

INCOME APPROACH TO VALUE

The Income Approach includes models for the following property groups:

- Apartments
- Hotels
- Retail Shops/Grocery Stores
- Discount Stores
- Office
- Convenience Stores
- Restaurants
- Manufacturing/Warehouse
- NNN Models
- Mobile Home Parks
- Mini Storage
- Service Shop/Service Garage
- Franchise Drug Store
- Franchise Restaurant
- Franchise Retail
- Medical Office
- Motels
- Nursing Home
- Office/Warehouse
- Shopping Center/Mall

Income and Expense Models are developed for each property group to cover the range of properties located within Durham County. Income and expense models are based on typical net lease situations. For triple net and other type leases, expense ratios should be adjusted to reflect actual or typical expenses of the landlord in this type of arrangement. Triple net leases have no expenses.

Economic Income is developed on a gross square foot or unit basis. Potential Gross Income is adjusted for occupancy loss to produce an Effective Gross Income. Income and Occupancy factors may be adjusted for exceptional properties on an individual basis.

Expenses for management and marketing, maintenance, utilities, reserve for replacement, property taxes and other operating expenses are specified as a percentage of Effective Gross Income. Expenses are deducted from Effective Gross Income to generate a Net Income, which is then capitalized using direct capitalization.

Income Models include associated capitalization parameters:

- a) Typical financing percentage rates and terms.
- b) Cash on cash requirements.

These capitalization parameters may be adjusted for lower or higher risk properties through an override of the indicated model rates. Capitalization Rates are computed excluding an effective tax rate and applied to the Net Income to generate an indicated value

Schedule of Values

Durham County 2019

APARTMENTS

MODEL	MONTHLY RENTAL RATE					EXPENSE RATIOS			CAPITALIZATION		
	EFF	1BR	2BR	3BR	4BR	VACANCY	MGMT	EXPENSES	CAP RATE	GRM	MISC
A00	1100-UP	1400-UP	2000-UP	3000-UP	3800-UP	5 - 10%	3 - 10%	25 - 40%	.06 - .07	8-9	\$100.00
A01	900	1000	1500	2000	2500	5 - 10%	3 - 10%	25 - 40%	.06 - .07	7-8	\$100.00
A02	750	900	1100	1400	1700	5 - 10%	3 - 10%	25 - 40%	.07 - .08	7-8	\$100.00
A03	600	650	850	1000	1200	5 - 10%	3 - 10%	25 - 40%	.08 - .09	6-7	\$100.00
A04	500	550	650	800	900	10 - 15%	3 - 10%	30 - 50%	.09 - .10	6-7	\$100.00
A05	400	450	525	700	800	10 - 15%	3 - 10%	30 - 50%	.10 - .11	6-7	\$50.00
A06	250-Less	300-LESS	400-LESS	500-LESS	600-LESS	15 - 20%	3 - 10%	30 - 50%	.10 - .12	5-6	\$50.00

HOTELS

MODEL	EFFECTIVE DAILY ROOM RATES		EXPENSE RATIOS			CAPITALIZATION	
	DAILY ROOM RATES		VACANCY	MGMT	EXPENSES	CAP RATE	GRM
H01	\$200 - UP PER NIGHT		40 - 50%	5 - 10%	40 - 60%	.09 - .10	1 - 3
H02	\$150 PER NIGHT		40 - 50%	5 - 10%	40 - 65%	.09 - .10	1 - 3
H03	\$100 PER NIGHT		40 - 50%	5 - 10%	50 - 65%	.10 - .11	1 - 3
H04	\$75 PER NIGHT		40 - 50%	5 - 10%	50 - 65%	.10 - .11	1 - 2

