ASSESSORS' HANDBOOK
SECTION 513

ASSESSMENT OF SHOPPING CENTERS

JANUARY 1983

REPRINTED OCTOBER 1997

CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD	FIRST DISTRICT
DEAN F. ANDAL, STOCKTON	SECOND DISTRICT
ERNEST J. DRONENBURG, JR., SAN DIEGO	THIRD DISTRICT
KATHLEEN CONNELL, SACRAMENTO	STATE CONTROLLER
JOHN CHIANG, ACTING MEMBER, LOS ANGELES	FOURTH DISTRICT

E. L. SORENSEN, JR., EXECUTIVE DIRECTOR

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.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION **1**

CHAPTER 2: SHOPPING CENTER BACKGROUND **2**

CLASSES 2
Neighborhood Shopping Centers *2*
Community Shopping Centers *2*
Regional Shopping Centers *2*
Super-Regional Shopping Centers *3*
DEVELOPMENT 3
Feasibility *3*
Financing *3*
Size *4*
Improvements *4*
Parking Requirements *5*
Delivery Facilities *5*
Improvement Checklist *5*
OWNERSHIP AND ACCESSIBILITY 6
Fee Ownership *6*
Sale-Leasebacks *6*
Sale-Buyback *6*
Fixtures *7*
OPERATION AND MANAGEMENT 8
Leasing and Tenant Relations *8*
Merchants Association *9*
Tenant Mix *9*

CHAPTER 3: TENANTS **11**

LARGE NATIONALLY KNOWN STORES 11
SMALL NATIONALLY KNOWN STORES 11
LARGE LOCALLY OWNED STORES 11
SMALL LOCALLY OWNED STORES 11
SPECIALTY BUSINESSES 11

CHAPTER 4: VALUATION COMMENTS **12**

UNIT TO BE VALUED 12
APPROACHES TO VALUE 12
LAND VALUE 12
EXCESS LAND 13

CHAPTER 5: COST APPROACH **14**

INTRODUCTION 14
DEFINITION OF COST 14
APPRAISAL COST CONCEPTS 14
ACCOUNTANT'S CONCEPT OF DEPRECIATION 14

CAUSES OF DEPRECIATION 14
Physical Deterioration *15*
Functional Obsolescence *15*
Economic Obsolescence *15*
Percent Good Tables *15*
LAND VALUE 16
Entrepreneur's Profit *18*
COST APPROACH SUMMARY 18

CHAPTER 6: INCOME APPROACH 19

GROSS SALES VOLUME 19
GROSS INCOME 20
Minimum Rent *20*
Percentage Rent *20*
Other Income *20*
ECONOMIC RENT 21
VACANCY 21
OPERATING EXPENSES 22
CAPITALIZATION RATES 22
Yield Component *23*
Tax Component *23*
Recapture Component *24*
CAPITALIZATION METHODS 24

CHAPTER 7: SALES COMPARISON APPROACH 27

DIRECT COMPARISON 27
Size *27*
Sales *27*
Income *27*
Reciprocal Easement Agreements *27*
Expenses—Total Expense for the Entire Center *27*
Ratios *27*
Yield Rate *28*
GROSS RENT MULTIPLIER (GRM) 28

CHAPTER 8: SUMMARY 29

CHAPTER 9: BIBLIOGRAPHY 30

CHAPTER 10: CASE STUDY REGIONAL SHOPPING CENTERS 31

CHAPTER 11: CASE STUDY NEIGHBORHOOD SHOPPING CENTERS 68

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

[2] *The Community Builders Handbook*, 1968, Urban Land Institute, Washington, D. C.

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.[3] 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.

---

[3] *Parking Requirements for Shopping Centers*, 1965, Urban Land Institute Technical Bulletin #53.

- Store buildings.
- Malls and service areas.
- Equipment and fixtures.

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[4]

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 [4]

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

[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** remodels 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.:

Total land (including excess)		50 Acres
Less:		
Building sites	10 Acres	
Land for parking, access, etc.	20 Acres	
		30 Acres
Excess land		20 Acres

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.

[6] Assessors' Handbook, Section 501, *General Appraisal Manual*, State Board of Equalization, October 1968.

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[7]

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.

[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]

[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.

GROSS INCOME

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 re-negotiation 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,[9] median annual operating receipts (including percentages and guaranteed minimums) per leasable square foot of store area are as follows:

[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:

Sale price		$5,000,000	
Land value		1,500,000	
Improvement value		3,500,000	
Gross income			$730,000
Less expenses			-125,000
Net before recapture and taxes			605,000
Less recapture (33-yr. life)	$3,500,000 x 0.03 =		-105,000
Net to yield and taxes			500,000
Less real estate taxes	$5,000,000 x 0.025 =		-125,000
Yield			375,000
Yield rate	375,000 ÷ $5,000,000		7.5%[10]

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:

[10] This rate is not to be considered typical.

$$\frac{\text{Tax Rate x Assessment Ratio}}{100} = \text{Tax Component}$$

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.[11] 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.

[11] *The Appraisal of Real Estate*, American Institute of Real Estate Appraisers, 1966.

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

Sale Price (Adjusted to cash)		**$500,000**
Gross Income	$ 77,000	
Less Vacancy & Credit Loss	-2,000	
Effective Gross Income	75,000	
Less: Operation Expenses	-14,000	
	61,000	
Less Property Taxes[12]	-13,500	
Net Income Attributable to Land and Improvements	**$ 47,500**	
Overall Yield Rate: **$47,500 ÷ $500,000 =**	**9.5%**	

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.

Gross Income	$160,000	
Less Vacancy and Credit Loss	-4,000	
Effective Gross Income	156,000	
Less Operation Expenses	-30,000	
Net Income Attributable to Land and Improvements and Property Taxes	**$126,000**	
Capitalization		
Overall Yield Rate	9.5%	
Property Taxes	2.5%	
Total Rate	**12.0%**	
$126,000 ÷ 12% =		**$1,050,000**
Total Estimated Value by This Technique		**$1,050,000**

[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

California State Board Of Equalization, *Assessors' Handbook Section 501, General Appraisal Manual*, March 1966.

The American Institute of Real Estate Appraisers, *The Appraisal of Real Estate*, fifth edition, 1968.

The Urban Land Institute:

The Community Builders Handbook, 1968.

Dollars and Cents of Shopping Centers, 1969.

Parking Requirements for Shopping Centers, 1965.

Bernard J. La Londe & Paul E. Smith, *A Selected and Annotated Bibliography On Shopping Center Management*, Michigan State University, 1968.

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.

National Research Bureau, Inc., *Shopping Center Directory, 10th Edition*, 1968.

Donald H. Graham, "Shopping Center Real Property Taxes", *The Appraisal Journal*, October 1963.

James A. Lowden, "Valuation of Shopping Centers", *The Appraisal Journal*, April 1967.

National Institute of Real Estate Brokers, *Percentage Leases*, 1970.

CHAPTER 10: CASE STUDY
REGIONAL SHOPPING CENTERS

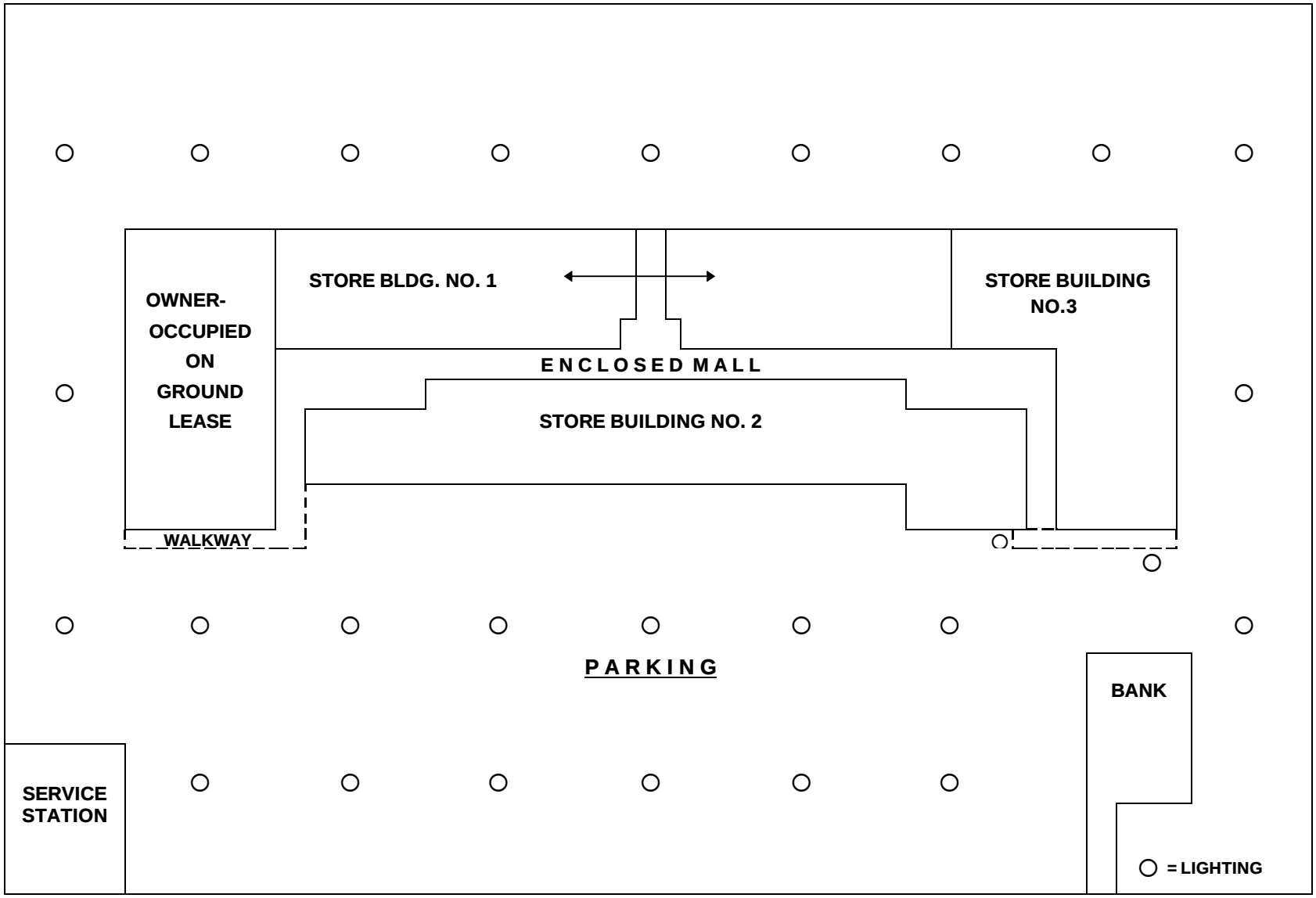
This case study is fictitious.

