

INCOME APPROACH to VALUE

The Income 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 Gaston 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, and other operating expenses are specified as a percentage of Effective Gross Income. These expenses are deducted from Effective Gross Income to generate a Net Income, which is then capitalized using direct capitalization. The capitalization rate (Cap Rate) used for direct capitalization will need to be loaded to include property tax expense. To load the Cap Rate, simply add the effective tax rate to the overall capitalization rate which is then applied to the NOI.

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

Gaston County 2023

APARTMENTS

	MONTHLY RENTAL RATE					EXPENSE RATIOS			CAPITALIZATION	
MODEL	EFF	1BR	2BR	3BR	4BR	VAC	MGMT	EXPENSES	CAP RATE	MISC
01	\$1250-UP	1500-UP	2500-UP	2850-UP	3200-UP	5 - 10%	3 - 5%	20 - 30%	.06 - .07	\$100.00
02	1200-1250	1400-1500	2150-2450	2500-2800	2800-3150	5 - 10%	3 - 5%	20 - 30%	.06 - .07	\$100.00
03	1100-1200	1300-1400	1800-2100	2150-2450	2450-2750	5 - 10%	3 - 5%	20 - 35%	.06 - .07	\$100.00
04	950-1050	1150-1250	1550-1750	1800-2100	2100-2400	5 - 10%	3 - 5%	25 - 35%	.06 - .07	\$75.00
05	800-900	1000-1100	1300-1500	1550-1750	1800-2050	5 - 10%	3 - 10%	25 - 40%	.06 - .07	\$75.00
06	700-800	900-1000	1000-1250	1300-1500	1500-1750	5 - 10%	3 - 10%	25 - 40%	.06 - .08	\$60.00
07	650-700	800-900	900-1000	1050-1250	1250-1450	5 - 10%	3 - 10%	25 - 40%	.06 - .08	\$60.00
08	550-600	650-800	800-900	800-1050	1050-1200	5 - 10%	3 - 10%	30 - 50%	.065-.085	\$50.00
09	450-550	550-650	700-800	750-800	800-1000	5 - 10%	3 - 10%	30 - 50%	.065-.09	\$50.00
10	300-450	400-550	500-700	550-750	600-800	5 - 15%	3 - 10%	30 - 50%	.07 - .10	\$40.00
11	300-Less	400-LESS	500-LESS	550-LESS	600-LESS	5 - 15%	3 - 10%	30 - 50%	.08 - .11	\$25.00

HOTELS/MOTELS

	EFFECTIVE DAILY ROOM RATES	EXPENSE RATIOS			CAPITALIZATION	
MODEL	DAILY ROOM RATES	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$150 - UP PER NIGHT	40 - 50%	5 - 10%	40 - 50%	.07 - .08	1 - 3
02	\$125 - \$150 PER NIGHT	40 - 50%	5 - 10%	40 - 50%	.07 - .08	1 - 3
03	\$75 - \$125 PER NIGHT	40 - 50%	5 - 10%	40 - 50%	.07 - .09	1 - 3
04	\$50 - \$75 PER NIGHT	40 - 50%	5 - 10%	40 - 60%	.08 - .10	1 - 2
05	\$25 - \$50 PER NIGHT	50 - 60%	5 - 10%	40 - 60%	.08 - .10	1 - 2

GENERAL RETAIL/SHOPPING CENTER

	ANNUAL SQUARE FOOT RENT	EXPENSE RATIOS			CAPITALIZATION	
01	\$25 - UP PER SQ/FT	5 - 10%	3 - 5%	10 - 25%	.06 - .08	7 - 8
02	\$20 - \$25 PER SQ/FT	5 - 10%	5 - 10%	10 - 25%	.06 - .08	7 - 8
03	\$15 - \$20 PER SQ/FT	5 - 10%	5 - 10%	20 - 40%	.06 - .08	6 - 7
04	\$10 - \$15 PER SQ/FT	5 - 10%	5 - 10%	20 - 40%	.07 - .09	6 - 7
05	\$6 - \$10 PER SQ/FT	5 - 15%	5 - 10%	25 - 40%	.075 - .09	5 - 6
06	\$6 - LESS PER SQ/FT	5 - 15%	5 - 10%	25 - 40%	.08 - .10	5 - 6

