



The appraisal of special use properties - gas stations

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There is a class of special use real estate assets that tends to sell with inextricably linked personal property and business elements. The typical buyer of an established hotel, restaurant, fitness center, bowling alley, skating rink or automotive-related facility analyzes all elements integral to the most productive use of the assets being considered for purchase. The total package of goods that includes real estate and all other integral elements available for transfer is referred to as a going concern.*

*The Dictionary of Real Estate Appraisal is published by the Appraisal Institute. In its Fourth Addition, it defines going concern value as follows:

1. The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; also called value of the going concern.
2. Tangible and intangible elements of value in a business enterprise resulting from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.
3. The value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going-concern value when it exists and is recognizable. (Dictionary)

When an operating gas station is sold, the real estate most often transfers as part of a going concern that includes gas-related furniture, fixtures and equipment (FF&E - i.e. underground storage tanks, fuel dispensing pumps, etc.), in-store equipment (reach-in coolers, shelving, register, etc., if operated as a convenience store or electronic lifts and other mechanical equipment, if operated as a repair facility) and business elements such as goodwill.

In accepting an assignment involving an established gas station, the appraiser may encounter a client interested only in the market value of the real estate, as collateral for a loan, for property tax appeal purposes or in cases of eminent domain. Business value tends to be more susceptible to changes in competition or management than other going concern elements and FF&E depreciates at a faster rate than real estate. Therefore, even in cases where a client does want the entire package of going concern elements appraised, Uniform Standards of Professional Appraisal Practice (USPAP) requires that separate values for the real estate and personal property components be provided.

When accepting an assignment involving an active going concern, it is critical for the appraiser to establish with the client what components of the going concern are to be valued. It is equally important for the appraiser, in addition to being sure to comply with requirements of its client, USPAP and standards associated with membership in professional organizations, to also be aware of requirements of third parties that are intended users of the appraisal report.

Appraisers experienced in the valuation of gas stations understand the difficulties that arise in competently analyzing market data for properties in this class. It is critical to competently analyze

the supply/demand environment and all pertinent market data available. Recent or pending changes in supply, such as the new development or expansion of a nearby station, can profoundly impact forecasts for sales at the property appraised. Analysis of sale and lease transactions is complicated by the sometimes arbitrary or unknown allocation of values within the real estate, FF&E and business components comprising each going concern asset. The existence of a distribution contract or a franchise relationship can greatly impact contract versus market rent. The absence of detailed information relating to environmental contamination can also be a major hindrance to accurate analysis. Overall, use of data for valuation purposes requires a high degree of intimacy with transactions.

The appraisal of gas stations involves analysis of site acquisition and development costs, FF&E costs, building costs, historical and pro forma revenue, operating expense data and investor requirements. Some benchmarks necessary for proper analysis of these variables are available through the National Association of Convenience Stores (NACS) and Convenience Store News (CSN). Because of the challenges associated with proper analysis, data vetted by a competent appraiser is superior in quality to that available through industry publications. However, even very experienced commercial appraisers may find a limited quantity of truly comparable data in the local market available for the ideal level of analysis and valuation support.

When Italia & Lemp, Inc. partnered with 41 other appraisal firms to create Valbridge Property Advisors in 2012, a network of 59 office locations with a combined staff of 600 real estate professionals was created. At last count, the partnership included 145 appraisers having the MAI designation. Dozens more like me are currently pursuing the designation.

The network of established appraisers across the continental United States allows for the sharing of expertise and information researched and verified by Valbridge Property Advisors' professionals. Working together, we are able to meet challenges of regional or national portfolio assignments involving gas stations and other special use properties. By enhancing our access to a larger quality of data that allows for more complete analysis, appraisers in our individual firms are also better able to provide well-supported value conclusions for our existing local clients.

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