The dollar amounts, rates, and factors

shown are utilized to demonstrate

appraisal procedures only and should

not be considered typical.


OWNER-
OCCUPIED
ON
GROUND
LEASE
STORE BLDG. NO. 1
STORE BUILDING
NO.3
ENCLOSED MALL
STORE BUILDING NO. 2
WALKWAY
PARKING
BANK
SERVICE
STATION
= LIGHTING

COMMERCIAL PROPERTY APPRAISAL RECORD

PARCEL xxx - xx - xx

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

COMMUNITY

SUBDIVISION BLK. LOT. SHEET 1 OF SHEETS

CHARACTER OF SUBJECT PROPERTY

USE			TOPOGRAPHY		LAND IMPS.		BUILDING	
	Store	x Proper	x	Level	x	Sidewalk	Class:	
	Office	Marginal		Bank	x	Curb	Stories:	
	Hotel	Sub Marg'l		Hole	x	Gutter	Area:	
				Slope	x	Pavement	x	Proper
Zoning: COMMERCIAL						Orn. Lights	x	Typical
UTILITIES								Over Imp.
	All Installed	Underground		Poles, Front		Poles, Rear		Under-Imp.

CHARACTER OF NEIGHBORHOOD

USE						TOPOGRAPHY		TREND		GENERAL
Residential		Commercial		Industrial	x	Level	x	Developing		Desirability; G
	Single	x Retail		Light		Low		Stationary		Stability; G
	Income	Wholesale		Heavy		High		Declining		Land Imps; G
	Area	Area		Area		Slope		Blighted		Utilities; G
	Spotted	Spotted		Spotted		Hilly				Built up %; 80
	Ribbon	Ribbon		Ribbon						Date Imps.; 1967
Zoning:										

SUMMARY

Assessment Year	19	19	19	19	19	19	19	19
Appraiser And Date	207-1-71							
Improvement Replacement Cost (Structures)	4,942,651							
Improvement R. C. (Fixtures And Equipment)	30,474							
Personalty R. C. (Furniture And Equipment)	-0-							
Land Value	1,860,000							
Improvement R.C.L.N.D. (Structures)	4,436,608							
Improvement R.C.L.N.D. (Fixtures And Equip.)	26,648							
Personalty R.C.L.N.D. (Furniture And Equip.)	-0-							
Total Property R.C.L.N.D.	6,296,000							
Capitalized Earning Ability	6,266,000							
Indicated Sale Price	6,200,000							
Listed Price								

APPRAISAL

Total Property Value	6,266,000							
Land Value	1,860,000							
Improvement Value (Structures)	4,380,000							
Improvement Value (Fixtures And Equip.)	27,000							
Personalty (Furniture And Equipment)	-0-							

ASSESSED VALUES

Land	465,000							
Improvements	1,095,000							
Personalty	6,750							
Total Property	1,566,750							

TRANSACTION RECORD

Date	I.R.S.	Tr. Deed	Indicated Price	Grantee	Source

REMARKS

Land Value

42 Ac x 43,560 @ 1.00 = $1,830,000

Plus Land Development Costs 30,000

Total Land value $1,860,000

RENTALS

St. No.	Front	Depth	Tenancy	19	19	19	19	19	19	19	19
			See Income Schedule								

CAPITALIZED EARNING ABILITY

	19	19	19	19	19	19	19	19
Fair Rent	See	Page	—					
Land Value								
Imp. R.C.N.								
Formula								
C.E.A.								

LAND VALUE COMPUTATION

Year	Width Area	Mod. Fact.	Unit Value	Fr. Ft. Value	Value

COMPUTATION OF MODIFYING FACTOR

Lot		Width	Depth	Area	Base Dpth	METHODS USED No.	Corner	No.	Misc.	No.	Misc.		No.	Depth		Mod. Fact.

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.[13] 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,

[13] Includes separately owned department stores.

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 ere 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.

Sale	Size (Ac)	Total Price (Cash Equiv.)	Price Per Acre (Cash Equiv.)	Imp.Value	Cash Equivalent Price Adjusted for Time, Location Size, Shape, Etc. Per Acre	Per Sq. Ft.
A	20	$ 860,000	$ 43,000	0	$43,000	$ 0.98
B	35	1,470,000	42,000	0	48,000	1.10
C	40	1,640,000	41,000	0	45,000	1.05
D	45	1,350,000	30,000	0	41,500	0.95

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 Ac. x 43,560 sq. ft. = 1,829,520 sq. ft.
1,829,520 x $1.00 = $1,830,000 (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.[15]

The cost factors employed are from Assessors' Handbook 532, *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.[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.

---

[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.

[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 Ac. x 43,560s/f x 1.00 = (Service station & bank are excluded)	Rounded	1,830,000
Land Development Cost		30,000
		$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	
			$4,436,608
Total Indicated Value (RCLND)			**$6,296,608**
Total estimated value-excluding separately owned department store, bank & service station			$6,296,000 Rounded

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[17]	46,000

[17] Includes value of lessee owned signs.

Bldg. No. 1
"Unit Cost Method"

COMMERCIAL BUILDING RECORD

Golden Bear Shopping Center — ADDRESS 3000 Golden Bear Blvd.

PARCEL XXX XX XXX
SHEET ____ OF ____ SHEETS

DESCRIPTION OF BUILDING

CLASS & SHAPE	CONSTRUCTION	STRUCTURAL	EXTERIOR	FRONT	LIGHTING	AIR CONDITION
C 7 D	Light	Frame	F L R B	X Flat ON MALL	Wiring	X Heating X Cooling
	Sub Standard	X TILT UP	X Unfinished	X Recessed VAR.	K.T. X Conduit	X Forced Cooling
ARCHITECTURE	X Standard	X Concrete	X X X S.C. Brick	X Transom VAR	Bx. Cable	Gravity Humid
	Heavy	Brick	Br		Fixtures	Wall Unit
1 Stories	Special	X Reinforced	Terra Cotta	X Plate Glass VAR	Few Cheap	Floor Unit
TYPE		Pilasters	Stucco	Sheet Glass in	X Avg Med	Zone Unit
USE / DESIGN	FOUNDATION	Ct. Bond Beam	Siding	X Metal Wood	Many X Good	X Central
Apartment	X Concrete	Curtain Walls	X Conc.	X Bulkhead: VAR.		
Garage	Brick	Partitions	ROOF		PLUMBING	Steam
Hotel	X Reinforced		X Flat		Poor Good	Hot Water
Market		X Wall 8 " x 20 '	Trusses	X Back Trim. VAR		
Office	Light Heavy	Party Wall	X Glu. Lam. Bd.		Fixtures	Oil Burner
X Store Sub. X			Steel Deck		X Water Heater 8	M-B.T.U
Theatre		X Conc. Floor	X Composition	X Lighting VAR	X Gas Electric	
		Sub Floor	Tile Trim	X Drop Ceiling VAR.	Water Softener	

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top.	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store		X					ASPH. TI.	G	VAR.	S.R.TEX	P.L.
Office											
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remaining Life	Table	%	RATING (E,G,A,F,P) Cond	Arch. Attr.	Func. Plan	Conform	Storage Space Cupb'd	Closet	Workm'ship
1234	STORE	$85,000	1965	1965	1971	6	34	OR40	93	G	G	G	G	-	-	G

BATH & LAVATORY DETAIL

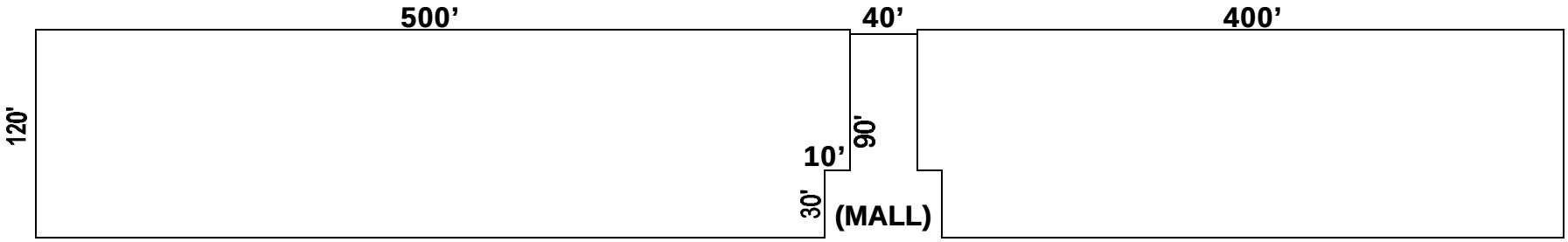
Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	La.	Tub	Ur.	Type	Grade	SHOWER St.	O.T.	G.D.	Finish
1	8	Asph. Ti.	S.R.TEX	8	8		4	G	AVG.				

