

Proposed Arco

Los Angeles, California

Evaluation Report



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**C - STORE VALUATIONS
EVALUATION REPORT**

DATE OF REPORT:	May 15, 2007		
TO:	Sample Client		
FROM:	C-Store Valuations		
RE:	Proposed Arco		
Borrower Contact:	Confidential		
Client File #:	123		
Purpose/Function:	Provide an estimate of value for client purposes.		
Property Address:	123 Main Street Los Angeles, California 90210		
Property Type:	Convenience Store/Gas Station JL1		
Property Rights:	Fee Simple		
Evaluation Premise:	As Is		
Date of Value:	May 15, 2007		
Site Size:	22,342 sq. ft.		
Store Size:	2,750 sq. ft.		
Car Wash:	NO		
Part 1: Estimated Market Value:	As Is	As Proposed	As Stabilized
Tangible Assets, Real Property	\$2,510,000.00	N/A	N/A
Tangible Assets, Non-Realty	\$50,000.00	N/A	N/A
Intangible Assets	<u>\$83,000.00</u>	N/A	N/A
Total Going Concern Value	\$2,643,000.00	N/A	N/A
Excess Marketable Land	<u>\$0.00</u>	N/A	N/A
Total Fee Simple Value	\$2,643,000.00	N/A	N/A
Value Under Current Operations	117%		
Leased Fee Value:	N/A		
Part 2: Value Under Current Operations			
Gross Profit Index:	0.74		

Convenience Industry Volatility Issues: Significant factors, other than contingencies, which may affect the future value of the property or the stabilized cash flow are: Increased competition from hypermarkets in the U.S. gasoline market is eroding market share for the convenience industry. Nationally, operating margins and pre-tax profits are declining for the convenience industry.

Convenience Industry Risk:

The convenience industry is one channel of the retail industry within the U.S. This section reflects the overall performance of the convenience channel as compared to U.S. economy as a whole.

HIGH - Above average risk for reduced sales and profit margins as compared to the overall performance of the U.S. economy.

MODERATE - Average risk for future earnings and profits as compared to the overall performance of the U.S. economy

LOW - Below average risk for future sales and profits as compared to the overall U.S. economy.

Other Issues: This is a petroleum marketing property that has historically been used for the retail sale of motor fuels. Petroleum products are environmental contaminants. No environmental investigation has been made by the appraiser. It is assumed for the purposes of this estimate of value that the subject property is clean and free from all contamination. The client is strongly advised to evaluate the environmental condition of the subject property through the State Department of Environmental Quality or through the services of a qualified environmental inspection service. Any actual presence of environmental issues will have a significant negative effect on the market value of this property.

Sub-Market Risk:

Retail gasoline locations within 2 miles of a hypermarket can be expected to experience severe competition. These locations pose significant and unacceptable levels of investment and lender risk.

HIGH - Hypermarkets present within 2 miles. And/or over-supplied Trade Area. (Location Quotients calculated at less than 0.75).

MODERATE - No hypermarkets within 2 miles. Trade Area in supply and demand equilibrium (Location Quotient calculated at 0.75 to 1.0).

LOW - No hypermarkets within 2 miles. Trade Area is under-supplied (Location Quotient calculated at greater than 1.0).

Nearest Competing Hypermarket: No hypermarkets. Trade area slightly under-supplied (location quotient greater than 1.0).

HYPERMARKETS ARE THE NUMBER ONE INDUSTRY PROBLEM ACCORDING TO THE NATIONAL ASSOCIATION OF CONVENIENCE STORES. IN SUB-MARKETS WHERE HYPERMARKETS EXIST, RETAIL FUEL MARGINS ARE OFTEN DRIVEN BELOW 5 CENTS PER GALLON.

Repairs, Required Inspections, Environmental Issues and Recommendations

Recommendations

1. This is a proposed construction of a new store that will be branded as ARCO ampm.
2. The feasibility of this project should be estimated by the client by subtracting the purchase price and the construction costs from the "as-built" value of \$2,930,000 .00.
3. We have not made our value projection based on the ARCO franchise and operating agreement. We have not reviewed any ARCO franchise/operating agreement. The ARCO operating agreement will likely produce gallonage that is higher than our estimates here while at the same time producing lower margin cents per gallon. ARCO sites typically attain 3,000,000 gallons in sales per year. However, the retail margins are often 10 cents per gallon lower than competitor's margins. OPIS reports that in 2006, ARCO retail margins in the Los Angeles area were less than 1 cent per gallon. This is not enough for the retailer to cover credit card fees and results in a financial loss for gasoline sales. This makes a successful in-store program more important.
4. According to ESRI, the population within the 1-mile ring around the store is 68% Latino. The merchandizing program for this store should take this into consideration.
5. The subject trade area is under-supplied with convenience stores. However, the population segment around the store is less likely to shop at a convenience than the U.S. population in general because of lower median household incomes. OPIS rates this county as one of the most favorable in the nation to own or operate a retail fuel business.

