value indicated by the comparative sales technique is heavily relied upon. However, it is always good practice to analyze as many value indicators as possible. This is why the overall rate and the gross rent multiplier techniques have been included. While the indicated values do not agree exactly with that of the direct comparison technique, they do strongly support it.

After considering all of the above techniques, the appraiser concludes that the fair market value indicated by sales comparison approach is $8,450,000. This amount includes the value of the owner-occupied department store. The reader is referred to page 57 for the apportionment of the total value between separately owned properties. Based on that information the apportioned value indicated by the sales comparison approach follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicated value of total center</td>
<td>$8,450,000</td>
</tr>
<tr>
<td>Minus apportioned value of dept. store</td>
<td>2,234,000</td>
</tr>
<tr>
<td></td>
<td>6,216,000</td>
</tr>
</tbody>
</table>
**Correlation and Final Value Estimate**

Cost Approach $6,296,000  
Income Approach $6,266,000  
Sales Comparison $6,216,000

The **cost approach** is a strong indicator of value during the early years of operation of a shopping center. The subject is six years old and has reached maturity; for this reason the cost approach is not strongly emphasized, even though cost information is used as an intrinsic part of the income approach.

The **income approach** is well supported by data resulting from the sale and operation of typical shopping centers in this area of the State. Because the subject is a mature center and has a stabilized income stream, the income approach to value is heavily weighted. Additional emphasis is given this approach because investors in this type of property are mainly buying an income stream and are less concerned with size, shape, construction, etc., than with the potential return on the money they expect to invest.

The **sales comparison approach** is based upon the analysis of five recent comparable sales. This approach is a strong approach in any appraisal and in this instance supports the value indicated by the income approach. Sale D is believed to be the most comparable and is regarded as the best comparable sale. Based upon all of the foregoing information, it is the appraiser's opinion that the fair market value of the subject shopping center on this date is $6,266,000.
CHAPTER 11: CASE STUDY
NEIGHBORHOOD SHOPPING CENTERS

This case study is fictitious.
The dollar amounts, rates, and factors shown are utilized to demonstrate appraisal procedures only and should not be considered typical.
## COMMERCIAL PROPERTY APPRAISAL RECORD

**NAME OF PROPERTY**  County Center  
**ADDRESS**  1600 County Highway  
**COMMUNITY**

**SUBDIVISION**  
**CHARACTER OF SUBJECT PROPERTY**  
**USE**  
- Store  
- Office  
- Hotel  

**TOPOGRAPHY**  
- x Proper  
- Level  
- Curb  
- x Slope  

**LAND IMPS.**  
- x  
- x  
- x  

**BUILDING**  
- Class: Varies  
- Single  
- x Pavement  

**USE**  
**TOPOGRAPHY**  
- Residential  
- Commercial  
- x Level  

**CHARACTER OF NEIGHBORHOOD**  
**TREND**  
- Developing  
- High  

**GENERAL**  
- Desirability, G  
- Stationary  
- Utilities, G  

**Zoning:**  
- Orn. Lights  
- Typical  
- x Spotted  

**UTILITIES**  
- Over Imp.  
- Ribbon  

**SUMMARY**

<table>
<thead>
<tr>
<th>Assessment Year</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
</tr>
</thead>
</table>

**APPRASIER AND DATE**
- Improvement Replacement Cost (Structures) 472,520
- Improvement R.C. (Fixtures And Equipment) 0.0
- Personality R.C. (Furniture And Equipment) 0.0

**LAND VALUE** 44,000

**IMPROVEMENT R.C.L.N.D. (Structures)** 454,000

**IMPROVEMENT R.C.L.N.D. (Fixtures And Equip.)** 0.0

**PERSONALITY R.C.L.N.D. (Furniture And Equip.)** 0.0

**TOTAL PROPERTY R.C.L.N.D.** 474,000

**CAPITALIZED EARNING ABILITY** 447,000

**INDICATED SALE PRICE** 472,000

**LISTED PRICE**

**APPRASIAL**

<table>
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<tr>
<th>Total Property Value</th>
<th>472,000</th>
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</thead>
<tbody>
<tr>
<td>Land Value</td>
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</tr>
<tr>
<td>Improvement Value (Structures)</td>
<td>424,000</td>
</tr>
<tr>
<td>Improvement Value (Fixtures And Equip.)</td>
<td>0.0</td>
</tr>
<tr>
<td>Personality (Furniture And Equipment)</td>
<td>0.0</td>
</tr>
</tbody>
</table>