SPECIAL FEATURES

Refrigeration: NONE
Elevators: NONE
Sprinklers: YES, DOUBLE HEAD

COMPUTATION

Appraiser & Date																	
Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
* STORE	107,400	11.42	1,226,508														
AIR COND.	107,400	1.25	134,250														
SPKLRS	107,400	.25	26,850														
* PARTITIONS	and	STORE	FRONTS are INCLUDED IN			STORE	COSTS										
TOTAL		1,387,608															
NORMAL % GOOD		x .93															
R.C.L.N.D.		1,290,475															



BUILDING NO. 1

Bldg. No. 2
"Unit Cost Method"

COMMERCIAL BUILDING RECORD

Golden Bear Shopping Center — ADDRESS 3000 Bear Blvd.

PARCEL XXX XX XXX
SHEET 1 OF ____ SHEETS

DESCRIPTION OF BUILDING

CLASS & SHAPE	CONSTRUCTION	STRUCTURAL	EXTERIOR	FRONT	LIGHTING	AIR CONDITION
C 7 D	Light	Frame	F L R B	X Flat ON MALL	Wiring	X Heating X Cooling
	Sub Standard	X TILT UP	X Unfinished	X Recessed VAR.	K.T. X Conduit	X Forced Cooling
ARCHITECTURE	X Standard	X Concrete	X X X S.C. Brick	X Transom VAR	Bx. Cable	Gravity Humid
	Heavy	Brick	Br		Fixtures	Wall Unit
Stories	Special	X Reinforced	Terra Cotta	X Plate Glass VAR	Few Cheap	Floor Unit
TYPE		Pilasters	Stucco	Sheet Glass in	X Avg Med	Zone Unit
USE / DESIGN	FOUNDATION	Ct. Bond Beam	Siding	X Metal Wood	Many X Good	X Central
Apartment	X Concrete	Curtain Walls	X Conc.	X Bulkhead: VAR.		Steam
Garage	Brick	Partitions	ROOF		PLUMBING	Hot Water
Hotel	X Reinforced		X Flat		Poor Good	Oil Burner
Market		X Wall 8 "x 20'	Trusses	X Back Trim VAR	Fixtures	M-B.T.U
Office	Light Heavy	Party Wall	X Glu. Lam. Bm		X Water Heater 8	
X Store Sub. X			Steel Deck		X Gas Electric	
Theatre		X Conc. Floor	X Composition	X Lighting VAR	Water Softener	
		Sub Floor	Tile Trim	X Drop Ceiling VAR.		

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top.	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store							ASPH. Ti	G	VAR.	S.R.TEX	VAR
Office											
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remaining Life	Table	%	RATING (E,G,A,F,P) Cond	Arch. Attr.	Func. Plan	Con-form	Storage Space Cupb'd	Closet	Work-m'ship
1234	STORE	$1,350,000	1965	1965	1971	6	33	OR40	93	G	G	G	G	-	-	G

BATH & LAVATORY DETAIL

Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	La.	Tub	Ur.	Type	Grade	SHOWER St.	O.T.	G.D.	Finish
1	6	Asph.	S.R.TEX	6	6		3	G	AVG.				

SPECIAL FEATURES

Refrigeration: NONE
Elevators: NONE
Sprinklers: SEE BELOW

COMPUTATION

Appraiser & Date

Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
* STORE	124,800	11.28	1,407,744														
AIR COND.	124,800	1.25	156,000														
SPKLRS	124,800	.25	31,200														
* PARTITIONS	and	STORE	FRONTS are INCLUDED IN			STORE COSTS											
TOTAL		1,594,944															
NORMAL % GOOD		x .93															
R.C.L.N.D.		1,483,200															

BUILDING NO. 2

(FRONT PARKING)

Bldg. No. 3

COMMERCIAL BUILDING RECORD

Unit Cost Method — ADDRESS 3000 Golden Bear BLVD.

PARCEL XXX XX XXX

SHEET ____ OF ____ SHEETS

DESCRIPTION OF BUILDING

CLASS & SHAPE: B-6

ARCHITECTURE: 1 Stories

TYPE

USE	DESIGN
Apartment	
Garage	
Hotel	
Market	
Office	
X Store, Dept.	
Theatre	

CONSTRUCTION

- Light
- Sub-Standard
- Standard
- Heavy
- Special

FOUNDATION

- X Concrete
- Brick
- X Reinforced
- Light / Heavy

STRUCTURAL

- X Concr. Frame
- X Concrete Reinf.
- Brick
- X Reinforced
- Pilasters
- Ct. Bond Beam
- Curtain Walls
- Partitions
- X Wall 8" x 20'
- Party Wall
- X Conc. Floor
- Sub Floor

EXTERIOR

- F L R B
- X X unfinished
- S.C. Brick
- Br.
- Terra Cotta
- Stucco
- Siding
- X X Exp. Agg.

ROOF

- X Flat
- Trusses
- X CONC.
- Steel Deck
- X Composition
- Tile / Trim

FRONT

- X Flat
- X Recessed
- X Transom: 20'
- X Plate Glass in
- Sheet Glass in
- X Metal / Wood
- X Bulkhead: 48"
- X Back Trim: VAR.
- X Lighting
- X Drop Ceiling

LIGHTING

Wiring: K.T. / X Conduit / Bx. / Cable

Fixtures: Few / Cheap / X Avg. / Med / Many / X Good

PLUMBING

Poor / X Good

Fixtures

- X Water Heater
- X Gas / Electric
- X Water Softener

AIR CONDITION

- X Heating / X Cooling
- X Forced / Clean'g
- Gravity / Humid
- Wall Unit
- Floor Unit
- Zone Unit
- X Central
- Steam
- Hot Water
- Oil Burner

M-B.T.U.

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top.	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store		X					Asph. T.	G	VAR.	SR & TEX	ACOU. T.
Office											
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remain'g Life	Table	%	RATING (E,G,A,F,P) Cond	Arch Attr.	Func. Plan	Con-form	Storage Space Cupb'd	Closet	Work-m'nship
1234	STORE	1,100,000	1965	1965	1971	6	34	OR	93	G	G	G	G	–	–	G

BATH & LAVATORY DETAIL

Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	La.	Tub	Ur.	Type	Grade	SHOWER St.	O.T.	G.D.	Finish
1	2	Asph.	CER. T.	4	4		2	MOD	Good				

SPECIAL FEATURES

Refrigeration: NONE

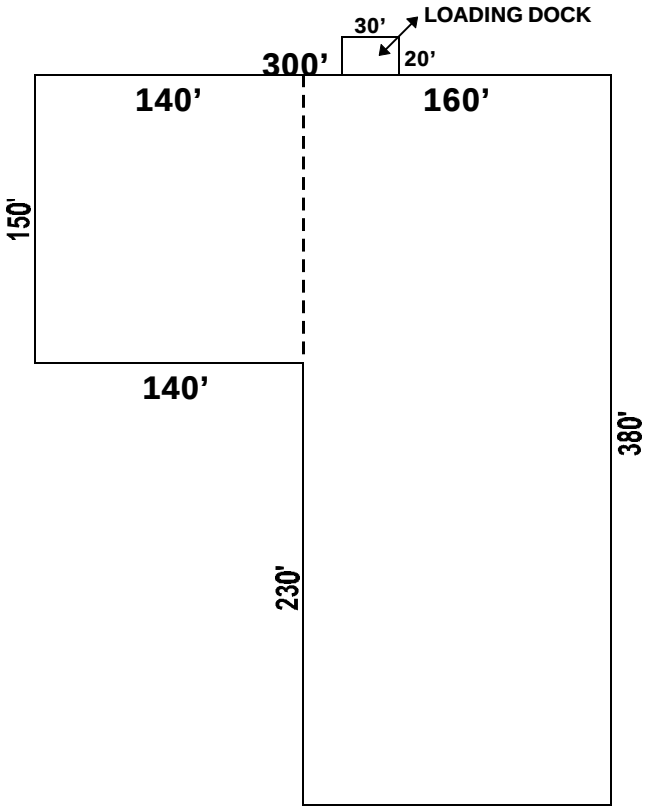
Elevators: NONE

Sprinklers: YES

COMPUTATION

Appraiser & Date

Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
* STORE	81800	13.85	1,132,930														
A.C.	81800	1.25	102,250														
SPRINKLERS	81800	.25	20,450														
PARTITIONS	INCLUDED IN STORE COSTS																
FRONTS	INCLUDED IN STORE COSTS																
LOADING DOCK	600	2.40	1,440														
* "PARTITIONS" & STORE FRONTS ARE INCLUDED IN STORE COSTS.																	
TOTAL		1,257,070															
NORMAL % GOOD		x 0.93															
R.C.L.N.D.		1,169,075															



BUILDING NO. 3

COMMERCIAL BUILDING RECORD

Enclosed Mall — ADDRESS 3000 Golden Bear Blvd.