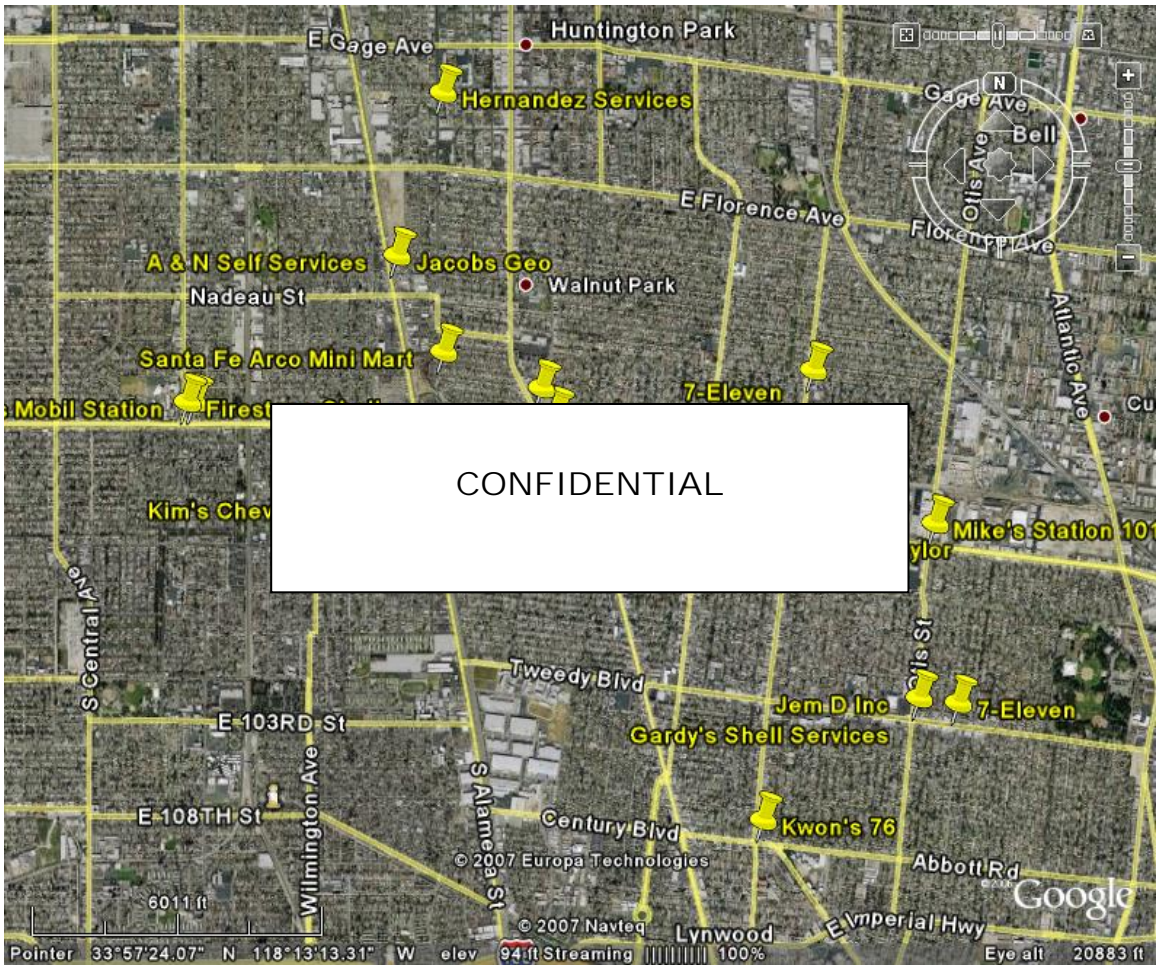
Technical Summary:	
Insurable Replacement Cost	\$2,509,875
Exposure Time	3 to 12 mo
Marketing Time	3 to 12 mo
Remaining Economic Life	50 yrs
NOI to Real Estate and Debt Service Analysis:	
Estimated Value of Real Estate	\$2,510,000
EBIDTA	\$275,928
Less: Return to Tangible Assets, Non-Realty	\$16,676
Less: Real Estate Operating Expenses (Property Taxes, Maintenance.etc)	\$54,433
Less: Return to Intangible Assets (Accounting and Economic Profit)	\$41,520
Add: Other Income to Real Estate	\$0
Equals: NOI to Real Estate	\$163,299
Targeted Debt Coverage Ratios	
Low	1.15
High	1.37
Dollars Available for Debt Service (Low)	\$119,196
Dollars Available for Debt Service (High)	\$141,999
Mortgage Constant	0.093
Total Possible Mortgage, Real Estate Only (Low)	\$1,281,679
Total Possible Mortgage, Real Estate Only (High)	\$1,526,870
Calculated Loan-to-Value Ratios	
Low	51%
High	61%

Photograph

Proposed Arco, Los Angeles, California
Taken on May 15, 2007



LOCATION MAP SHOWING COMPETITORS
Los Angeles, California



SUB-MARKET AND TRADE AREA

COUNTY: FAVORABLE

Because of growing population and high site volumes, OPIS rates Los Angeles County as one of the most favorable in the U.S. in which to own or operate a retail fuel business.