**ASSESSED VALUES**

| Land | 12,000 |
| Improvements | 104,000 |
| Personality | 0.0 |

**TOTAL PROPERTY** 114,000

**ENTERED**
CASE STUDY

INTRODUCTION

The subject is a neighborhood shopping located in a small valley town in California. It consists of a supermarket and a suburban store building partitioned into six separate retail stores. The center is developed on three acres of land held in a single ownership. A 15,680 square-foot portion of the three-acre site is excess land and does not contribute to the income stream. The center is five years old and the income stream has stabilized at about $70,000 annually. It is in direct competition with retail stores located near the center of town. The owner and merchants of these stores attempted to prevent development of the subject center but were unsuccessful in doing so and their sales volume has dropped considerably -- especially during the past two years.

SUBJECT PROPERTY INFORMATION

Description

Taxable real property includes:

1. 3 acres of land
2. 2 store buildings
3. Miscellaneous improvements
   • Parking surface, parking lot lights, landscaping
   • Sign

Identification

The subject is identified in the official county records as Assessor's Parcel xxx-xx-xxx

Owner of Record

John Q. Owner
11647 Countryside Lane

Address

The subject is located at 1600 County Highway.

Utilities & Services

<table>
<thead>
<tr>
<th>Natural Gas</th>
<th>Water</th>
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</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>Sewer</td>
</tr>
<tr>
<td>Telephone</td>
<td></td>
</tr>
</tbody>
</table>

There is no municipal transportation nor is scavenger or parking lot cleaning service available.
Highest And Best Use

The highest and best use of the subject is the present use.

NEIGHBORHOOD

Commercial Development

The subject is located on the edge of town. The only development beyond the center is a feed and grain store. Toward town are several service stations, an auto dealership, a farm and orchard supply store, and a bulk fuel plant.

Residential Development

Most of the trade area is comprised of outlying farms. Population within the town is about 2,800 and growing very slowly.

Income Level

The average annual income of the residents is about $8,000 but this includes a limited number of successful ranchers who reside in town. The majority of people are employed as skilled and unskilled agricultural workers.

Access

The subject fronts on County Highway and enjoys good identification and access from two directions.

History

The subject site was purchased in 1965. Construction was completed and the center opened in 1967. The entire development is owned by Mr. Owner. However, there is a $380,000 trust deed secured by a promissory note made payable to the Valley Bank.

The property is managed by Mr. Owner from his home. He employs a local CPA to handle his income, expense and tax statements.

Evaluation

The value indicators employed in this appraisal are the cost approach, the income approach, and the sales comparison approach. Data analyzed and employed in the appraisal come from the history and records of the subject property, local commercial properties, and shopping center sales from a neighboring county.
MARKET DATA

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Per Acre</td>
</tr>
<tr>
<td>A</td>
<td>3 Acres</td>
<td>$32,670</td>
<td>1965</td>
<td>25¢</td>
<td>0</td>
<td>$13,000</td>
</tr>
<tr>
<td>B</td>
<td>2 acres</td>
<td>30,500</td>
<td>1970</td>
<td>35¢</td>
<td>0</td>
<td>15,245</td>
</tr>
<tr>
<td>C</td>
<td>6 acres</td>
<td>24,000</td>
<td>1970</td>
<td>9¢</td>
<td>0</td>
<td>4,350</td>
</tr>
<tr>
<td>D</td>
<td>40,000 sf</td>
<td>14,000</td>
<td>1971</td>
<td>35¢</td>
<td>0</td>
<td>14,000</td>
</tr>
</tbody>
</table>

DISCUSSION

There have been only a limited number of sales of land suitable for commercial use. These sales indicate a land value ranging between 10¢ and 35¢ per square foot. Sale A, a sale of the subject adjusted for time, appears to be well placed within the range of value and is believed to be the best available indicator at 30¢ per square foot.

A detailed analysis of these land sales should be available in the assessor's records in Book 4, pages 16, 28, 29, and 34 of "Land Sales."