PARCEL XXX XX XXX

SHEET 1 OF 1 SHEETS

DESCRIPTION OF BUILDING

CLASS & SHAPE		CONSTRUCTION		STRUCTURAL		EXTERIOR		FRONT		LIGHTING		AIR CONDITION	
			Light		Frame	F L R B		Flat		Wiring			Heating / Cooling
			Sub Standard		Store Fronts		Unfinished	Recessed		K.T.	X Conduit		Forced / Clean'g
ARCHITECTURE			Standard		Concrete		S.C. Brick	Transom		Bx.	Cable		Gravity / Humid
		X	Heavy		Brick		Br			Fixtures			Wall Unit
	Stories		Special		Reinforced		Terra Cotta	Plate Glass		Few	Cheap		Floor Unit
TYPE					Pilasters		Stucco	Sheet Glass in	X	Avg	Med		Zone Unit
USE	DESIGN	FOUNDATION			Ct. Bond Beam		Siding	Metal / Wood		Many	X Good		Central
Apartment		X	Concrete		Curtain Walls		X Store Fronts	Bulkhead:					From Stores
Garage			Brick		Partitions	ROOF				PLUMBING			Steam
Hotel			Reinforced			X	Flat			Poor	Good		Hot Water
Market					Wall " x	X	Trusses	Back Trim.					
Office			Light / Heavy		Party Wall						Fixtures		Oil Burner
Store							Steel Deck			Water Heater			M-B.T.U.
Theatre				X	Conc. Floor	X	Composition	Lighting		Gas	Electric		
X MALL					Sub Floor		Tile / Trim	Drop Ceiling		Water Softener			

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store											
MALL		X					Terazzo	G		Store Fronts	Open Beam
Office											
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remain'g Life	Table	%	RATING (E,G,A,F,P) Cond	Arch. Attr.	Func. Plan	Con-form	Storage Space Cupb'd	Closet	Work-m'nship
1234	MALL	$300,000	1965	1965	1971	6	34	OR	93	G	G	G	G	-	-	G

BATH & LAVATORY DETAIL

Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	La.	Tub	Ur.	Type	Grade	SHOWER St.	Q.T.	G.D.	Finish

SPECIAL FEATURES

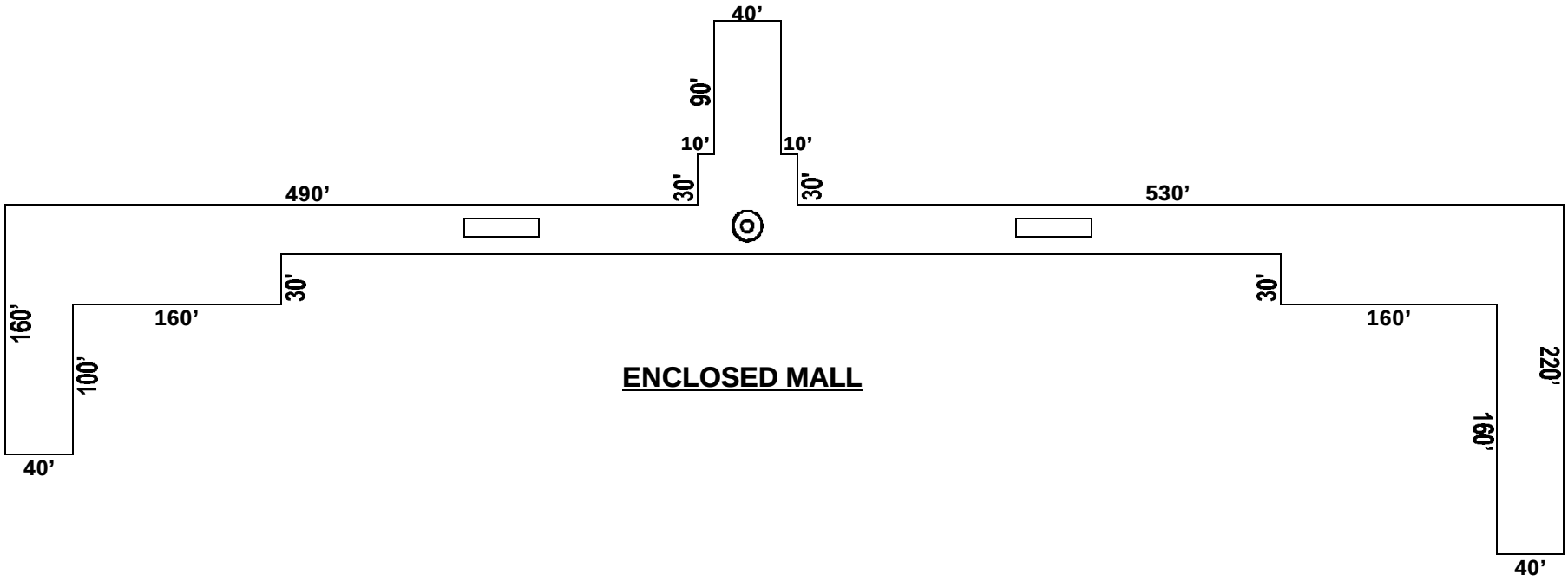
Refrigeration:

Elevators:

Sprinklers.

COMPUTATION

Appraiser & Date																	
Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
MALL	59,900	$6	359,400														
Auto. Doors	6	$2000	12,000														
TOTAL		371,400															
NORMAL % GOOD		93 %															
R.C.L.N.D.		345,400															


40'
90'
10'
10'
30'
30'
490'
530'
30'
30'
160'
160'
160'
100'
ENCLOSED MALL
220'
160'
40'
40'

MISCELLANEOUS BUILDING RECORD

Golden Bear Shopping Center ADDRESS 3000 Golden Bear Blvd

PARCEL XXX XX XXX

SHEET 1 OF 2 SHEETS

DESCRIPTION OF BUILDINGS

Bldg. No.	Structure	Size	Found.	Wall & Exterior	Roof Type	Roof Cover	Floor & Interior Detail	Second Story or Loft	Year Built	Est. Tot. Life Yrs.
1	Parking Surface	1,219 680 □'					Asphalt		1965	10
2	Parking Lines	90,000 LF					White Paint 4" Wide		"	5
3	Electroliers	30					30' Standards-double Lites		"	20
4	Sign (Enter Sign)	10'x 20'					Metal & Plastic 50' Pylon		"	20
5	Flag Pole	10"x 50'					50' Tall		"	20
6	Directory Board	48"x 78"					metal - lighted		"	10
7	P.A. System	10 SPKR.							"	10
8	Burgler Alarm	30 Unit							"	10
9	Drinking Fountains	6 Steel							"	10

COMPUTATION

Appraiser - Date

Bldg. No.	Area	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.
1	1,219 680	$ .20	243,935	40	97,562												
2	90,000	1.00	6,300	80	5,040												
3	30	$640	19,200	70	13,440												
4	(Each)	$8,000	8,000	70	5,600												
5	(Each)	2,000	2,000	70	1,400												
6	(Each)	1,500	1,500	40	600												
7	System	1,600	1,600	40	640												
8	System	3,000	3,000	40	1,200												
9	6	200	1,200	40	480												
Total																	

Appraiser - Date

Bldg. No.	Area	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.
Total																	

SBE-DAS AH 530E 3-'54

MISCELLANEOUS BUILDING RECORD

PARCEL XXX XX XXX

Golden Bear Shopping Center ADDRESS 3000 Golden Bear Blvd. SHEET 2 OF 2 SHEETS

DESCRIPTION OF BUILDINGS

Bldg. No.	Structure	Size	Found.	Wall & Exterior	Roof Type	Roof Cover	Floor & Interior Detail	Second Story or Loft	Year Built	Est. Tot. Life Yrs
10	Conc. Flatwork	Irreg.								

COMPUTATION

Appraiser-Date		207-1-2-71															
Bldg. No.	Area	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.
10	90,000		45000	.93	41850												
Total		$ 331,735		$ 167,812													

Appraiser-Date																	
Bldg. No.	Area	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.	Unit Cost	Cost	% Good	R.C.N. L.N.D.
Total																	

EQUIPMENT REPLACEMENT COST RECORD

PARCEL XXX XX XXX
COMMUNITY
Person Interviewed Owner
SHEET 1 OF 1 SHEETS

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

ITEM NO.	DESCRIPTION	MODEL OR CAPACITY	QUALITY	CONDITION	DATE OF PURCHASE	INSTALLED COST	FACTOR REF.	FACTOR	R.C.N.	DEPRECIATION TABLE	LIFE	% GOOD	R.C.L.N.D.	REMARKS
	Benches (mall)	50 L.F.	G	G	1965				$ 480		10	40	$ 192	
	Statues	2	G	G	"				4,000		34	93	3,720	
	Murals	30 SqFt	G	G	"				8,000		34	93	7,440	
	Reflecting Pool	8'x16'	G	G	"				4,000		34	93	3,720	
	Landscaping - Incl. Planters	Misc.	G	G	"				6,534		34	10	6,534	
	Chandeliers	1	G	G	"				7,200		20	70	5,040	
									30,214				$26,646.0	

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

SBE-DAS AH571-B 4-7-71

THE INCOME APPROACH TO VALUE

The income approach involves converting the income stream into an estimate of value. The basic data, actual or imputed, neccessary 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 acres of land (bank and service station excluded)	$1,860,000 x (6.5% + 2.5%)		- 167,400
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

	RCN	RCLND
Reseal parking surface and repaint lines	$ 50,000	$ 25,000
Recapture cost of replacing air conditioning **machinery;** does not include ducting or vents	50,000	25,000
Recapture cost of replacing automatic door **machinery**	4,000	2,000
Total	$104,000	$ 52,000

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

Gross income	$ 1,058,000
Less vacancy and collection loss @ 3%	- 32,000
Effective Gross Income	1,026,000
Less expenses	- 200,000
Net income earned by land and improvements	$ 826,000

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 x 80% = 0.0613[20]

Equity Position

20% equity at 6.55% return

Equity Dividend Rate [19]	0.065 x 20%	0.0130
Property Tax Component		0.0250
Total Combined Capitalization Rate--including taxes		0.0993
Capitalized Earning Ability	$826,000 ÷ 0.0993 =	$8,318,227 [21]

[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:		
920,000 ÷ 3,500,000 =	26.28%	
Apportioned value of separately owned department store building.		
8,500,000 x 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