DEPARTMENT/DISCOUNT STORES

	ANNUAL SQUARE FOOT RENT	EXPENSE RATIOS			CAPITALIZATION	
01	\$10- UP PER SQ/FT	3 - 5%	3 - 5%	10 - 25%	.06 - .08	
02	\$8 - 10 PER SQ/FT	3 - 5%	3 - 5%	10 - 25%	.06 - .08	N/A
03	\$5 - \$8 PER SQ/FT	3 - 5%	3 - 5%	10 - 25%	.06 - .08	N/A
04	\$5 - LESS PER SQ/FT	3 - 5%	3 - 5%	15 - 30%	.07 - .10	N/A

Schedule of Values

Gaston County 2023

GENERAL OFFICE/MEDICAL OFFICE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$20 - UP PER SQ/FT	3 - 5%	3 - 5%	10 - 25%	.06 - .08	7 - 8
02	\$15 - \$20 PER SQ/FT	3 - 5%	3 - 5%	10 - 25%	.06 - .08	7 - 8
03	\$10 - \$15 PER SQ/FT	5 - 10%	5 - 10%	15 - 30%	.07 - .09	6 - 7
04	\$6 - \$10 PER SQ/FT	5 - 10%	5 - 10%	20 - 40%	.07 - .09	6 - 7
05	\$6 - LESS PER SQ/FT	5 - 10%	5 - 15%	25 - 40%	.08 - .10	5 - 6

CONVENIENCE STORES

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$40- up PER SQ/FT	0 - 3%	5 - 10%	20 - 25%	.06 - .08	N/A
02	\$25- \$40 PER SQ/FT	3 - 5%	5 - 10%	20 - 25%	.06 - .08	N/A
03	\$15- \$25 PER SQ/FT	3 - 5%	5 - 10%	20 - 30%	.06 - .08	N/A
04	\$10-\$15 PER SQ/FT	3 - 5%	5 - 10%	20 - 30%	.065 - .09	N/A
05	\$8 - \$10 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.07- .10	N/A
06	\$8 - LESS PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.08- .10	N/A

RESTAURANTS/FRANCHISE RESTAURANTS

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$30 - up PER SQ/FT	0 - 5%	5 - 10%	15 - 25%	.06 - .08	N/A
02	\$20 - \$30 PER SQ/FT	0 - 5%	5 - 10%	15 - 25%	.06 - .08	N/A
03	\$15 - \$20 PER SQ/FT	5 - 10%	5 - 10%	20 - 30%	.06 - .08	N/A
04	\$10 - \$15PER SQ/FT	5 - 10%	5 - 10%	20 - 30%	.06 - .09	N/A
05	\$6 - \$10 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.07- .10	N/A
06	\$6 - LESS PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.08 - .11	N/A

MANUFACTURING/WAREHOUSE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$11 - up PER SQ/FT	5 - 10%	5 - 10%	15 - 25%	.07 - .09	N/A
02	\$8 - \$10 PER SQ/FT	5 - 10%	5 - 10%	20 - 30%	.07 - .09	N/A
03	\$6 - \$8 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.07 - .09	N/A
04	\$4 - \$6 PER SQ/FT	5 - 10%	5 - 10%	25 - 50%	.07 - .10	N/A
05	\$2 - \$4 PER SQ/FT	5 - 15%	5 - 10%	25 - 50%	.08 - .12	N/A
06	\$2 - LESS PER SQ/FT	5 - 20%	5 - 10%	25 - 50%	.08 - .12	N/A