Land Requirements

<table>
<thead>
<tr>
<th>Required Land</th>
<th>Excess Land</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-115,000</td>
</tr>
<tr>
<td></td>
<td>15,680</td>
</tr>
</tbody>
</table>

Land Valuation

\[
\text{Required Land (115,000 sq. ft. x 30¢)}
\]
\[
\text{Plus: land development costs}
\]
\[
\text{Value of required land.}
\]
\[
\text{Excess Land (15,680 sq. ft. x 30¢)}
\]

---

24 Sales have been adjusted to cash or its equivalent.
25 Subject sale.
26 Parking ratio based upon recommendation published by the Urban Land Institute.
THE COST APPROACH

The land value of the subject center is based upon the land sales noted in the evaluation information on page 74. Buildings and other improvement costs are computed using cost factors published by the State Board of Equalization in AH 532.

The remaining economic life of the improvements has been estimated by observation and by using the depreciation tables included in AH 532.

Calculations (RCLND) Summary

Land value based on sales data

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Required land</td>
<td>$34,500</td>
</tr>
<tr>
<td>Land development cost</td>
<td>+ 8,600</td>
</tr>
<tr>
<td>Total</td>
<td>$43,000</td>
</tr>
<tr>
<td>Excess Land</td>
<td>+ 4,700</td>
</tr>
<tr>
<td>Total Land Value (Rounded)</td>
<td>$48,000</td>
</tr>
</tbody>
</table>

Supermarket Building

Cost new $215,780 x 90% good = $194,000

Suburban Store Building Cost new $257,800 x 90% good = + 232,000

Total Cost of Improvements + 426,000

Total RCLND Including Land Value $474,000
COMMERCIAL BUILDING RECORD

1600 Center  ADDRESS 1600 COUNTY HIGHWAY

<table>
<thead>
<tr>
<th>DESCRIPTION OF BUILDING</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SUBURBAN STORE BLDG.</strong></td>
</tr>
<tr>
<td><strong>CLASS &amp; SHAPE</strong></td>
</tr>
<tr>
<td>C-6-C</td>
</tr>
<tr>
<td><strong>ARCHITECTURE</strong></td>
</tr>
<tr>
<td><strong>TYPE</strong></td>
</tr>
<tr>
<td><strong>USE</strong></td>
</tr>
<tr>
<td><strong>Material</strong></td>
</tr>
<tr>
<td><strong>Construction Record</strong></td>
</tr>
<tr>
<td><strong>Normal % Good</strong></td>
</tr>
<tr>
<td><strong>Computations</strong></td>
</tr>
<tr>
<td><strong>Appraiser &amp; Date</strong></td>
</tr>
<tr>
<td><strong>Unit</strong></td>
</tr>
<tr>
<td><strong>STORE</strong></td>
</tr>
<tr>
<td><strong>A.C.</strong></td>
</tr>
<tr>
<td><strong>SPRINKLERS</strong></td>
</tr>
<tr>
<td><strong>&quot;NO WALL&quot;</strong></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
</tr>
<tr>
<td><strong>NORMAL % GOOD</strong></td>
</tr>
<tr>
<td><strong>R.O.L.W.</strong></td>
</tr>
<tr>
<td>MISCELLANEOUS STRUCTURES</td>
</tr>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Structure</td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**COMPUTATION**

<table>
<thead>
<tr>
<th>Remarks:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

**Remarks:**

- "No Wall"
- 250'
# COMMERCIAL BUILDING RECORD

## ADDRESS
1400 COUNTY HIGHWAY

### PARCEL XXX XX XXX

### DESCRIPTION OF BUILDING

<table>
<thead>
<tr>
<th>CLASS &amp; SHAPE</th>
<th>CONSTRUCTION</th>
<th>STRUCTURAL</th>
<th>EXTERIOR</th>
<th>LIGHTING</th>
<th>AIR CONDITIONING</th>
<th>ROOMS</th>
<th>FLOOR FINISH DETAIL</th>
<th>INTERIOR FINISH</th>
</tr>
</thead>
<tbody>
<tr>
<td>C-LG</td>
<td>Light</td>
<td>Frame</td>
<td>I-4</td>
<td>X Floor</td>
<td>X Wiring</td>
<td>8</td>
<td>1 A 1 2 B</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>Sub-Standard</td>
<td></td>
<td></td>
<td></td>
<td>X Heating</td>
<td></td>
<td>Good</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X Cooling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X Arch</td>
<td>Concrete</td>
<td>2 1/2</td>
<td></td>
<td>X Recessed</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>3 1/2</td>
<td></td>
<td></td>
<td>X Ceiling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X Forced</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X Ceiling</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X Store</td>
<td>Heavy</td>
<td>Br.</td>
<td></td>
<td>X Walls</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X H.D.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X Store</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X Office</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TYPE