Property Golden Bear Shopping Center

Year: 1971

Name of Tenant Type Business	Leasehold: Bldg Shell	Leasehold: Front	Leasehold: Floor	Leasehold: Ceiling	Leasehold: Elec & Plg	Leasehold: Sprinklers	Leasehold: Air Cond	Leasehold: Decor	Gross Lease Area sq/ft	Lease: Terms / To Go	Minimum Annual Income: Rent: $/SF	Minimum Annual Income: Rent: Total	Minimum Annual Income: Other Income: Real Estate Tax	Minimum Annual Income: Other Income: Comm Area	Minimum Annual Income: Other Income: Other	Minimum Annual Income: Total Guaranteed Income	Overage Income: Overage Sales $	Overage Income: Overage Rate %	Overage Income: Total Overage Income	Total Annual Income: Actual: Minimum plus Average	Total Annual Income: Actual: Per sq/ft	Total Annual Income: Typical S/F	Total Annual Income: Estimated Economic Income	Notes
Dry Cleaning	x	x	x	x	%	x	x	%	2,000	15/9	3.50	7,000	600	200		7,800	12,000	5.0%	600	8,400	4.20		8,400	
Optomitrist	x	x	x	x	x	x	x	x	2,000	15/9	3.50	7,000	600	200		7,800	12,000	5.0%	600	8,400	4.20		8,400	
Photographer	x	x	x	x	x	x	x	x	1,800	10/4	2.80	5,040	540	180		5,750	10,800	5.0%	540	6,300	3.50		6,300	
Toys	x	x	x	x	x	x	x	x	3,000	10/4	2.40	7,200	900	300		8,400	12,000	5.0%	600	9,300	3.10		9,000	(1)
Gifts & Cards	x	x	x	x	x	x	x	x	2,000	10/4	3.50	7,000	600	200		7,800	12,000	5.0%	600	8,400	4.20		8,400	
Stereo & T.V.	x	x	x	x	%	x	x	x	2,000	10/4	3.50	7,000	600	200		7,800	12,000	5.0%	600	8,400	4.00		8,400	
Candy Shop	x	x	x	x	x	x	x	x	800	15/9	6.75	5,400	240	80		5,720	5,600	5.0%	280	6,000	7.50		6,000	
Pharmacy	x	x	x	x	x	x	x	x	2,000	15/9	3.50	7,000	600	200		7,820	12,000	5.0%	600	8,400	4.20		8,400	
Restaruant	x		x	x	%	x	x	%	5,000	15/9	1.40	7,000	1,500	500		9,000	37,500	4.0%	1,500	10,500	2.10		10,500	
Flowers	x	x	x	x	x	x	x	%	800	10/4	6.85	5,480	240	80		5,800	1,000	5.0%	200	6,000	7.50		6,000	
Books	x	x	x	x	x	x	x	x	5,000	10/4	1.40	7,000	1,500	500		9,000	20,000	5.0%	1,000	10,000	2.00		10,000	
Maternity	x	x	x	x	x	x	x	x	1,800	10/4	2.75	4,950	540	180		5,670	12,600	5.0%	630	6,300	3.50		6,300	
Art Store	x	x	x	x	x	x	x	x	1,000	10/4	5.15	5,150	300	100		5,550	9,000	5.0%	450	6,000	6.00		6,000	
Mens Clothing	x	x	x	x	x	x	x	x	12,300	10/4	1.60	19,680	3,690	1,230		24,600	61,500	5.0%	3,075	27,675	2.25		27,675	
Imports	x	x	x	x	x	x	x	x	3,000	10/4	2.50	7,500	900	300		8,700	6,000	5.0%	300	9,000	3.00		9,000	
China & Glass	x	x	x	x	x	x	x	x	3,000	10/4	2.50	7,500	900	300		8,700	6,000	5.0%	300	9,000	3.00		9,000	
Music & Records	x	x	x	x	x	x	x	x	4,000	10/4	1.65	6,600	1,200	400		8,200	20,000	5.0%	1,000	9,200	2.30		9,200	
Furniture	x	x	x	x	x	x	x	x	25,600	20/14	1.10	28,160	7,680	2,560		38,400	85,333	3.0%	2,560	40,960	1.60		40,960	
									(77,100)															
(1) No rear door Minus $.10/sq.ft.																								
																							Page 1 of 4	

Income Record

Property Golden Bear Shopping Center

Year: 1971

Name of Tenant Type Business	Leasehold: Bldg Shell	Leasehold: Front	Leasehold: Floor	Leasehold: Ceiling	Leasehold: Elec & Plg	Leasehold: Sprinklers	Leasehold: Air Cond	Leasehold: Decor	Gross Lease Area sq/ft	Lease: Terms / To Go	Minimum Annual Income: Rent $/SF	Minimum Annual Income: Rent Total	Minimum Annual Income: Other Income Real Estate Tax	Minimum Annual Income: Other Income Comm Area	Minimum Annual Income: Other Income Other	Minimum Annual Income: Total Guaranteed Income	Overage Income: Overage Sales $	Overage Income: Overage Rate %	Overage Income: Total Overage Income	Total Annual Income: Actual Minimum plus Average	Total Annual Income: Actual Per sq/ft	Total Annual Income: Typical S/F	Total Annual Income: Estimated Economic Income	Notes
Candy Shop	x	x	x	x	x	x	x		1,100	10/4	4.87	5,360	330	110		5,800	16,000	5.0%	800	6,600	6.00		6,600	
Dress Shop	x		x	x	x	x	x		5,000	15/9	1.58	7,900	1500	500		8,900	22,000	5.0%	1,100	10,000	2.00		10,000	
Snack Bar	x				x	x	x		600	10/4	10.10	6,060	180	60		6,300	12,000	5.0%	600	6,900	11.50		6,900	
Childrens Shoes	x		x	x	x	x	x		1,100	15/9	5.05	5,560	330	110		6,000	12,000	5.0%	600	6,600	6.00		6,600	
Mens Clothing	x		x	x	x	x	x		5,000	15/9	1.54	7,700	1500	500		9,700	16,000	5.0%	800	10,500	2.10		10,500	
Record Shop	x	x	x	x	x	x	x		2,000	15/9	3.40	6,800	600	200		7,600	18,000	5.0%	900	8,500	4.25		8,500	
Sewing Center	x		x	x	x	x	x		4,000	15/9	1.90	7,600	1200	400		9,200	8,000	5.0%	400	9,600	2.40		9,600	
Family Shoes	x	x	x	x	x	x	x		4,500	15/9	1.62	7,275	1350	450		9,075	12,000	5.0%	600	9,675	2.15		9,675	
Ladies Frocks	x		x	x	x	x	x		4,500	15/9	1.63	7,350	1350	450		9,150	24,000	5.0%	1,200	10,350	2.30		10,350	
Mens Clothing	x		x	x	x	x	x		20,000	20/14	1.64	32,700	6000	2000		40,700	107,500	4.0%	4,300	45,000	2.25		45,000	
Jewelry	x		x	x	x	x	x		1,200	10/4	4.85	5,820	360	120		6,300	15,000	6.0%	900	7,200	6.00		7,200	
Fourmet Foods	x	x	x	x	x	x	x		2,400	10/4	2.98	7,140	720	240		8,100	6,000	5.0%	300	8,400	3.50		8,400	
Restaurant	x	x	x	x	x	%	x		8,000	10/4	1.25	10,000	2400	800		13,200	70,000	4.0%	2,800	16,000	2.00		15,000	
Variety Store	x	x	x	x	x	x	x		26,000	15/9	1.16	30,200	7800	2600		40,600	382,500	4.0%	15,300	55,900	2.15		55,900	
Maternity Shop	x		x	x	x	x	x		1,000	10/4	5.00	5,000	300	100		5,400	1,200	5.0%	600	6,000	6.00		6,000	
Millinary	x	x	x	x	x	x	x	x	1,200	10/4	5.33	6,400	360	120		6,880	6,400	5.0%	320	7,200	6.00		7,200	
Childrens Clothing	x	x	x	x	x	x	x	x	4,000	10/4	1.72	6,860	1200	400		8,460	10,800	5.0%	540	9,000	2.50		9,000	
																							Page 2 of 4	

Income Record

Property *Golden Bear Shopping Center* Year: *1971*

Name of Tenant Type Business	Leasehold: Bldg Shell	Leasehold: Front	Leasehold: Floor	Leasehold: Ceiling	Leasehold: Elec & Plg	Leasehold: Sprinklers	Leasehold: Air Cond	Leasehold: Decor	Gross Lease Area sq/ft	Lease: Terms / To Go	Minimum Annual Income: Rent $/SF	Minimum Annual Income: Rent Total	Minimum Annual Income: Other Income Real Estate Tax	Minimum Annual Income: Other Income Comm Area	Minimum Annual Income: Other Income Other	Minimum Annual Income: Total Guaranteed Income	Overage Income: Overage Sales $	Overage Income: Overage Rate %	Overage Income: Total Overage Income	Total Annual Income: Actual Minimum plus Average	Total Annual Income: Actual Per sq/ft	Total Annual Income: Typical S/F	Total Annual Income: Estimated Economic Income	Notes
Ladies Shoes	x	x	x	x	x	x	x		5,000	16/9	1.16	5,800	1500	500		7,800	44,000	5.0%	2,200	10,000	2.00		10,000	
Yardage	x	x	x	x	x	x	x		5,000	18/6	1.28	6,400	1500	500		8,400	32,000	5.0%	1,600	10,000	2.00		10,000	
Draperies	x	x	x	x	x	x	x		4,000	10/4	1.55	6,200	1200	400		7,800	28,000	5.0%	1,400	9,200	2.30		9,200	
Lamp Shop	x	x	x	x	x	x	x		1,800	10/4	2.96	5,330	540	180		6,050	32,000	5.0%	1,600	7,650	4.25		7,650	
Hardware	x	x	x	x	x	x	x		8,000	10/4	1.19	950	2400	800		12,700	102,500	4.0%	4,100	16,800	2.10		16,800	
Camera Shop	x	x	x	x	x	x	x		1,800	20/4	3.52	6,330	540	180		7,050	18,000	5.0%	600	7,650	4.25		7,650	
Patio Shop	x	x	x	x	x	x	x		4,000	15/9	1.07	4,300	2400	400		7,400	42,000	5.0%	2,100	9,500	2.30		9,200	
Knit Shop	x	x							1,200	10/4	4.43	5,320	360	120		5,800	28,000	5.0%	1,400	7,200	6.00		7,300	
Book Store	x	x	x	x	x	x	x		2,400	15/9	2.82	6,780	720	240		7,740	42,000	5.0%	2,100	9,840	4.10		9,840	
Sporting Goods	x	x	x	x	x	x	x		3,000	10/4	2.03	6,100	400	300		7,300	34,000	5.0%	1,700	9,000	3.00		9,000	
Hobby Shop	x	x	x	x	x	x	x		1,200	10/4	5.08	6,100	360	120		6,580	12,400	5.0%	620	7,200	6.00		7,200	
Beauty Shop	x	x	x	x	x	x	%		1,200	10/4	4.93	5,920	360	120		6,400	16,000	5.0%	800	7,200	6.00		7,200	
Faric Shop	x	x	x	x	x	x	x		2,000	15/9	3.15	6,300	600	200		7,100	26,000	5.0%	1,300	8,400	4.20		8,400	
Restaruant	x	x	x	x	%	x	%		4,000	15/9	1.87	5,500	1200	400		7,100	42,000	5.0%	2,100	9,200	2.30		9,200	
Candy Shop	x	x	x	x	x	x	x		1,200	10/4	4.26	5,120	360	120		5,600	32,000	5.0%	1,600	7,200	6.00		7,200	
Tall Clothing	x	x	x	x	x	x	x		2,400	10/4	2.74	6,580	720	240		7,540	46,000	5.0%	2,300	9,840	4.10		9,840	
Shoe Repair	x	x	x	x	x	x	x		800	10/4	4.35	3,480	240	80		3,800	12,000	5.0%	600	4,400	5.50		4,400	
Barber	x	x	x	x	x	x	x		800	10/4	4.22	3,380	240	80		3,700	14,000	5.0%	700	4,400	5.50		4,400	
									49,800														154,480	
																							Page 3 of 4	