Schedule of Values

Gaston County 2023

MOBILE HOME PARKS

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT PER SITE	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$500 - UP PER MONTH	5 - 15%	5 - 10%	15 - 30%	.06 - .08	5 - 6
02	\$400 - \$500 PER MONTH	5 - 15%	5 - 10%	15 - 30%	.06 - .08	5 - 6
03	\$300 - \$400 PER MONTH	5 - 15%	5 - 10%	15 - 30%	.06 - .08	5 - 6
04	\$200 - \$300 PER MONTH	5 - 15%	5 - 10%	20 - 35%	.06 - .08	5 - 6
05	\$100 - \$200 PER MONTH	5 - 15%	5 - 10%	20 - 35%	.07 - .09	5 - 6
06	\$100 - LESS PER MONTH	5 - 15%	5 - 10%	20 - 40%	.07 - .09	5 - 6

SELF-STORAGE

ECONOMIC RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT PER UNIT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$400 - UP PER MONTH	5 - 10%	5 - 10%	20 - 25%	.06 - .08	5 - 6
02	\$300 - \$400 PER MONTH	5 - 10%	5 - 10%	20 - 25%	.06 - .08	5 - 6
03	\$200 - \$300 PER MONTH	5 - 15%	5 - 10%	20 - 25%	.06 - .08	5 - 6
04	\$100 - \$200 PER MONTH	5 - 15%	5 - 10%	20 - 25%	.06 - .08	5 - 6
05	\$50 - \$100 PER MONTH	5 - 15%	5 - 10%	20 - 25%	.07 - .10	5 - 6
06	\$50 - LESS PER MONTH	5 - 15%	5 - 10%	20 - 25%	.07 - .10	5 - 6

SERVICE SHOP/SERVICE GARAGE

ANNUAL SQUARE FOOT RENT		EXPENSE RATIOS			CAPITALIZATION	
MODEL	ECONOMIC RENT	VACANCY	MGMT	EXPENSES	CAP RATE	GRM
01	\$12 - UP PER SQ/FT	5 - 10%	5 - 10%	20 - 35%	.06 - .08	N/A
02	\$10 - \$12 PER SQ/FT	5 - 10%	5 - 10%	20 - 35%	.06 - .08	N/A
03	\$8 - \$10 PER SQ/FT	5 - 10%	5 - 10%	20 - 35%	.06 - .08	N/A
04	\$6 - \$8 PER SQ/FT	5 - 10%	5 - 10%	20 - 35%	.06 - .08	N/A
05	\$4 - \$6 PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.07 - .09	N/A
06	\$4 - LESS PER SQ/FT	5 - 10%	5 - 10%	25 - 40%	.07 - .10	N/A

Note: Triple Net Leases will have no expenses.

Example of Income Approach to Value

Parcel Number: 100000

Neighborhood: 0599 Anywhere Subdivision

Effective Date: 01/01/2023

Department/Discount Store: Model #2

Leasable Area: 20,000 Sq. Ft.

Gross Potential Income	20,000	X	\$8.00	=	\$160,000
Vacancy			3%	-	\$ 4,800
Miscellaneous Income				+	\$ 0
Effective Gross Income					\$155,200
Management			5%	-	\$ 7,760

Schedule of Values

Gaston County 2023

Expenses	20%	- \$ 29,488
Net Operating Income		\$117,952
Capitalization Rate		.075
Income Value		\$1,572,695

Land that supports the structure operation is part of the income value. Any additional land that is not part of the operation will be valued as excess land.

SECTION 42 LOW-INCOME HOUSING

North Carolina General Statute 105-277.16

A North Carolina low-income housing development to which the North Carolina Housing Finance Agency allocated a federal tax credit under section 42 of the Code is designated a special class of property under Article V, Section 2(2) of the North Carolina Constitution and must be appraised, assessed, and taxed in accordance with this section. The assessor must use the income approach as the method of valuation for property classified under this section and must take rent restrictions that apply to the property into consideration in determining the income attributable to the property. The assessor may not consider income tax credits received under section 42 of the Code or under G.S. 105-129.42 in determining the income attributable to the property. (2008-146, s. 3.1;2008-187, s. 47.6).