<table>
<thead>
<tr>
<th>USE &amp; DESIGN</th>
<th>FOUNDATION</th>
<th>ROOF</th>
<th>PLUMBING</th>
<th>CONSTRUCTION RECORD</th>
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<tbody>
<tr>
<td>Apartment</td>
<td>Concrete</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Garage</td>
<td>Brick</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hotel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office</td>
<td>Light</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Heavy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Theatre</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CONSTRUCTION RECORD

<table>
<thead>
<tr>
<th>No.</th>
<th>For</th>
<th>Amount</th>
<th>Date</th>
<th>Year</th>
<th>Year</th>
<th>Age</th>
<th>% Good</th>
<th>RATING (E.G.A.F.P)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Market</td>
<td>170,000</td>
<td>1967</td>
<td>1968</td>
<td>1978</td>
<td>5</td>
<td>25</td>
<td>I</td>
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</table>

### FINISH

<table>
<thead>
<tr>
<th>No.</th>
<th>Floors</th>
<th>Walls</th>
<th>Ceilings</th>
<th>Type</th>
<th>Grade</th>
<th>S.F.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td>G</td>
<td></td>
<td>117 750</td>
</tr>
</tbody>
</table>

### SHOWER

- Refrigeration: Water Heaters
- Elevators: 2
- Sprinklers: Double Head Throughall

### COMPUTATION

<table>
<thead>
<tr>
<th>Unit</th>
<th>Area</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>Unit Cost</th>
<th>Cost</th>
<th>Unit Cost</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Store</td>
<td>15,000</td>
<td>10.50</td>
<td>157,500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AC</td>
<td>15,000</td>
<td>1.80</td>
<td>19500</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intercom</td>
<td>6,500</td>
<td>2.60</td>
<td>12,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sprinklers</td>
<td>18,000</td>
<td>.50</td>
<td>9,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wolkin Box</td>
<td>400</td>
<td>9.20</td>
<td>5,600</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Meat Track</td>
<td>100</td>
<td>3.50</td>
<td>350</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parking Surf</td>
<td>16,000</td>
<td>.30</td>
<td>4,800</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside lights</td>
<td>368</td>
<td>1.00</td>
<td>368</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Landscaping</td>
<td>1,000</td>
<td>2.00</td>
<td>2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### TOTAL

| Normal % Good | 90 % |
| R.G.L.N.D.    | 194,000 |
THE INCOME APPROACH TO VALUE

The income approach involves converting the income stream into an estimate of value. The basic data, actual or imputed, necessary to accomplish this are: (1) total gross income, (2) total operating expense, (3) the remaining economic lives of the improvements, (4) the independently estimated land value or the independently estimated improvement value, and (5) the capitalization rate.

Income

The income processed in this case study is the actual income reported by the subject center. This income has been compared to the income earned by other local commercial properties and is believed to be the economic income.

Expenses

Expense figures are those reported by the subject center. They have been compared to available expense information resulting from the operation of other commercial properties and have been found to be typical.

Remaining Economic Life

The remaining economic life of the subject is estimated to be 33 years. This estimate is based upon observation and information published by the State Board of Equalization in Assessors' Handbook 532, Commercial Building Costs.

Capitalization Rate

The capitalization rate is based upon information taken from the market by analyzing sales of commercial properties.

Procedure

In this case study the building residual technique has been used because it is believed that the available land sales data is reasonable and reliable.
**Income Approach**  
*(Building Residual)*

Gross Income: $69,735  
Less: Vacancy and Collection Loss: -735  
Effective Gross Income: 69,000  
Less Expenses: (See attached schedule): -12,835  
Net Income (Including Taxes and Recapture): $56,165  
Income attributable to Land and Land Development Cost: $43,000 x 0.095 = -4,085  
Net income attributable to Improvements and Taxes: $52,080  