Income Record

Property Golden Bear Shopping Center

Year: 1971

Name of Tenant Type Business	Leasehold: Bldg Shell	Front	Floor	Ceiling	Elec & Plg	S[r]:rs	Air Cond	Decor	Gross Lease Area sq/ft	Lease: Terms / To Go	Minimum Annual Income: Rent: $/SF	Rent: Total	Other Income: Real Estate Tax	Comm Area	Other	Total Guaranteed	Overage Income: Overage Sales	Overage Rate %	Total Overage Income	Total Annual Income: Actual: Minimum plus Average	Per sq/ft	Typical	Estimated Economic Income	Notes
Dept Store	x	x	x	x	x	x	x	x	60,800	20/14	1.15	69,920	18,240	6,080		94,240	788,500	2%	15,170	109,410			109,410	
Drugs	x	x	x	x	x	x	x	x	21,000	20/14	1.3	33,600	6,300	2,100		35,700	210,000	3%	6,300	42,000			42,000	
									2,000														8,000	
									2,000														8,000	
									7,100														16,000	
									92,900														183,410	
Dept Store									186,000		1.25	232500		19000									251,500	(1)
Dept Store Ground Lse									76,000		0.075	5700	2400										8,100	
Vending Machines																							18,000	
Service Contracts																							12,000	
(1)	Separately owned department store rent imputed 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

	Reported			Reference			Adjusted		
Expenses	Amount	%	¢/sf	Amount	%	¢/sf	Amount	%	¢/sf
Real Estate Taxes		Provided for in Capitalization rate.							
Other Taxes									
Insurance	10,000	1%	2¢	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[23]	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

[23] 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

GRM	8.3
OAR	9.0

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.

GRM	8.6
OAR	8.6

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.

GRM	8.0
OAR	9.0

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.*

SHOPPING CENTER APPRAISAL FORM

MARKET DATA

Center Name	Sale Date	Price	Adj. Price	Gross Area	Gross Income	% Prime	Expenses (Encl. Tx.)	Net Income	Overall Rate (2)	GRM (1)
Sale A	1970	9,010,000	8,700,000	500,000	1,050,000	55	262,500	787,500	0.090	8.3
Sale B	1970	8,600,000	8,600,000	500,000	1,000,000	45	260,400	739,600	0.086	8.6
Sale C	1969	9,400,000	9,137,000	580,000	1,142,125	50	319,825	822,300	0.090	8.0
Sale D	1970	9,000,000	8,450,000	486,000	1,056,250	45	329,550	726,700	0.086	8.0
Sale E	1970	6,000,000	5,739,000	400,000	659,645	45	143,143	516,502	0.090	8.7

(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:

Indicated value of total center	$8,450,000
Minus apportioned value of dept. store	2,234,000
	6,216,000

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

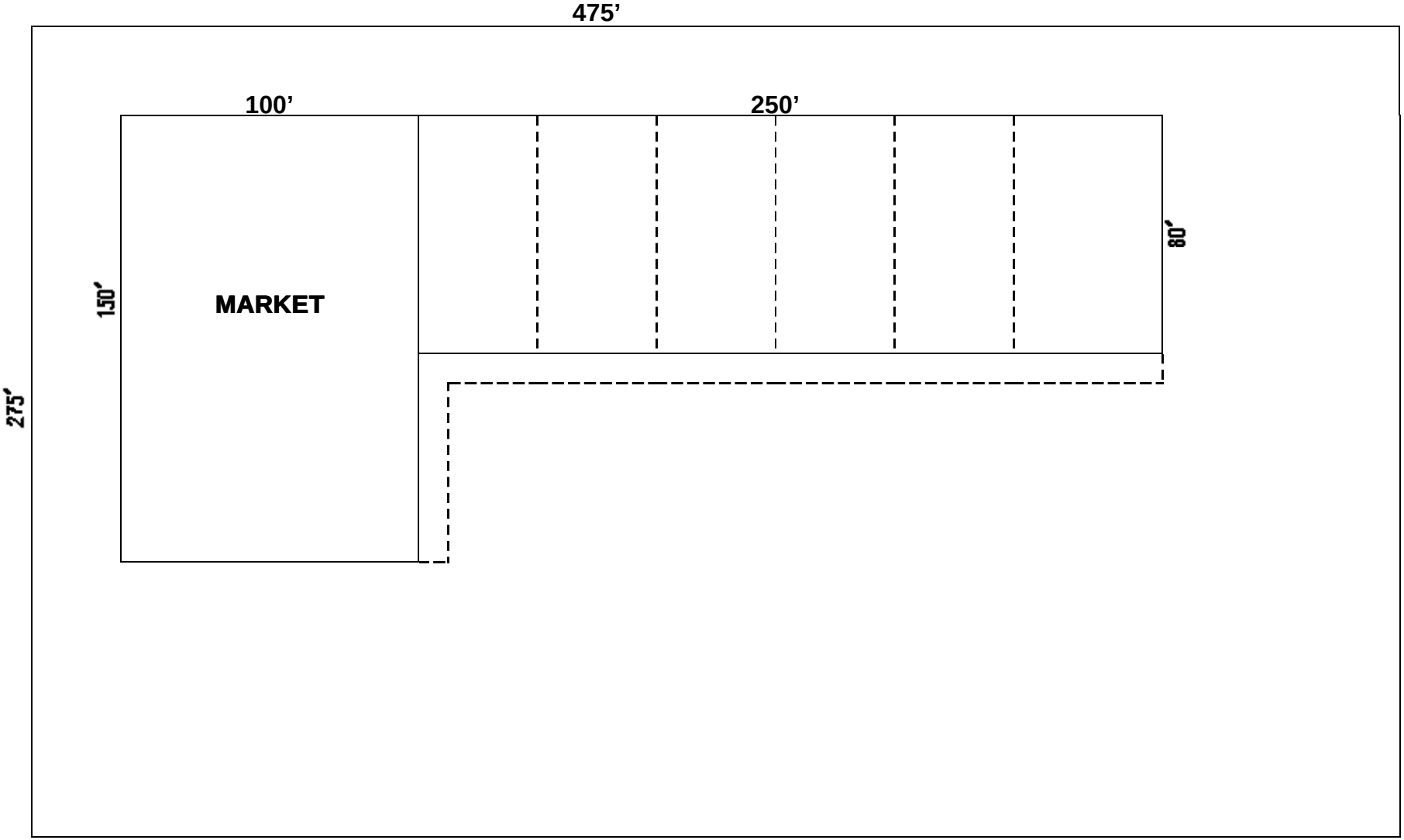
shown are utilized to demonstrate

appraisal procedures only and should

not be considered typical.

1600 CENTER

1600 COUNTY HIGHWAY



COMMERCIAL PROPERTY APPRAISAL RECORD

PARCEL XXX XX XXX

NAME OF PROPERTY County Center ADDRESS 1600 County Highway COMMUNITY

SUBDIVISION BLK. LOT. SHEET OF SHEETS

CHARACTER OF SUBJECT PROPERTY

USE				TOPOGRAPHY		LAND IMPS.		BUILDING	
x	Store	x	Proper	x	Level	x	Sidewalk	Class: Varies	
	Office		Marginal		Bank	x	Curb	Stories: 1	
	Hotel		Sub Marg'l		Hole	x	Gutter	Area: 3,5000	
					Slope	x	Pavement	x	Proper
Zoning:							Orn. Lights	x	Typical
									Over Imp.
									Under-Imp.

