

INCOME MODEL APPROACH

Section L

The Income Model Approach includes models for the following property groups:

Apartments

Hotels/Motels

General Retail/Shopping Center

General Office/Medical Office

Convenience Stores

Restaurant/Franchise Restaurant

Manufacturing/Warehouse

Mobile Home Parks

Self -Storage

Service Shop/Service Garage

Income and Expense Models are developed for each property group to cover the range of properties located within Haywood 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.

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 a band of investment technique.

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.

For NNN type leases actual income and expenses should be received from the owner or tenant to allow for capitalization of a current market income data.

HOTELS/MOTELS

EFFECTIVE DAILY ROOM RATE		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>EFFECTIVE RATE</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>NIM</u>
01	\$125 – UP PER NIGHT	25 – 50%	5 – 10%	25 – 60%	.09 - .10	1 – 3
02	\$100 – \$125 PER NIGHT	25 – 50%	5 – 10%	25 – 60%	.09 - .10	1 – 3
03	\$65 – \$100 PER NIGHT	25 – 50%	5 – 10%	25 – 60%	.09 - .10	1 – 3
04	\$40 – \$65 PER NIGHT	30 – 50%	5 – 10%	40 – 65%	.10 - .11	1 – 3
05	\$20 – \$40 PER NIGHT	40 – 60%	5 – 10%	40 – 65%	.10 - .12	1 – 3

APARTMENTS

MONTHLY RENTAL RATE					EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>EFF/1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>4BR</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	750 - UP	800 - UP	850 - UP	1000 - UP	5 – 10%	3 – 10%	25 – 40%	.08 - .10	7 – 9
02	750 650	800 700	850 750	1000 800	5 – 10%	3 – 10%	25 – 40%	.09 - .10	7 – 8
03	625 550	700 600	750 650	800 700	5 – 10%	3 – 10%	25 – 40%	.09 - .10	6 – 7
04	500 450	600 500	650 550	700 600	5 – 10%	3 – 10%	30 – 40%	.10 - .11	6 – 7
05	400 350	500 400	550 450	600 550	10 – 15%	3 – 10%	30 – 40%	.10 - .11	6 – 7
06	300 -less	350 -less	400 -less	500 -less	10 - 15%	3 - 10%	30 - 40%	.10 - .12	5 - 6

GENERAL RETAIL/SHOPPING CENTER

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$25 – UP PER SQ/FT	3 – 5%	3 – 5%	10 - 20%	.08 - .10	7 - 8
02	\$20 - \$25 PER SQ/FT	3 – 5%	5 – 10%	10 – 25%	.08 - .10	7 - 8
03	\$15 - \$20 PER SQ/FT	5 – 10%	5 – 10%	15 – 30%	.08 - .10	6 - 7
04	\$10 - \$15 PER SQ/FT	5 – 10%	5 – 10%	20 – 40%	.09 - .11	6 - 7
05	\$6 - \$ 10 PER SQ/FT	10 – 15%	5 – 10%	25 – 40%	.09 - .11	5 - 6
06	\$6 – less PER SQ/FT	10 – 15%	5 – 10%	25 – 40%	.10 - .12	5 - 6

GENERAL OFFICE/MEDICAL OFFICE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$25 – UP PER SQ/FT	3 – 5%	3 - 5%	10 - 20%	.08 - .09	7 - 8
02	\$20 - \$25 PER SQ/FT	3 – 5%	5 – 10%	10 – 25%	.08 - .09	7-8
03	\$15 - \$20 PER SQ/FT	5 – 10%	5 – 10%	15 – 30%	.08 - .09	6 - 7
04	\$12 - \$15 PER SQ/FT	5 – 10%	5 – 10%	20 – 40%	.09 - .10	6 - 7
05	\$8 - \$12 PER SQ/FT	5 – 10%	5 – 10%	25 – 40%	.09 - .10	5 - 6
06	\$8 – less PER SQ/FT	10 – 15%	5 – 10%	25 - 40%	.10 - .11	5 - 6