**Capitalization**

Rate: Yield Component: 0.070  
Recapture Component: 0.030  
Property Tax Component: 0.025  
Total 0.125  
Capitalization Calculation: $52,080 ÷ .125 = $416,640  
Add:  
   Required land + 43,000  
   Excess land + 4,700  
Total Value Indicated by this Technique $464,340  
   ( Rounded ) $464,000
<table>
<thead>
<tr>
<th>Name of Tenant Type of Business</th>
<th>Leasehold</th>
<th>Gross Lease Area in Sq.Ft.</th>
<th>8</th>
<th>Minimum Annual Income</th>
<th>Overage Income</th>
<th>Total Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Rent</td>
<td>Other Income</td>
<td>Total Guaranteed</td>
</tr>
<tr>
<td>Market</td>
<td>20/15</td>
<td>22,500</td>
<td>2,500</td>
<td>25,000</td>
<td>67,000</td>
<td>1,005</td>
</tr>
<tr>
<td>Radio TV</td>
<td>10/5</td>
<td>6,400</td>
<td>640</td>
<td>7,040</td>
<td>3,0%</td>
<td>7,040</td>
</tr>
<tr>
<td>Clothing</td>
<td>15/10</td>
<td>6,400</td>
<td>640</td>
<td>7,040</td>
<td>5,0%</td>
<td>7,040</td>
</tr>
<tr>
<td>Beauty Shop</td>
<td>10/5</td>
<td>6,400</td>
<td>640</td>
<td>7,040</td>
<td>5,0%</td>
<td>7,040</td>
</tr>
<tr>
<td>Drug Store</td>
<td>10/5</td>
<td>6,400</td>
<td>640</td>
<td>7,040</td>
<td>5,0%</td>
<td>7,040</td>
</tr>
<tr>
<td>Coffee Shop</td>
<td>10/5</td>
<td>6,400</td>
<td>640</td>
<td>7,040</td>
<td>5,0%</td>
<td>7,040</td>
</tr>
<tr>
<td>Hardware</td>
<td>15/10</td>
<td>6,800</td>
<td>800</td>
<td>7,600</td>
<td>4.0%</td>
<td>8,080</td>
</tr>
</tbody>
</table>

Total $6,500

$69,735

$69,735
### SHOPPING CENTER APPRAISAL WORKSHEET
#### EXPENSE ANALYSIS

**GENERAL DATA**

<table>
<thead>
<tr>
<th>Name of Center</th>
<th>1600 Center</th>
</tr>
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<tbody>
<tr>
<td>Index</td>
<td>MB XXX Pg</td>
</tr>
<tr>
<td>Gross Leasable Area</td>
<td>35,000 Sq. Ft.</td>
</tr>
</tbody>
</table>

**Date** 1972

**EXPENSE DATA**

<table>
<thead>
<tr>
<th>EXPENSE ITEMS</th>
<th>REPORTED</th>
<th>REFERENCE*</th>
<th>ADJUSTED</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>AMOUNT</td>
<td>AMT/SF</td>
<td>AMOUNT</td>
</tr>
<tr>
<td>Loan Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real Estate Taxes</td>
<td>2,000</td>
<td>5.7€</td>
<td>5€</td>
</tr>
<tr>
<td>Insurance</td>
<td>2,000</td>
<td>5.7€</td>
<td>3€</td>
</tr>
<tr>
<td>Maintenance</td>
<td>2,800</td>
<td>8.0€</td>
<td>11€</td>
</tr>
<tr>
<td>Adv. &amp; Promo.</td>
<td>635</td>
<td>1.8€</td>
<td>4€</td>
</tr>
<tr>
<td>General &amp; Admin.</td>
<td>4,500</td>
<td>12.8€</td>
<td>12.8€</td>
</tr>
<tr>
<td>Management</td>
<td>300</td>
<td>0.8€</td>
<td>0.8€</td>
</tr>
<tr>
<td>Leasing Fees</td>
<td>600</td>
<td>1.7€</td>
<td>1.7€</td>
</tr>
<tr>
<td>Legal &amp; Audit</td>
<td></td>
<td>36.5€</td>
<td>33€</td>
</tr>
</tbody>
</table>

**TOTAL**

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less Interest &amp; Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Expenses</td>
<td>36.5€</td>
<td>33€</td>
</tr>
</tbody>
</table>

**Adjusted Expenses**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>12,832</td>
<td>36.5€</td>
</tr>
</tbody>
</table>

**Comments on Expense:**

(1) Common area expense is below ULI because subject has no mall.