UTILITIES

All Installed	Underground	Poles, Front	Poles, Rear

CHARACTER OF NEIGHBORHOOD

USE						TOPOGRAPHY		TREND		GENERAL
Residential		Commercial		Industrial		x	Level	x	Developing	Desirability; G
	Single	x	Retail		Light		Low		Stationary	Stability; G
	Income		Wholesale		Heavy		High		Declining	Land Imps; G
	Area		Area		Area		Slope		Blighted	Utilities; G
	Spotted		Spotted		Spotted		Hilly			Built up %; 20
	Ribbon		Ribbon		Ribbon					Date Imps.; 1967
Zoning:										

SUMMARY

	19	19	19	19	19	19	19	19
Assessment Year								
Appraiser And Date								
Improvement Replacement Cost (Structures)	473,580							
Improvement R. C. (Fixtures And Equipment)	-0-							
Personalty R. C. (Furniture And Equipment)	-0-							
Land Value	48,000							
Improvement R.C.L.N.D. (Structures)	426,000							
Improvement R.C.L.N.D. (Fixtures And Equip.)	-0-							
Personalty R.C.L.N.D. (Furniture And Equip.)	-0-							
Total Property R.C.L.N.D.	474,000							
Capitalized Earning Ability	467,000							
Indicated Sale Price	472,000							
Listed Price								

APPRAISAL

Total Property Value	472,000							
Land Value	48,000							
Improvement Value (Structures)	424,000							
Improvement Value (Fixtures And Equip.)	-0-							
Personalty (Furniture And Equipment)	-0-							

ASSESSED VALUES

Land	12,000							
Improvements	106,000							
Personalty	-0-							
Total Property	118,000							
Entered								

TRANSACTION RECORD

Date	I.R.S.	Tr. Deed	Indicated Price	Grantee	Source

REMARKS

RENTALS

St. No.	Front	Depth	Tenancy	19	19	19	19	19	19	19	19

CAPITALIZED EARNING ABILITY

	19	19	19	19	19	19	19	19
Fair Rent								
Land Value								
Imp. R.C.N.								
Formula								
C.E.A.								

LAND VALUE COMPUTATION

Year	Width Area	Mod. Fact.	Unit Value	Fr. Ft. Value	Value

COMPUTATION OF MODIFYING FACTOR

Lot		Width	Depth	Area	Base Dpth	METHODS USED No.	Corner	No.	Misc.	No.	Misc.		No.	Depth		Mod. Fact.

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

Natural Gas	Water
Electricity	Sewer
Telephone	

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

Sale	Size	Price[24]	Date	Price Per Sq. Ft.	Imp. Value	Cash Equiv. Price Adjusted for Time, Location, Shape, Etc.	
						Per Acre	Per Sq.Ft.
A[25]	3 Acres	$ 32,670	1965	25¢	0	$13,000	30¢
B	2 acres	30,500	1970	35¢	0	15,245	35¢
C	6 acres	24,000	1970	9¢	0	4,350	10¢
D	40,000 sf	14,000	1971	35¢	0	14,000	35¢

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

		Sq. Ft.	**Sq. Ft.**
Total Land area within the shopping center boundaries:			130,680
Total land contributing to the income stream earned by the shopping center:			
Building Sites		35,000	.
Parking and access	(35 x 5.5 x 400)	80,000	
(5.5 spaces needed per 1,000 square feet of sales area 35,000).[26] Each space with 400 square feet to provide for, parking, access driveways, landscaping.)			
Required Land			**-115,000**
Excess Land			**15,680.**

Land Valuation		**$**
Required Land **(**115,000 sq. ft. x 30¢)		$34,500
Plus: land development costs		+ 8,640
Value of required land.		**$43,140**
	(rounded)	$43,000
Excess Land **(15,680 sq. ft. x 30¢)**		**$4,704**
	(rounded)	$4,700

[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		
Required land	$34,500	
Land development cost	+ 8,600	
Total	$43,000	
Excess Land	+ 4,700	
Total Land Value (Rounded)		$48,000
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

PARCEL XXX XX XXX
SHEET ____ OF ____ SHEETS

Suburban Store Bldg.

DESCRIPTION OF BUILDING

CLASS & SHAPE	CONSTRUCTION	STRUCTURAL	EXTERIOR	FRONT	LIGHTING	AIR CONDITION
C-6-C	Light	Frame	F L R B	X Flat	Wiring	X Heating X Cooling
	Sub-Standard		Unfinished	Recessed	K.T. X Conduit	X Forced Clean'g
ARCHITECTURE	X Standard	X Concrete Block	S.C. Brick	X Transom:	Bx. Cable	Gravity Humid
	Heavy	Brick	Br.		Fixtures	Wall Unit
1 Stories	Special	Reinforced	Terra Cotta	Plate Glass in	Few Cheap	Floor Unit
TYPE		Pilasters	Stucco	Sheet Glass in	X Avg. X Med	X Zone Unit
USE / DESIGN	FOUNDATION	Ct. Bond Beam	Siding	Metal Wood	Many Good	Central
Apartment	X Concrete	Curtain Walls	X X Conc Blk	Bulkhead:		
Garage	Brick	Partitions:	ROOF		PLUMBING	Steam
Hotel	Reinforced		X Flat		Poor Good	Hot Water
Market		X Wall 8 "x 16'	Trusses	Back Trim:		
Office	Light Heavy	X Party Wall			Fixtures	Oil Burner
X Store X		With Mkt.	Steel Deck		Water Heater	M-B.T.U.
Theatre		Conc. Floor	X Composition	Lighting	Gas Electric	
		Sub Floor	Tile Trim	Drop Ceiling	Water Softener	

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top.	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store		1					Aph. Ti.	Gd.		SR PT.	Acq Tile
Office											
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remaing Life	Table	%	RATING (E,G,A,F,P) Cond	Arch. Attr.	Func. Plan	Con-form	Storage Cupb'd	Space Closet	Work-m'nship
2	Store	250,000	1967	1967	1972	5	30	OR 30	90	G	G	G	G			

BATH & LAVATORY DETAIL

Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	Lo.	Tub	Ur.	Type	Grade	SHOWER St.	O.T.	G.D.	Finish
1	1	CONC.	SR	1	1		1	Mod	Good				
1	1	CONC	SR	1	1		1	Mod	Good				

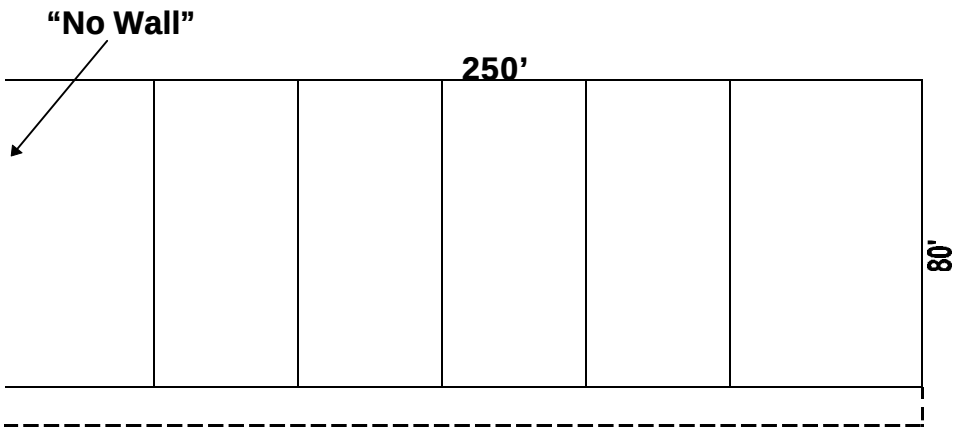
SPECIAL FEATURES

Refrigeration:
Elevators:
Sprinklers: Double Head Throughout

COMPUTATION

Unit in Use Costs used

Appraiser & Date																	
Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
STORE	20,000	11.17	223,400														
A.C.	20,000	1.50	30,000														
SPRINKLERS	20,000	.50	10,000														
"NO WALL"	80 LF	70.00	-(5600)														
TOTAL		257,800															
NORMAL % GOOD		90%															
R.C.L.N.D.		232,000															



MISCELLANEOUS STRUCTURES

Structure	Found	Cons.	Ext.	Roof	Floor	Int.	Size,etc.

COMPUTATION

Remarks:

COMMERCIAL BUILDING RECORD

"BIG VALUE" SUPER MARKET ADDRESS 1600 COUNTY HIGHWAY

PARCEL XXX XX XXX

SHEET 1 OF 2 SHEETS

DESCRIPTION OF BUILDING

CLASS & SHAPE		CONSTRUCTION		STRUCTURAL		EXTERIOR					FRONT		LIGHTING			AIR CONDITION		
C-6			Light		Frame	F	L	R	B		X	Flat	Wiring			X	Heating	X Cooling
			Sub-Standard				X	X	X	Unfinished		Recessed	K.T.	X	Conduit	X	Forced	Clean'g
ARCHITECTURE	X		Standard		Concrete	X				S.C. Brick		Transom:	Bx.		Cable		Gravity	Humid
			Heavy		Brick					Br.			Fixtures				Wall Unit	
Stories			Special		Reinforced					Terra Cotta	X	Plate Glass in AL	Few		Cheap		Floor Unit	
TYPE					Pilasters					Stucco		Sheet Glass in	X Avg.	X	Med	X	Zone Unit	
USE	DESIGN	FOUNDATION			Ct. Bond Beam					Siding		Metal / Wood	Many		Good		Central	
Apartment			Concrete		Curtain Walls							Bulkhead:						
Garage			Brick		Partitions:	ROOF							PLUMBING				Steam	
Hotel			Reinforced	X	TILT UP		Flat						Poor		Good		Hot Water	
X Market	X				Wall 6 "x 20'		Trusses					Back Trim:						
Office			Light / Heavy		Party Wall										Fixtures		Oil Burner	
Store							Steel Deck						Water Heater				M-B.T.U.	
Theatre				X	Conc. Floor	X	Composition					Lighting	X Gas		Electric			
					Sub Floor		Tile		Trim			Drop Ceiling	Water Softener					

ROOM AND FINISH DETAIL

ROOMS	FLOORS B	1	2	3	Typ.	Top.	FLOOR FINISH Material	Grade	TRIM	INTERIOR FINISH Walls	Ceilings
Store		1					Aph. Tile	Good		Paint	Acq Tile
STORAGE		1					Conc.	Good		Unfin	Open
Office		1					Carpet	Good		S.R. PT.	Acq Tile
Lobby											
Hall											
Lavatory											
Living											
Dining											
Bed											
Kitchen											

