



The Business of Retail Valuation

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Objectives

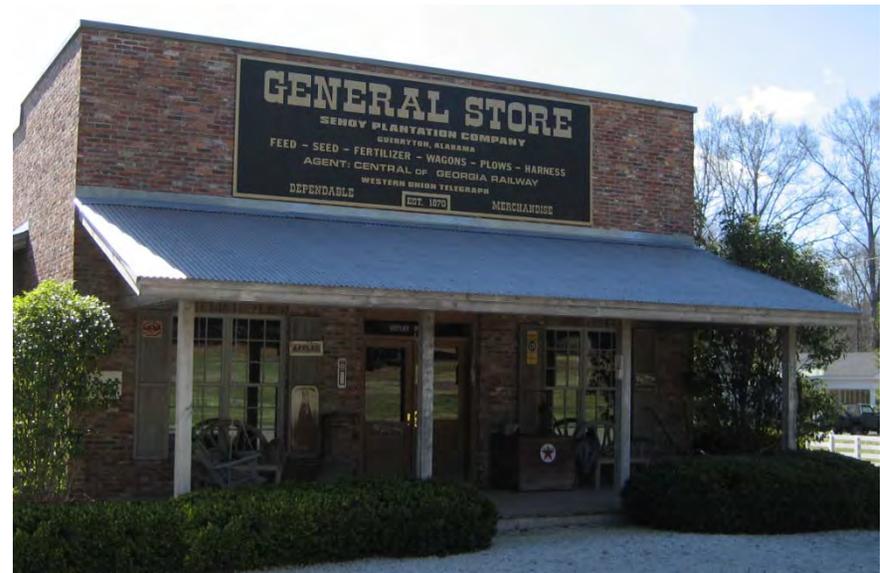
- Discuss some of the economic factors that have shaped the retail world
- Cover the new terminology
- Review how to list the buildings
- Highlight 2015 rate changes
- Summary



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General Store – 1800's

- Replaced the earlier trading posts
- Common in rural towns
- Flourished in the 1800's
- Wide variety of goods
- Bartering was common
- Often extended credit to customers





Department Stores – late 1800's

- Provided more choice than local specialty stores
- Found initially in larger cities
- Increased foot traffic
- Cash registers
 - Storage
 - Bell



Source: <https://storetraffic.com/the-evolution-of-retail-technology/>



“The Roaring Twenties” – 1920’s

- More Americans now lived in cities than on farms
- The general store’s days were numbered
- Post-war boom, rapid industrial growth
 - U.S. wealth more than doubled from 1920 – 1929
 - A “consumer society” was born
 - Chain stores took off
 - Commercial radio was introduced
 - The Ford Model T (1 for every 5 Americans)
- First shopping areas were built away from downtown

<http://www.history.com/topics/roaring-twenties>



Suburban Expansion – 1940's & 1950's

- Suburbs grew rapidly after World War II
- Retail stores followed the growth
- Major open air malls became common
- First enclosed mall opened in 1956



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A New Kind of Credit – 1940's & 1950's

- Credit cards
 - 1940's – First credit cards
 - 1958 – “BankAmericard” first successful modern credit card
 - Recent study: shoppers spend 112% more when using plastic



Source: <https://storetraffic.com/the-evolution-of-retail-technology/>



A Need for Efficiency – late 1940's

- 1948: Philadelphia supermarket manager asks a local professor for help
 - System for scanning groceries
 - Slow lines & frequent inventory hurt profits
- 1949: Bob Silver & Joe Woodard
 - Lines in the sand
 - Settled on circular barcode
 - Used a 500W light bulb
 - Lacked proper light & minicomputer
 - Patented in 1952

Source: <http://www.smithsonianmag.com/innovation/history-bar-code-180956704/>



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Raising the Bar – 1970's



- 1966: Kroger seeks a partner to help with faster, more productive service
 - RCA discovers the Woodward patent
 - 1972: Kroger installs automated checkstands using circular barcode & profits soar
- Uniform Grocery Product Code Council formed to design the Universal Product Code (UPC)
 - IBM late entry, employed Mr. Woodward, won the design
 - 1974: First UPC scanner machines installed