RETAIL SHOPS/GROCERY STORES

MODEL	ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
	ECONOMIC RENT		VACANCY	MGMT	EXPENSES	CAP RATE	GRM
R01	\$10 - \$25 PER SQ/FT		5 - 10%	5 - 10%	20 - 40%	.095 - .10	N/A
R02	\$10 - \$20 PER SQ/FT		5 - 10%	5 - 10%	20 - 40%	.095 - .10	N/A
R03	\$8.50 - \$15 PER SQ/FT		5 - 10%	5 - 10%	20 - 40%	.095 - .10	N/A
R04	\$7.50 - \$12.50 PER SQ/FT		5 - 10%	5 - 10%	25 - 50%	.10 - .11	N/A
R05	\$6 - \$10 PER SQ/FT		10 - 15%	5 - 10%	25 - 50%	.095 - .11	N/A
R06	\$5 - \$7.50 PER SQ/FT		10 - 15%	5 - 10%	25 - 50%	.095 - .11	N/A

DEPARTMENT/DISCOUNT STORES

MODEL	ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
	ECONOMIC RENT		VACANCY	MGMT	EXPENSES	CAP RATE	GRM
DS1	\$6 - \$10 PER SQ/FT		3 - 5%	5 - 10%	25 - 40%	.085 - .09	N/A
DS2	\$4 - \$6 PER SQ/FT		3 - 5%	5 - 10%	25 - 40%	.09 - .10	N/A
DS3	\$2.50 - \$4 PER SQ/FT		3 - 5%	5 - 10%	25 - 40%	.10 - .11	N/A

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OFFICE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
O01	\$20 - UP PER SQ/FT	3 - 5%	3 - 5%	20 - 35%	.075 - .08	N/A
O02	\$15 - \$20 PER SQ/FT	3 - 10%	3 - 5%	20 - 35%	.08 - .09	N/A
O03	\$10 - \$15 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.09 - .095	N/A
O04	\$5 - \$10 PER SQ/FT	10 - 15%	5 - 10%	25 - 45%	.10 - .11	N/A
O05	\$7 - LESS PER SQ/FT	10 - 15%	5 - 10%	25 - 45%	.10 - .11	N/A

CONVENIENCE STORES

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
C01	\$35- UP PER SQ/FT	0 - 5%	5 - 10%	08 - 10%	.09 - .10	N/A
C02	\$20- \$30 PER SQ/FT	0 - 5%	5 - 10%	10 - 15%	.10 - .11	N/A
C03	\$12.50- \$20 PER SQ/FT	3 - 5%	5 - 10%	15 - 30%	.10 - .11	N/A
C04	\$8-\$12.50 PER SQ/FT	5 - 10%	5 - 10%	20 - 30%	.10 - .11	N/A
C05	\$5 - \$8 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.11- .12	N/A

RESTAURANTS

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
RS1	\$25 - UP PER SQ/FT	0 - 5%	5 - 10%	20 - 35%	.08 - .09	N/A
RS2	\$15 - \$25 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.09 - .10	N/A
RS3	\$10 - \$15 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.09 - .10	N/A
RS4	\$6 - \$10 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.10 - .11	N/A
RS5	\$4 - \$6 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.11- .12	N/A

MANUFACTURING/WAREHOUSE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
MW1	\$7.50 - UP PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.085 - .09	N/A
MW2	\$4 - \$7.50 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.09 - .10	N/A
MW3	\$2.50 - \$4 PER SQ/FT	10 - 15%	5 - 10%	25 - 40%	.095 - .10	N/A
MW4	\$1 - \$2.50 PER SQ/FT	10 - 15%	5 - 10%	40 - 55%	.10 - .11	N/A

NNN MODELS

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
O06	\$20 - \$30 PER SQ FT	0 - 3%	5 - 10%	10 - 15%	.075 - .08	N/A
MD4	\$25 - \$40 PER SQ/FT	0 - 3%	5 - 10%	10 - 15%	.075 - .08	N/A
MW6	\$7.50 - UP PER SQ/FT	0 - 5%	5 - 10%	05 - 10%	.08 - .09	N/A

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MOBILE HOME PARKS

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT PER SITE	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
MH1	\$125 - \$200/MONTH	5 - 10%	5 - 10%	25 - 35%	.09 - .10	5 - 6

MINI-STORAGE

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT PER UNIT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
MS1	\$75 - UP PER MONTH	10 - 25%	5 - 10%	20 - 35%	.08 - .09	5 - 6
MS1	\$50- \$125 PER MONTH	10 - 25%	5 - 10%	20 - 35%	.085 - .09	5 - 6
MS3	\$25 - \$75 PER MONTH	10 - 25%	5 - 10%	20 - 35%	.09 - .10	5 - 6