General Application

Identify the low-income housing property being appraised and request copies of the audited financial statements for current year (revaluation year) and three prior years.

Analyze the actual income stream: apply expense ratios, capitalization rates, and Gross Rent Multipliers (GRM) developed for use in the 2023 Gaston County Revaluation Project.

Vacancy Rates

A normal rate of 3-5% has been adopted for use by Gaston County.

Operating Expenses

An average expense ratio of 50% to 60% has been adopted for use by Gaston County. The expense ratio includes reserve for replacement but not property tax expenses. The property tax expense is loaded in the cap rate.

Capitalization Rate

A capitalization rate of .060 to .075 was selected for use in Section 42 low-income housing appraisal.

**SAMPLE INCOME APPROACH APPRAISAL
SECTION 42 LOW INCOME HOUSING
(G.S. 105-277.16)**

100 UNIT APARTMENT COMPLEX @ \$610 PER MONTH BASE RENT

POTENTIAL GROSS INCOME (100 x \$610 x 12 MONTHS)	\$732,000
VACANCY (3%)	(-\$21,960)
OTHER INCOME	\$3,500
EFFECTIVE GROSS INCOME	\$713,540
OPERATING EXPENSES (50%)	(-\$356,770)
NET OPERATING INCOME	\$356,770
CAP RATE (6.5%) + TAX RATE (.0135)	{.075}
APPRAISED VALUE	\$4,756,930
VALUE PER UNIT	\$47,570

INCOME APPROACH TO GOLF COURSE

The Income Approach is typically the most accurate measure of value for golf courses. It reduces the differences between golf courses to the least common denominator, **Golf Income Revenue (GIR)**. This revenue can be quantified from the market place and analyzed based on actual or anticipated number of rounds played and average daily rates per round.

Following is the formula for estimating the value of golf courses in Gaston County, based on the Income Approach.

Stabilized # Rounds (SNR) x Stabilized Daily Rate (SDR) = Golf Income Revenue (GIR) x Golf Income Multiplier (GIM) = Indicated Value

EXAMPLE

Catapult Golf Club – an 18 hole, regulation size golf course, with a stabilized number of rounds of 20,000 per year and a stabilized daily rate of \$50.

$$20,000 \times \$50 = \$1,000,000 \times 2.0 = \$2,000,000 \text{ or } \$111,100 \text{ per hole.}$$

$$(\text{SNR}) \times (\text{SDR}) = (\text{GIR}) \times (\text{GIM}) = \text{Indicated Value}$$

GOLF COURSE INCOME MODELS

GRADE	STABILIZED # ROUNDS	RATES DAILY & SEASONAL	SATBILIZED RATE	GIM
EXCELLENT	20,000-30,000	\$100 to \$250	\$75 to \$200	1.0 to 2.5
VERY GOOD	20,000-30,000	\$45 to \$150	\$50 to \$100	1.0 to 2.5
GOOD	20,000-30,000	\$30 to \$125	\$40 to \$75	1.0 to 2.5
AVERAGE	20,000-30,000	\$25 to \$60	\$30 to \$60	1.0 to 2.5
FAIR	15,000-20,000	\$15 to \$25	\$15 to \$25	1.0 to 2.5
PAR 3	15,000-20,000	\$10 to \$25	\$10 to \$25	1.0 to 2.5

Note: Stabilized Daily Rates include cart rental and green fees only. Values generated by this formula are for golf course improvements and the land necessary to support the golf holes. Values for excess land and other buildings will be added based on separate cost or income analysis as outlined within the body of the Schedule of Values.

Residential Income

One to four unit buildings will be valued as residential property. Residential property is valued using GRM or Gross Monthly Multiplier. The GRM will range from 160 to 200 with normal being 170 to 185.

Example: House rents for \$800 a month and using a 180 GRM.
 $\$800 \times 180 = \$144,000$

Single family homes, due to limitation of establishing data, is best valued through sales comparison.