CONSTRUCTION RECORD

Permit No.	Permit For	Amount	Date	EFFEC. YEAR	APPR. YEAR	NORMAL % GOOD Age	Remain'g Life	Table	%	RATING (E,G,A,F,P) Cond	Arch. Attr.	Func. Plan	Con-form	Storage Space Cupb'd	Closet	Work-m'nship
1	Market	170,000	1967	1967	1972	5	30	OR35	90	G	G	G	G			G

BATH & LAVATORY DETAIL

Fl.	No.	FINISH Floors	Walls	FIXTURES Wc.	La.	Tub	Ur.	Type	Grade	SHOWER St.	O.T.	G.D.	Finish
1	1	CONC	SR	X	X		X	MOD.	G				
1	1	Conc	SR	X	X			MOD.	G				

SPECIAL FEATURES

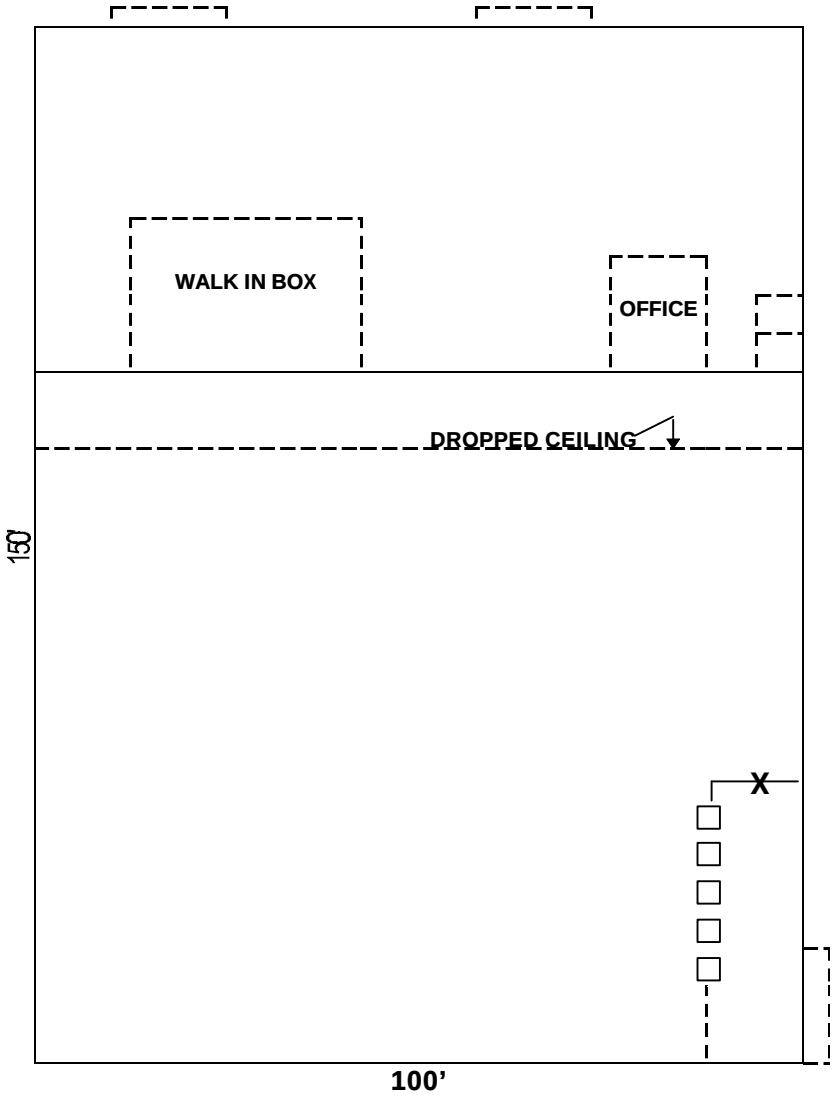
Refrigeration: Wolkin Boxes - Buitin

Elevators:

Sprinklers: Double Head Throughout.

COMPUTATION

Appraiser & Date																	
Unit	Area	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost	Unit Cost	Cost
Store	15,000	10.50	157,500														
Ac.	15,000	1.30	19,500														
Intercom	6 Stat's	2.00	1,200														
Sprinklers	15,000	.50	7,500														
Wolkin Box	600 ft	9.00	5,400														
Meat Track	50'	3.60	180														
Parking Surf.	80,000	.20	16,000														
Outside lights	4	1,000	4,000														
Sign W/Post	30' 6x16		2,500														
Landscaping	2,000		2,000														
TOTAL		215,780															
NORMAL % GOOD		90 %															
R.C.L.N.D.		194,000															



MISCELLANEOUS STRUCTURES

Structure	Foun	Cons.	Ext.	Roof	Floor	Int.	Size,etc.

COMPUTATION

Remarks:

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

1600 Center

1600 County Highway

Income Record

Name of Tenant Type of Business	Leasehold: Bldg Shell	Leasehold: Front	Leasehold: Floor	Leasehold: Ceiling	Leasehold: Elct&Plbg	Leasehold: Sprinklers	Leasehold: Air Cond	Leasehold: Decor	Gross Lease Area in Sq.Ft.	Lease: Terms / To Go	Minimum Annual Income: Rent: $/SF	Minimum Annual Income: Rent: Total	Minimum Annual Income: Other Income: R.E. Tax	Minimum Annual Income: Other Income: Comm Area	Minimum Annual Income: Other Income: Other	Minimum Annual Income: Total Guaranteed	Overage Income: Sales	Overage Income: Rate %	Overage Income: Total Overage Income	Total Annual Income: Actual: Minimum Plus Overage	Total Annual Income: Actual: Per Sq.Ft.	Total Annual Income: Typical Sq.Ft.	Total Annual Income: Estimated Economic Gross Income
Market	x	x	x	x	x	x	x	x	15,000	20/15	1.50	22,500		2,500		25,000	67,000	1.5%	1,005	26,005			26,005
Radio–TV	x	x	x	x	x	x	x	x	3,200	10/5	2.00	6,400		640		7,040		3.0%		7,040			7,040
Clothes	x	x	x	x	x	x	x	x	3,200	15/10	2.00	6,400		640		7,040		5.0%		7,040			7,040
Beauty Shop	x	x	x	x	x	x	x	x	3,200	10/5	2.00	6,400		640		7,040		5.0%		7,040			7,040
Drug Store	x	x	x	x	x	x	x	x	3,200	10/5	2.00	6,400		640		7,040	9,000	5.0%	450	7,490			7,490
Coffee Shop	x	x	x	x	x	x	x	x	3,200	10/5	2.00	6,400		640		7,040		5.0%		7,040			7,040
Hardware	x	x	x	x	x	x	x	x	4,000	15/10	1.70	6,800		800		7,600	12,000	4.0%	480	8,080			8,080
														$ 6,500						$ 69,735			$ 69,735

SHOPPING CENTER APPRAISAL WORKSHEET
EXPENSE ANALYSIS

GENERAL DATA **Date** 1972

Name of Center 1600 Center

Index MB XXX Pg XX Pcl XXX CC

Gross Leasable Area 35,000 **Sq. Ft.**

EXPENSE DATA

EXPENSE ITEMS	REPORTED		REFERENCE*		ADJUSTED	
	AMOUNT	AMT/SF	AMOUNT	AMT/SF	AMOUNT	AMT/SF
Loan Interest						
Real Estate Taxes						
Insurance	2,000	5.7¢		5¢	2,000	5.7¢
Maintenance	2,000	5.7¢		3¢	2,000	5.7¢
Common Area (1)	2,800	8.0¢		11¢	2,800	8.0¢
Adv. & Promo.	635	1.8		4	635	1.8
General & Admin.						
Management	4,500	12.8		12.8	4,500	12.8
Leasing Fees	300	0.8		0.8	300	0.8
Legal & Audit	600	1.7		1.7	600	1.7
Total Gen & Admin.						
TOTAL						
Less Interest & Taxes						
Net Expenses		36.5		33¢		
			Adjusted Expenses		12,832	36.5

Comments on Expense:

(1) Common Area expense is below U.L.I. because subject has no mall.

Believe 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

	Center Name	Sale Date	Price	Adj. Price	Gross Area	Gross Income	% Prime	Expenses (Encl Tx)	Net Income	Overall Rate	GRM (1)
A	City Center	1969	625,000	600,000	50,000	89,000	20%	37,000	52,000	8.60	6.74
B	Mortons Center	1970	990,000	950,000	75,000	131,000	40%	41,000	90,000	9.50	7.25
C	Jones Building	1971	140,000	120,000	18,000	16,518	0	4,100	12,418	10.35	7.26
D	Ace Automotive	1971	88,500	80,000	9,600	12,000	0	3,900	8,100	10.12	6.66

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:

$69,735 x 6.75 =	$470,711
Plus excess land value	4,700
Total Indicated Value	$475,411
	$475,500 (rounded)

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

Cost Approach	$474,000
Income Approach	$464,000
Sales Comparison Approach	$472,000

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

Name of Tenant Type of Business	Leasehold								Gross Lease Area in Sq.Ft.	Lease: Terms / To Go	Minimum Annual Income						Overage Income			Total Annual Income			
											Rent		Other Income							Actual			
	Bldg Shell	Front	Floor	Ceiling	Elect & Plbg	Sprinklers	Air Cond	Decor			$/SF	Total	R.E. Tax	Comm Area	Other	Total Guaranteed Income	Sales	Rate %	Total Overage Income	Minimum Plus Overage	Per Sq.Ft.	Typical Sq.Ft.	Estimated Economic Gross Income
A	B								C	D	E	F	G	H	I	J	K	L	M	N	O	P	

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 minumums 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.) _____ (Const.) _____
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 _____

_____

VII. Remarks

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____