CONVENIENCE STORES

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$25 - UP PER SQ/FT	0 – 3%	5 – 10%	15 - 20%	.09 - .10	N/A
02	\$20 - \$25 PER SQ/FT	3 – 5%	5 – 10%	15 – 20%	.09 - .10	N/A
03	\$15 - \$20 PER SQ/FT	3 – 5%	5 – 10%	20 – 25%	.10 - .11	N/A
04	\$10 - \$15 PER SQ/FT	3 – 5%	5 – 10%	20 – 25%	.10 - .11	N/A
05	\$10 – less PER SQ/FT	5 – 10%	5 – 10%	25 – 40%	.11 - .12	N/A

RESTAURANTS/FRANCHISE RESTAURANTS

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$40 - UP PER SQ/FT	0 – 5%	5 – 10%	10 - 20%	.08 - .09	N/A
02	\$30 - \$40 PER SQ/FT	5 – 10%	5 – 10%	10 – 20%	.08 - .09	N/A
03	\$25 - \$30 PER SQ/FT	5 – 10%	5 – 10%	15 – 25%	.09 - .10	N/A
04	\$15 - \$25 PER SQ/FT	5 – 10%	5 – 10%	20 – 25%	.09 - .10	N/A
05	\$10 - \$15 PER SQ/FT	5 – 10%	5 – 10%	25 – 40%	.10 - .11	N/A
06	\$10 – less PER SQ/FT	10 – 15%	5 – 10%	25 - 40%	.11 - .12	N/A

MANUFACTURING/WAREHOUSE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$4.00 – UP PER SQ/FT	5 – 10%	5 – 10%	20 - 30%	.09 - .11	6-7
02	\$2.50 - \$4.00 PER SQ/FT	10 – 15%	5 – 10%	25 – 40%	.09 - .11	6-7
03	\$1.50 - \$2.50 PER SQ/FT	10 – 20%	5 – 10%	25 – 40%	.11 - .12	5-6
04	\$1.50 – less PER SQ/FT	10 – 20%	5 – 10%	25 – 50%	.12 - UP	5-6

MOBILE HOME & RV PARKS

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT PER SITE</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$250 – UP PER MONTH	10 – 50%	5 – 10%	25 – 40%	.09 - .10	6 - 7
02	\$150 - \$250 PER MONTH	10 – 50%	5 – 10%	25 – 40%	.09 - .11	5 - 6
03	\$100 - \$150 PER MONTH	10 – 50%	5 – 10%	25 – 50%	.10 - .12	4 - 5
04	\$75 - \$100 PER MONTH	10 – 50%	5 – 10%	25 – 50%	.10 - .12	4 - 5

SELF-STORAGE

ECONOMIC RENT		EXPENSES RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT PER UNIT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$100 - up PER MONTH	20 – 50%	5 – 10%	15 – 25%	.09 - .11	5 - 7
02	\$75 - \$100 PER MONTH	20 – 50%	5 – 10%	15 – 25%	.09 - .11	5 - 7
03	\$50 - \$75 PER MONTH	20 – 50%	5 – 10%	20 – 30%	.09 - .11	5 - 7
04	\$35 - \$50 PER MONTH	20 – 50%	5 – 10%	20 – 30%	.09 - .11	5 - 7

SERVICE SHOP/SERVICE GARAGE

ANNUAL SQUARE FOOT RENT		EXPENSES RATIOS			CAPITALIZATION	
<u>MODEL #</u>	<u>ECONOMIC RENT</u>	<u>VACANCY</u>	<u>MGMT</u>	<u>EXPENSES</u>	<u>CAP RATE</u>	<u>GRM</u>
01	\$10 - up PER SQ/FT	5 – 10%	5 – 10%	15 – 25%	.09 - .10	8-9
02	\$7.50 - \$10 PER SQ/FT	5 – 10%	5 – 10%	15 – 25%	.09 - .10	8-9
03	\$5 - \$7.50 PER SQ/FT	5 – 10%	5 – 10%	25 – 40%	.10 - .11	7-8
04	\$5 – less PER SQ/FT	10 – 15%	5 – 10%	25 – 40%	.10 - .11	7-8