SERVICE SHOP/SERVICE GARAGE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
SS1	\$15 - UP PER SQ/FT	5 - 10%	5 - 10%	10 - 15%	.07 - .08	N/A
SS2	\$5 - \$10 PER SQ/FT	5 - 10%	5 - 10%	20 - 35%	.09 - .10	N/A
SS3	\$2.50 - \$4 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.10 - .11	N/A

FRANCHISE DRUG STORES

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
FD1	\$18 - \$25 PER SQ/FT	3 - 5%	5 - 10%	05 - 10%	.07 - .08	N/A
FD2	\$15 - \$20 PER SQ/FT	3 - 5%	5 - 10%	05 - 10%	.075 - .085	N/A

FRANCHISE RESTURANTS

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
RF1	\$25 - \$40 PER SQ/FT	0 - 3%	5 - 10%	10 - 15%	.07 - .08	N/A
RF2	\$15 - \$25 PER SQ/FT	0 - 3%	5 - 10%	10 - 15%	.08 - .09	N/A

FRANCHISE RETAIL

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
FR1	\$12.50 - \$20.00 PER SQ/FT	5 - 10%	5 - 10%	05 - 15%	.075 - .08	N/A
FR2	\$7- \$12 PER SQ/FT	5 - 10%	5 - 10%	05 - 15%	.08 - .09	N/A
FR3	\$7.50 - LESS PER SQ/FT	5 - 10%	5 - 10%	05 - 15%	.085 - .09	N/A

Schedule of Values

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MEDICAL OFFICES

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
MD1	\$30 - \$40 PER SQ/FT	5 - 10%	5 - 10%	20 - 30%	.08 - .09	N/A
MD2	\$20 - \$30 PER SQ/FT	5 - 10%	5 - 10%	25 - 35%	.085 - .09	N/A
MD3	\$10 - \$20 - PER SQ/FT	5 - 10%	5 - 10%	25 - 35%	.09 - .10	N/A

MOTELS

EFFECTIVE DAILY ROOM RATES		EXPENSE RATIOS			CAPITALIZATION	
MODEL	DAILY ROOM RATES	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
M01	\$125 - UP PER NIGHT	40 - 50%	5 - 10%	40 - 60%	.095 - .10	1 - 3
M02	\$100 PER NIGHT	40 - 50%	5 - 10%	40 - 60%	.095 - .10	1 - 3
M03	\$85 PER NIGHT	40 - 50%	5 - 10%	50 - 65%	.10 - .11	1 - 3
M04	\$65 PER NIGHT	40 - 50%	5 - 10%	50 - 65%	.10 - .11	1 - 2
M05	\$50 PER NIGHT	40 - 50%	5 - 10%	50 - 70%	.10 - .12	1 - 2
M06	\$40 PER NIGHT	40 - 50%	5 - 10%	50 - 70%	.10 - .12	1 - 2

NURSING HOMES

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
NH1	\$1100 - \$1500/MONTH	5 - 10%	5 - 10%	40 - 60%	.09 - .10	N/A

OFFICE/WAREHOUSE

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
OW1	\$10 - \$15 PER SQ FT	05 - 10%	5 - 10%	20 - 40%	.085 - .09	N/A
OW2	\$7.50 - \$12.50 PER SQ FT	05 - 10%	5 - 10%	20 - 40%	.09 - .10	N/A
OW3	\$4.50 - \$7.50 PER SQ FT	05 - 10%	5 - 10%	20 - 40%	.095 - .10	N/A

SHOPPING CENTERS/MALL

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
SC1	\$15 - \$25 PER SQ/FT	5 - 10%	5 - 10%	25 - 50%	.085 - .09	N/A
SC2	\$12.50 - \$20 PER SQ/FT	5 - 10%	5 - 10%	25 - 45%	.09 - .10	N/A
SC3	\$7.50 - \$12.50 PER SQ/FT	5 - 10%	5 - 10%	25 - 45%	.09 - .10	N/A