Source: <http://www.smithsonianmag.com/innovation/history-bar-code-180956704/>



Rise of the Big Box

- 1962: The first Kmart & Walmart stores opened
- 1988: The first Walmart Supercenter opened
- A typical Supercenter today is about 205,000 Sq. Ft.
- Until recently, big-box stores have grown in popularity
- Typical occupants include:
 - Discount retailers
 - Home improvement
 - Sporting goods



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A Developing e-Landscape – 1990's & 2000's

- 1995: Amazon & eBay launched
- Lower overhead for online retailers
- Both opportunity & peril for brick & mortar stores
- Today, 86% of retailers have a web presence
- Mobile apps
- Not all segments are equally affected

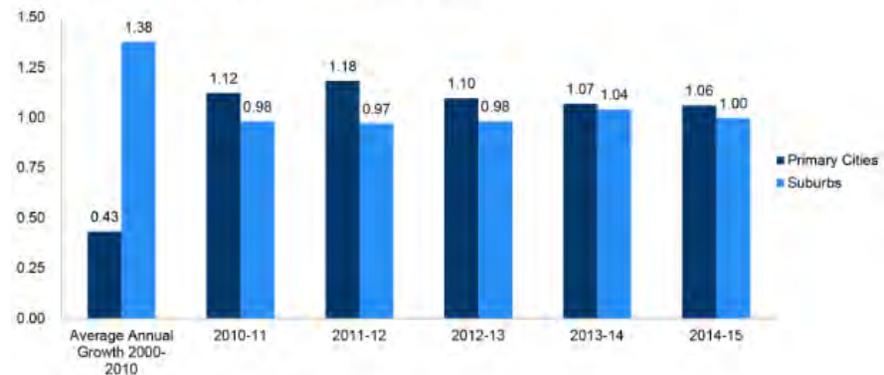
Source: <https://storetraffic.com/the-evolution-of-retail-technology/>



The Mid-Box Revolution – 2000's

- Recently, there has been a nationwide trend of population shifting back into the cities
- Retailers have responded with smaller stores in urban areas
 - Lessens initial investment
 - Lower overhead
 - Improved customer service
 - Online competition

Figure 2: Primary City vs Suburb Growth Rates*



*Metropolitan areas over one million population.
Source: William H. Frey analysis of 2000 and 2010 Decennial Censuses and Census Bureau estimates, 2010-2015.

B Metropolitan Policy Program
at BROOKINGS

Source: <https://www.brookings.edu/blog/the-avenue/2016/05/23/mid-decade-big-city-growth-continues/>
<http://business.time.com/2012/07/27/big-box-shrinkage-retailers-embrace-sales-on-a-smaller-scale/>



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Real Disposable Personal Income Per Capita 2000 - 2016



Source: Federal Reserve Bank of St. Louis Economic Research (<https://fred.stlouisfed.org>)

US Bureau of Economic Analysis (www.bea.org)



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Moody's Commercial Property Price Index 2001 – 2016



Source: <http://www.moodys.com>



National Net Lease Retail Cap Rates

NET LEASE CAP RATE TRENDS



Source: The Boulder Group <http://www.bouldergroup.com/media/pdf/2017-Q1-Net-Lease-Research-Report.pdf>



2015 Alabama Appraisal Manual: Retail Types

- Small Freestanding Retail: less than 15,000 Sq. Ft.
- Mid-Box Freestanding Retail: 15,000 – 50,000 Sq. Ft.
- Big-Box Freestanding Retail: 50,000 – 200,000 Sq. Ft.
- Department Stores
- Food Stores
- Strip Shopping Centers
- Neighborhood Centers
- Power Centers
- Lifestyle Centers
- Other



Small Freestanding Retail – Imp. Code 530

- Small stores, under 15,000 Sq. Ft.
- Typically occupied by regional & national retailers
- Mainly open (few partitions)
- Common things to look for:
 - Height adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures



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Small Freestanding Retail – Imp. Code 530





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Small Freestanding Retail – Imp. Code 530





Mid-Box Retail – Imp. Code 530

- Fairly large stores 15,000 – 50,000 Sq. Ft.
- Typically occupied by regional & national retailers
- Mainly open (few partitions)
- Common things to look for:
 - Height adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures
 - Sliding glass doors & air curtains



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Mid-Box Retail – Imp. Code 530