*Note: reported expenses are reliable.*

*ULI Reference Year 1969 PG. 108 Table 4–12*
Comparable Sales Approach

The form that follows this page presents information concerning the recent sale of four properties similar to the subject. There have been no sales of small shopping centers in the county where the subject is located; therefore, sales from a neighboring county have been utilized. In addition to these sales, information from the sale of two commercial properties located near the subject have been used. It is realized that these two latter sales are not specifically similar to the subject. However, they do reflect the actions of investors in the area who are more concerned with rates of return, risk, tax protection, etc., than with the specific type of tenant involved.
### SHOPPING CENTER APPRAISAL FORM

#### MARKET DATA

<table>
<thead>
<tr>
<th>Center Name</th>
<th>Sale Date</th>
<th>Price</th>
<th>Adj. Price</th>
<th>Gross Area</th>
<th>Gross Income</th>
<th>% Prime</th>
<th>Expenses (Encl Tx)</th>
<th>Net Income</th>
<th>Overall Rate</th>
<th>GRM (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A City Center</td>
<td>1969</td>
<td>625,000</td>
<td>600,000</td>
<td>50,000</td>
<td>89,000</td>
<td>20%</td>
<td>37,000</td>
<td>52,000</td>
<td>8.60</td>
<td>6.74</td>
</tr>
<tr>
<td>B Meadow Center</td>
<td>1970</td>
<td>990,000</td>
<td>950,000</td>
<td>75,000</td>
<td>131,000</td>
<td>40%</td>
<td>41,000</td>
<td>90,000</td>
<td>9.50</td>
<td>7.25</td>
</tr>
<tr>
<td>C Jones Building</td>
<td>1971</td>
<td>140,000</td>
<td>120,000</td>
<td>18,000</td>
<td>16,518</td>
<td>0</td>
<td>4,100</td>
<td>12,418</td>
<td>10.55</td>
<td>7.26</td>
</tr>
<tr>
<td>D Ace Automotive</td>
<td>1971</td>
<td>88,500</td>
<td>80,000</td>
<td>9,600</td>
<td>12,000</td>
<td>0</td>
<td>3,900</td>
<td>8,100</td>
<td>10.12</td>
<td>6.66</td>
</tr>
</tbody>
</table>

**Remarks:** (1) Gross Rent Multiplier based upon adjusted (cash equivalent) sales price.
Comparable Sales

Sale A

This sale included a neighborhood shopping center located in an adjacent county. It contains 50,000 square feet of gross leasable area in a single story suburban store building classified as a C-6+ according to the standard classification system. This center is situated on the edge of town as is the subject. Land values and building costs are at about the same level as in the subject location, and land to building ratio is very similar to the subject.

It is generally believed that this property will enjoy a more rapid increase in sales volume that the subject in the future and for this reason is viewed as a more desirable property than the subject.

Over all Yield Rate excluding taxes 8.60
Gross Rent Multiplier 6.74

Sale B

This sale included a neighborhood center located in an adjoining county. It contains 75,000 square feet of gross leasable area in a C-6 suburban store building and supermarket joined with a common wall.

This property is better located, has more sales area, and is slightly newer than the subject. These facts account for the relatively high overall rate of return and gross rent multiplier.

Overall Yield Rate excluding taxes 9.50
Gross Rent Multiplier 7.25

Sale C

This sale included a commercial store building located in the center of town. The building has a total of 18,000 square feet of leasable area partitioned for use as three retail stores. There are no sales to indicate land value in the vicinity, but it is the opinion of informed Realtors that this land is more valuable than the land in the subject center.

This property is not comparable to the subject, but is included as an indicator of the demand for commercial property in the community. It also indicates an overall rate of return demanded by investors in the area. The price per square foot is not significant because the ratio of land to improvement varies greatly from the subject; a gross rent multiplier is not significant for the same reason.

Overall Yield Rate excluding taxes 10.35
Gross Rent Multiplier 7.26
Sale D

This sale includes land and improvements used as an automobile agency. It was recently sold because the former owner wished to retire from business. The site is well located between the subject shopping center and the center of town, and improvements appear to be properly placed and in balance with need. The business has been successful for eleven years.

Again, this sale is not exactly comparable, but is included to reflect the demand for commercial property near the subject and to indicate the rate of return that might be expected from a commercial investment in the vicinity of the subject. The price per square foot improved and the gross rent multiplier are not significant because of the dissimilar ratio of land to improvement value compared to the subject.

| Overall Yield Rate excluding taxes | 10.12 |
| Gross Rent Multiplier              | 6.66  |

None of the sold properties listed above is directly comparable to the subject. The shopping centers that sold are both larger than the subject. For this reason they can only be used directly to indicate the extreme upper limit of value. The other commercial properties that sold are not directly comparable to the subject because of size. Therefore, only the overall rate and the gross rent multipliers are suitable for use in developing an indicator of value.