SUPPLY AND DEMAND AT I-MILE RING: FAVORABLE

The 1-mile ring is under-supplied with convenience stores. This is favorable for the subject. Our location quotient calculations show 68% more people than the average population-to-store.

Claritas and ESRI show a trade area gap for convenience stores with gasoline within the 2-mile ring. This means that there are not sufficient convenience stores to satisfy the existing demand.

MEDIAN HOUSEHOLD INCOME: UNFAVORABLE

Median household income within the 1-mile ring is \$34,879.00 while the U.S. average is \$46,326.00.

RETAIL SPENDING INDEX: UNFAVORABLE

ESRI rates the retail purchasing index at 62% for the 1-mile ring. This means that residents within trade are only 68% as likely to make retail purchases as the average U.S. population.

EVALUATION

Nationally, convenience stores with fuel are selling for \$1,441,000.00, or \$544.00 per square foot of store building area.

In California, convenience stores with fuel are selling for \$1,348,695.00, or \$629.00 per square foot of store building area.

Eight sales of properties located near the subject are summarized below.

PEER GROUP TRANSACTION SUMMARY

SERVICE STATION SALES				
ADDRESS	CITY	SALE PRICE	PRICE PER FOOT	DATE
5200 Whittier Blvd	Los Angeles	\$1,950,000	\$1,150.00	2006
9854 Long Beach	South Gate	\$1,950,000	\$1,159.00	2005
15750 Leffingwell Rd	Whittier	\$1,520,000	\$953.00	2006
13411 Imperial Highway	Whittier	\$1,550,000	\$621.00	2005
3475 Firestone Blvd	South Gate	\$650,000	\$632.00	2001
14240 Firestone Blvd	La Mirada	\$2,070,000		2005
10717 Carmenita Rd	Santa Fe Springs	\$4,000,000	\$617.00	2006
300 S Atlantic Blvd	Los Angeles	\$1,450,000	\$877.00	2005
	MEDIAN	\$1,750,000	\$877	
	AVERAGE	\$1,892,500	\$858	
	LOW	\$650,000	\$617	
	HIGH	\$4,000,000	\$1,159	

We have estimated the value the new store property at **\$2,510,000.00**, or \$913.00 per foot under typical ownership and operations.

Nearly identical results are obtained using ARCO's performance benchmarks of 3,200,000 gallons per year at a retail margin of 1 cent per gallon and in-store sales of \$530.00. Under these conditions, the estimated value is \$2,960,000.00.

No value discount or premium is associated with the ARCO branding agreement under the conditions noted above. If the operating agreement causes gallonage to be lower or the in-store sales fall below \$530.00 per foot, then the ARCO agreement will be a disadvantage to the operator.

ARCO BRANDING AGREEMENT

Our operating and value projections are based on the performance of a typical convenience using standard industry benchmarks and adjusting to local trade area conditions.

ARCO typically requires its retailers to sell fuel at prices far below the competitive average. This reduces the margin cents per gallon for the ARCO retailer. Because of this, fuel volumes at ARCO stores are typically higher. ARCO stores will often sell in excess of 3 million gallons of fuel per year, while the national average is about 1,200,000 gallons per year.

The following information from OPIS shows that in the Los Angeles area, ARCO stores made less than one cent per gallon margin in 2006. This is well below the Los Angeles area average of 10 cents per gallon. Even if the ARCO store did three times the volume of a typical store, the gross profit on fuel would still be lower than average competitive store. At this profit level the ARCO retailer will not cover the cost of credit card fees. And will actually lose money on fuel sales. It is important therefore to turn the higher fuel customer count into in-store customers by having an effective merchandizing program.

The existing store sold \$526.42 per square foot in in-store sales in 2006. This is higher than the national average of about \$400.00. This indicates that the subject experienced about 32% more in-store customers than the average convenience store.

Report End Notes

Sources consulted in preparing this report:

1. *State of the Industry Report*, National Association of Convenience Stores, published annually
2. *Retail Fuel Watch*, Oil Pricing and Information Service, published annually.
3. ESRI® Business Analyst
4. Claritas Retail Market Report
5. CoStar
6. PetroMARK® Valuation Software