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Mid-Box Retail – Imp. Code 530





Big-Box Retail – Imp. Code 530

- Large stores 50,000 – 200,000 Sq. Ft.
- Typically occupied by national retailers
- Mainly open (few partitions)
- Common things to look for:
 - Height adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures
 - Sliding glass doors & air curtains



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Big-Box Retail – Imp. Code 530





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Big-Box Retail – Imp. Code 530





Department Store – Imp. Code 531

- Typically fairly large stores with a high level of finish
- Mainly open (few partitions)
- Most have upstairs
- Common things to look for:
 - Height adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures
 - Elevators & Escalators
 - Sliding glass doors & air curtains



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Department Store – Imp. Code 531





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Department Store – Imp. Code 531





Food Store – Imp. Code 540

- Typically fairly large stores
- Mainly open
- Common things to look for:
 - Heating & cooling
 - Height adjustment
 - Fire suppression (sprinklers)
 - Plumbing fixtures & floor drains
 - Sliding glass doors & air curtains
 - Non-modular walk-in coolers
 - Electric vehicle charging stations



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Food Store – Imp. Code 540





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Food Store – Imp. Code 540





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Modular Walk-In Cooler





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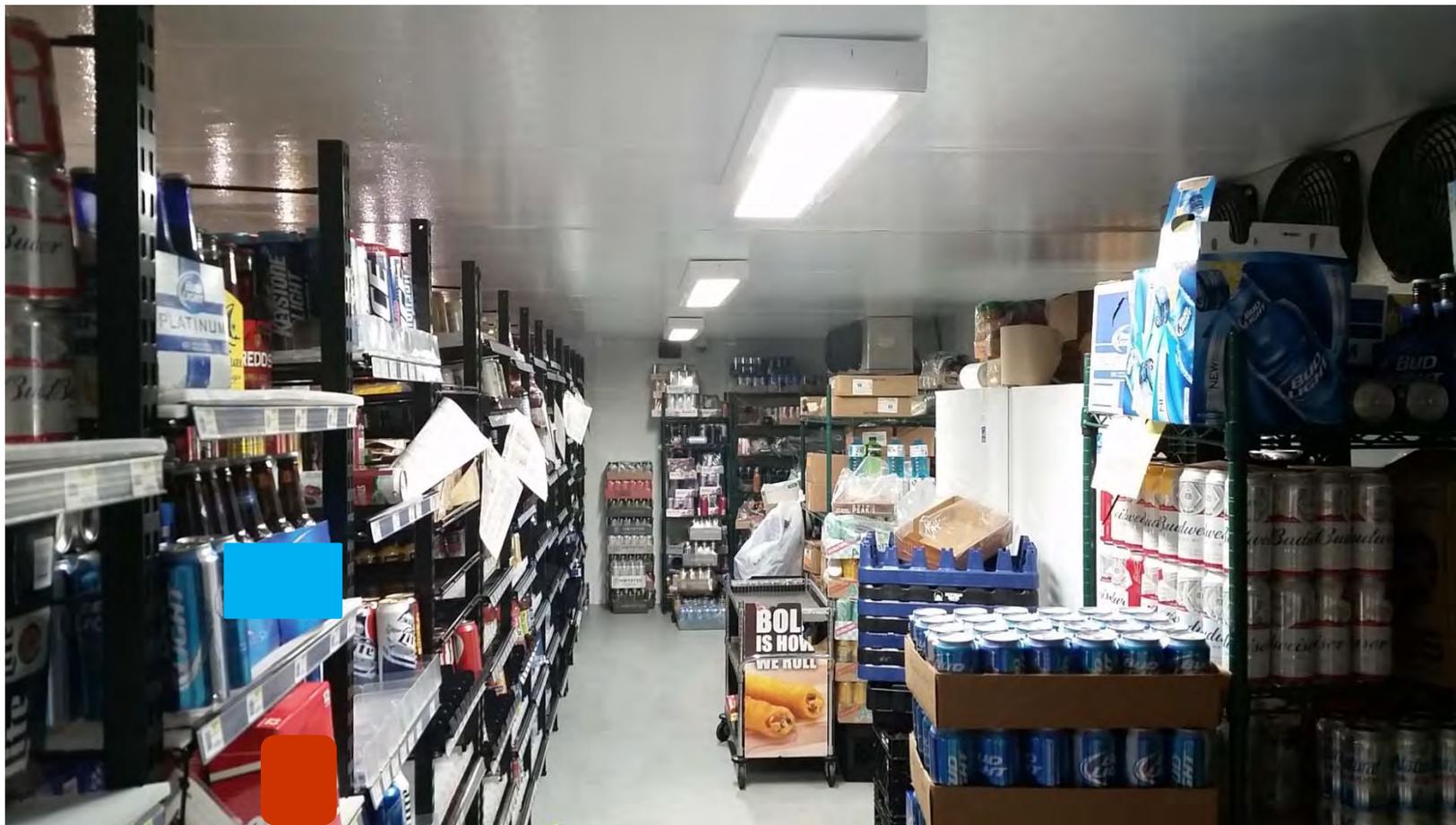
Modular Walk-In Cooler