The sales information indicates that an overall rate of 9.25 is proper to use in capitalizing the income earned by the subject. This technique appears in the following page and indicates a value of $472,000.

The sales also show that a gross rent multiplier of 6.75 is proper and may be used as an indicator of value as follows:

\[
\begin{align*}
\text{Total Indicated Value} & = \text{Gross Rent Multiplier} \times \text{Gross Income} + \text{Excess Land Value} \\
& = 6.75 \times 69,735 + 4,700 \\
& = 475,411
\end{align*}
\]

The value of the subject, as indicated by the sales comparison approach, is $472,000.
Total Property Technique

Gross Income $69,735

Less: Vacancy and collection loss - 735

Effective Gross Income 69,000

Less: Expenses: See attached schedule -12,835

Net Income Including (Taxes and Recapture) $56,165

Capitalization

Rate: Yield (Include. Recapture) 0.095

Property 0.025

Total 0.120

(Net Income ÷ Cap Rate: 56,165 ÷0.120) $468,041

Indicated Capitalized Earning Ability $468,000

Add: Excess Land Value + 4,700

Total Indicated Property Value by This Technique $472,700

Remarks

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________

______________________________________________________________________________
Summary and Final Value Estimate

<table>
<thead>
<tr>
<th>Method</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Approach</td>
<td>$474,000</td>
</tr>
<tr>
<td>Income Approach</td>
<td>$464,000</td>
</tr>
<tr>
<td>Sales Comparison Approach</td>
<td>$472,000</td>
</tr>
</tbody>
</table>

All of the above approaches are believed to be valid and add weight to the final value estimate. The Cost Approach is thought to be quite reliable because the subject is only five years old and good cost data is available. The Income Approach is believed reliable because actual income and expense figures were used after they had been found reasonable in comparison to figures reported by other similar properties. The Sales Comparison approach is thought to the weakest because the available market sales are not directly comparable to the subject. However, the nature of the available sales information is commercial and this factor is comparable to the nature of the subject. Therefore, Gross Rent Multipliers and Overall Rates have been extracted from the available market data and used with confidence.

After considering all of the available information it is estimated that the value of the subject is $472,000.
### Income Record Form Instructions

<table>
<thead>
<tr>
<th>Name of Tenant</th>
<th>Type of Business</th>
<th>Gross Lease Area in Sq.Ft.</th>
<th>Lease Terms</th>
<th>Minimum Annual Income</th>
<th>Overage Income</th>
<th>Total Annual Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of Tenant</td>
<td>Type of Business</td>
<td>Leasehold</td>
<td></td>
<td>Rent: $/SF Total: $</td>
<td>Other Income</td>
<td>Guaranred Income</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- A Name of tenant and type of business.
- B Property included in lease.
- C Gross leasable area (GLA) measured outside to outside and partition center to partition center.
- D Lease term / years remaining.
- E Actual minimum contract rent in dollars per square foot.
- F Minimum contract rent store by store.
- G Real estate tax recovery.
- H Common area charges.
- I Other (misc.) charges.
- J Total minimum (guaranteed) income.
- K Overage sales - volume of sales in excess of the minimums contained in the leasing agreements.
- L Percentage of overage (K) paid as rent.
- M Total overage income (K x L).
- N Total actual annual income--minimum plus overage.
- O Total actual annual income per square foot (minimum plus overage).
- P Typical annual income per square foot based upon information taken from comparable properties.
Appraisal Data Sheet - Shopping Centers

I. Identification, Ownership, and Management

A. Name of center ____________________________________________________________

B. Address of center _________________________________________________________

C. Date opened _______/_____/______

D. Name of owner ___________________________________________________________

E. Address of owner _________________________________________________________

F. Date acquired by present owner _______/_____/______

G. Price paid by present owner $___________________

H. Terms of Sale
   a. Down Payment $___________________
   b. Financing  1st Td. $___________________  2nd Td $___________________
   c. Trade involved _____________________________________________________
   d. Stock exchanged ___________________________________________________
       Name _____________________ Shares _________Value $___________________