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Modular Walk-In Cooler





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Modular Walk-In Cooler





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Modular Walk-In Cooler





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Electric Vehicle Charging Stations





Strip Shopping Center – Imp. Code 534

- Partitioned buildings with numerous stalls
- Typically occupied by small local & regional stores
- Common things to look for:
 - Height adjustment
 - Stalls adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures



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Strip Shopping Center – Imp. Code 534





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Strip Shopping Center – Imp. Code 534





Neighborhood Center– Imp. Code 535

- Anchored strip shopping center
- Typically occupied by small stores, with one or two anchor stores (typically a grocery store)
- Common things to look for:
 - Height adjustment
 - Stalls adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures



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Neighborhood Center– Imp. Code 535





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Neighborhood Center– Imp. Code 535





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Neighborhood Center– Imp. Code 535





Power Center – Imp. Code 539

- Large retail development consisting of mainly mid-box and big-box stores
- Typically occupied by regional & national retailers
- Common things to look for:
 - Height adjustment
 - Stalls adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures
 - Sliding glass doors & air curtains



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Power Center – Imp. Code 539





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Power Center – Imp. Code 539





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Power Center – Imp. Code 539





Lifestyle Center – Imp. Code 533

- Upscale, open air retail developments
- Typically occupied by specialty stores
- Include venues for dining & entertainment
- Extensive landscaping & outdoor features are common
- Common things to look for:
 - Height adjustment
 - Stalls adjustment
 - Heating & cooling
 - Fire suppression (sprinklers)
 - Plumbing fixtures



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Lifestyle Center – Imp. Code 533





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Lifestyle Center – Imp. Code 533





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Lifestyle Center – Imp. Code 533





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Lifestyle Center – Imp. Code 533





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Skating Rink – Imp. Code 741





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Bowling Alley – Imp. Code 748



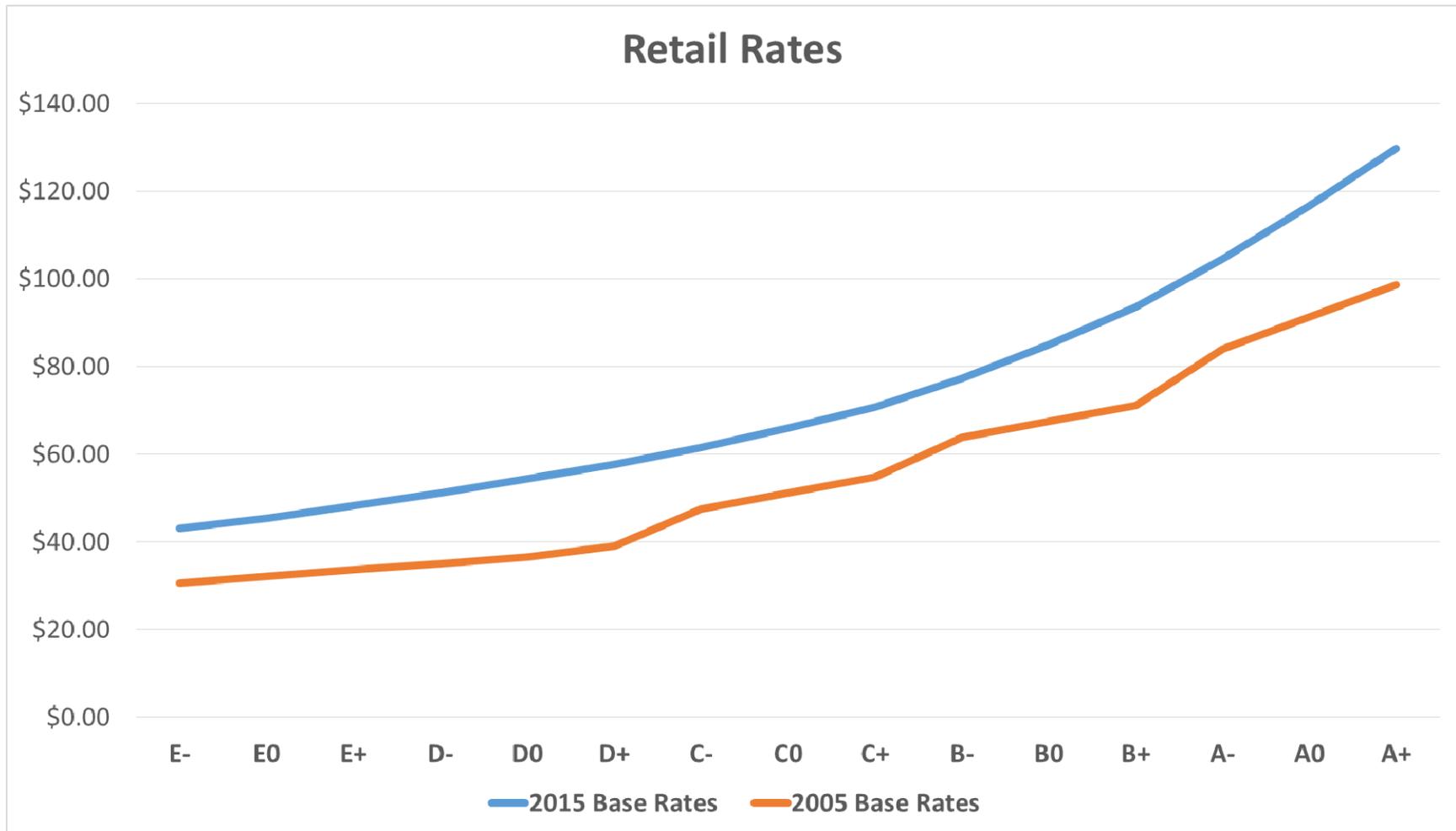


Improvement Classification

- Curve was re-worked
- Proper classification & depreciation is essential
- For implementation of the 2015 Manual
 - Review
 - Depreciate
 - Schedule in 2015 Manual, pages A-45 through A-52



Curve Shift: Median 32% Increase





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2005 Manual – 530 Retail Store

DEPRECIATION ADJUSTMENT		Calculated Based on the Alabama Appraisal Manual, 2005 Edition							
EFF. AGE / NORMAL	95%								
OBSERVED PHY.									
FUNCTIONAL									
ECONOMIC									
TOTAL DEPR.	95%								
BUILDING SUMMARY									
STORY HEIGHT	+1								
BASE AREA	4,320								
UPPER FLR. AREA	0								
UPPER FLR. ADJ.	0								
APPENDAGES	27								
TOTAL ADJ. AREA	4,347								
BUILDING CALCULATIONS									
BLDG. CLASS	C0								
CONST. UNITS	129								
BASE RATE	56.34								
ADJ. RATE	72.68								
TAA	4,347								
SUBTOTAL	315,940								
EXT. FEAT.	28,838								
BASE COST	344,778								
INDEX	1.15								
REPL. COST	396,495								
COND. %	95%								
VALUE	376,670	APPENDAGES				APPENDAGES			
MKT ADJUSTMENT	1	SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
FINAL VALUE	376,700								

Improvement value \$376,700 with 1.15 Index



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2015 Manual – 530 Retail Store