I. Managers  Name _____________________________ Salary $___________________
   a. Employees   No. _________ Salary (total) $___________________

J. Leasing Agent ___________________________________________________________
   a. Leasing Fees
       
       | 5 Yr | 10 Yr | Longer |
       |------|-------|--------|
       | % of original lease | | |
       | % of extension | | |
       | % of options | | |

K. Manager's office
   a. Size ________________________________________________________________
   b. Location ____________________________________________________________
   c. Rent ______________________________________________________________
II. Land

A. Total Land in shopping center (Ac) ________________________________

B. Land and improved with stores & mall (Sq. Ft.) _________________________

C. Land used for parking
   a. Surfaced and lined (Sq. Ft.) ______ (Spaces) _______

D. Excess land
   a. Surfaced & idle. (Sq. Ft.) ________________________________
   b. Unsurfaced & idle (Sq. Ft.) ________________________________

E. Availability of unowned, undeveloped, adjacent land  None _______ Some _______
   a. Size (Sq. Ft.) ______________ Listed price (Sq. Ft.) ______________

F. Zoning _______

G. Land in center leased to others (ground lease) (Sq. Ft.)________________________
   a. Term of possession ________________________________
   b. Rent annually per square foot ________________________________
   c. Common area charges against ground lease. $ ______________________

H. Parking area improvements.
   a. Wheel blocks. Size  L _____ W _____ H ____ No. ______ Material ______
   b. Lines (typical)  L _______ W _______ Material ______________________
   c. Parking pavement _____________________________________________
   d. Traffic control
      Stop signs  No. ________________________________
      Electric (red lights)  No. ________________________________
   e. Planters (Sq. Ft.) ________________________________
   f. Plants (Estimated value) $ ______________________
   g. Irrigation System  $ __________________________
   h. Overhead lighting
      Standards  No. _______ Size ____x______ Material ______________
      Lights on standards  No. _________ Size _______ Type _____________
III. Store Buildings - Center Total - (See Building Records For Individual Store Detail)

A. Store buildings owned by center (No.)

B. Stores in store buildings (No.)

C. Total gross leasable area (Sq. Ft.)

D. Total "front feet" (Lf.)

IV. Loading Docks & Truck Tunnels

A. List No. of docks & dimensions

1. L ___________ x W ___________ x H ___________

2. L ___________ x W ___________ x H ___________

3. L ___________ x W ___________ x H ___________

4. L ___________ x W ___________ x H ___________

B. Tunnel

1. L ___________ x W ___________ x H ___________

2. L ___________ x W ___________ x H ___________

V. Mall

A. Open (Mall)

1. Size (Sq. Ft.)

2. Floor Material (Sq. Ft.)

   (Sq. Ft.)

   (Sq. Ft.)

3. Planters (Sq. Ft.)

   a. Construction material

   b. Plants $ _______________ (Est.)

   c. Irrigation system $ _______________ (Est.)

4. Fountains, etc. (No.)

5. Restrooms. No. (Men & Women) ____________ No. of fixtures
B. Enclosed (Mall)

1. Size _____________________________________________________________

2. Floor material ______________________________________________________

3. Planters
   a. Material __________________________________________________________
   b. Plants $_____________________________ (Est.)
   c. Irrigation system $_____________________________ (Est.)

4. Doors (No., size, material)
   a. _______; _________ x _______; _______________
   b. _______; _________ x _______; _______________
   c. _______; _________ x _______; _______________

5. Roof structure ______________________________________________________

6. Roof cover ________________________________________________________

7. Ceiling ___________________________________________________________

8. Public address system _______________________________________________

9. Fountains (No.) _________ (Type) __________________

10. Benches (No.) _________ (Type) __________________

11. Air-conditioning (mall only) (Make) __________________ (BTU) _________

VI. Miscellaneous Improvements

A. Flagpole Material ____________________ (Size) _______ x __________

B. Store directory Material ____________________ (Size) _______ x __________

C. Incinerator Material ____________________ (Size) _________________

D. Kiosks
   In mall (No.) __________ (Size) __________________
   In parking lot (No.) __________ (Size) __________________
E. Outside storage area, fence, etc.

Type ________________________________ Lineal feet ________________

F. Signs __________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

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_____________________________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

VII. Remarks

_____________________________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

_____________________________________________________________________________

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_____________________________________________________________________________