DEPRECIATION ADJUSTMENT		Calculated Based on the Alabama Appraisal Manual, 2015 Edition							
EFF. AGE / NORMAL	95%								
OBSERVED PHY.									
FUNCTIONAL									
ECONOMIC									
TOTAL DEPR.	95%								
BUILDING SUMMARY									
STORY HEIGHT	+1								
BASE AREA	4,320								
UPPER FLR. AREA	0								
UPPER FLR. ADJ.	0								
APPENDAGES	27								
TOTAL ADJ. AREA	4,347								
BUILDING CALCULATIONS									
BLDG. CLASS	C0								
CONST. UNITS	129								
BASE RATE	68.10								
ADJ. RATE	87.85								
TAA	4,347								
SUBTOTAL	381,884								
EXT. FEAT.	43,798								
BASE COST	425,682								
INDEX	1.00								
REPL. COST	425,682								
COND. %	95%								
VALUE	404,398	APPENDAGES				APPENDAGES			
MKT ADJUSTMENT	1	SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
FINAL VALUE	404,400								

Improvement value \$404,400 with 1.00 Index



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Difference When Correctly Listed as Retail '05 Manual to '15 Manual

2005 Retail - 500	
CO	Class
129	Const. Units
\$56.34	Base Rate
\$72.68	Adj. Rate
4,347	TAA
\$315,940	Subtotal
\$28,838	Ext Feat
\$344,778	Base Cost
1.15	Index
\$396,495	RCN
95%	Cond
\$376,700	Final Value

2015 Retail - 500	
CO	Class
129	Const. Units
\$68.10	Base Rate
\$87.85	Adj. Rate
4,347	TAA
\$381,884	Subtotal
\$43,798	Ext Feat
\$425,682	Base Cost
1.00	Index
\$425,682	RCN
95%	Cond
\$404,400	Final Value

\$27,700 Increase from 2005 Manual to 2015 Manual



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Incorrectly Listed as Other Comm. High Part.

'05 Manual to '15 Manual

2005 Other Comm - 598	
C0	Class
129	Const. Units
\$49.21	Base Rate
\$63.48	Adj. Rate
4,347	TAA
\$275,948	Subtotal
\$39,206	Ext Feat
\$315,154	Base Cost
1.15	Index
\$362,427	RCN
95%	Cond
\$344,300	Final Value

2015 Other Comm - 598	
C0	Class
129	Const. Units
\$75.45	Base Rate
\$97.33	Adj. Rate
4,347	TAA
\$423,094	Subtotal
\$48,982	Ext Feat
\$472,076	Base Cost
1.00	Index
\$472,076	RCN
95%	Cond
\$448,500	Final Value

\$104,200 Increase from 2005 Manual to 2015 Manual



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Retail vs Other Commercial High Partition: 2005 Manual

2005 Retail - 500	
C0	Class
129	Const. Units
\$56.34	Base Rate
\$72.68	Adj. Rate
4,347	TAA
\$315,940	Subtotal
\$28,838	Ext Feat
\$344,778	Base Cost
1.15	Index
\$396,495	RCN
95%	Cond
\$376,700	Final Value

2005 Other Comm - 598	
C0	Class
129	Const. Units
\$49.21	Base Rate
\$63.48	Adj. Rate
4,347	TAA
\$275,948	Subtotal
\$39,206	Ext Feat
\$315,154	Base Cost
1.15	Index
\$362,427	RCN
95%	Cond
\$344,300	Final Value

Retail is valued \$32,400 **higher** than Other Comm. High Part.



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Retail vs Other Commercial High Partition: 2015 Manual

2015 Retail - 500	
C0	Class
129	Const. Units
\$68.10	Base Rate
\$87.85	Adj. Rate
4,347	TAA
\$381,884	Subtotal
\$43,798	Ext Feat
\$425,682	Base Cost
1.00	Index
\$425,682	RCN
95%	Cond
\$404,400	Final Value

2015 Other Comm - 598	
C0	Class
129	Const. Units
\$75.45	Base Rate
\$97.33	Adj. Rate
4,347	TAA
\$423,094	Subtotal
\$48,982	Ext Feat
\$472,076	Base Cost
1.00	Index
\$472,076	RCN
95%	Cond
\$448,500	Final Value

Retail is valued \$44,100 lower than Other Comm. High Part.



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Conclusion

- The retail market is constantly changing
- Proper coding and improvement classification will have a dramatic effect on the accuracy of our appraisals
- Proper depreciation will become increasingly important as we transition to the 2015 Manual

Today's presentation, along with others may be found at:

<http://revenue.alabama.gov/advalorem/sections/Presentations.cfm>