PETROVAL

Market Value Appraisal of a
Retail Petroleum Outlet With Convenience Store And Equipment
Located at
11011 Jefferson Avenue
City of Newport News, Virginia

SUBJECT PROPERTY PHOTOGRAPH TAKEN ON MARCH 29, 2018.
(Additional photographs of the subject property are included in the Physical Description.)

Prepared for

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112 Corporate Drive
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Date of the Report: April 5, 2018

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ADDENDA

ASSUMPTIONS AND LIMITING CONDITIONS

The analysis and the attached report are made subject to the following conditions and assumptions:

1. Any legal description or plats reported herein are assumed to be accurate. Any sketches, plats, or drawings included herein are included to assist the reader in visualizing the property. The appraisers have made no survey of the property and assume no responsibility in connection with such matters.

2. No responsibility is assumed for matters legal in nature. Title is assumed to be good and marketable and in fee simple unless discussed otherwise in the report. The property is considered to be free and clear of existing liens, assessments, and encumbrances, except as noted.

3. It is assumed that all water and sewer facilities (existing and proposed) are or will be in good working order and are or will be of sufficient size to adequately serve any proposed buildings.

4. The physical condition of the improvements described herein is based on observations only. No liability is assumed for the soundness of structural members since no engineering tests were conducted. No liability is assumed for the condition of mechanical equipment, plumbing, or electrical components, as tests were not made.

5. It is assumed that any proposed or incomplete improvements included in this report will be satisfactorily completed within a reasonable length of time, according to plans and specifications submitted, and in a workmanlike manner.

6. Unless otherwise noted herein, it is assumed that there are no encroachments or violations of any zoning or other regulations affecting the subject property and that the utilization of the land and improvements is within the boundaries or property lines of the property described.

7. This report and valuation rendered assumes the property to be under financially sound, competent and aggressive ownership and management.

8. The value opinions reported herein apply to the entire property and any pro-ration or division of the total into fractional interests will invalidate the value opinion, unless such pro-ration or division of interests is set forth in the report.

9. Any projections of income and expenses, including the reversion at time of resale, are not predictions of the future. Rather, these represent the best estimate of current market thinking of what future trends will be. No warranty or representation is made that these projections will materialize. The real estate market is constantly fluctuating and changing. It is not the task of an appraiser to estimate the conditions of a future real estate market, but rather to reflect what the investment community envisions for the future in terms of expectations of growth in rental rates, expenses and supply and demand.

10. Unless subsoil opinions based upon engineering core borings were furnished, it is assumed there are no subsoil defects present that would impair development of the land to its maximum permitted use, or would render it more or less valuable.

11. In any assignment involving improvements, the existence of potentially hazardous material used in the construction or maintenance of buildings, such as the presence of formaldehyde foam insulation, the existence of toxic waste, and/or the existence of asbestos insulation which may be present on the property, has not been considered, unless otherwise noted. Appraisers are not qualified to detect such substances. The client is urged to retain an expert in this field.

12. **The appraisers made no soil tests, nor tests of underground water for possible contamination. The appraisers are not qualified to detect such substances, and therefore, the extent of hazardous waste remaining on the property, if any, is not known. In the absence of specific information to the contrary, the appraisers opined the value of the property as if "clean" and uncontaminated. The value opinion does not take into account any negative or positive factors caused by existing or forthcoming EPA or other regulations.**

13. Any division of the land and improvement values opined herein is applicable only under the program of utilization shown. These separate valuations are invalidated by any other application.

14. The appraisers are not required to give further consultation, testimony or be in attendance in court by reason of this analysis or report, with reference to the property in question, unless arrangements have been made previously.

15. The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in the report; further that all applicable zoning, building, and use regulations and restrictions of all types have been complied with unless otherwise stated in the report; further, it is assumed that all required licenses, consents, permits, or other legislative or administrative authority, local, state, federal and/or private entity or organization have been or can be obtained or renewed for any use considered in the value opinion.

16. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media, without the prior written consent and approval of the author; this limitation pertains to any valuation conclusions, the identity of the analyst or the firm, and any reference to the Appraisal Institute, or to the designations thereof.

17. Although the appraisers made, insofar as is practical, every effort to verify as factual and true all data set forth in this report, no responsibility is assumed for the accuracy of any information furnished to the appraisers either by the client or others. If for any reason, future investigations should prove any data to be in substantial variance with that presented in this report, the appraisers reserve the right to alter or change any or all conclusions and/or opinions of value.

18. If this appraisal provides an opinion of the market value of the going concern with an accompanying allocation of value for the different asset groups comprising the going concern, then the allocation to the individual asset groups explicitly assumes the subject property will continue to operate as a going concern. The going concern is comprised of real property, personal tangible property and possibly personal intangible property. Any individual allocation of the asset group's value represents an estimate of the contributory market value of the asset to the total going concern property. The value of these assets groups separated from the going concern may be radically different than their contributory value to the going concern. Conversely if any one of the asset groups is removed from the business enterprise, the remaining individual asset allocations of value may be rendered invalid. Furthermore, if the subject property discontinued operating, then the allocated value to real estate, as well as, the allocated value of the tangible personal property and intangible personal property may be much less than the reported value allocated to each component of the going concern. The appraisal industry has not set forth a generally agreed upon methodology for the allocation of market value between real estate and non-realty items. Differing allocation methods may result in widely varying allocations of value. Any user of the appraisal/review should be aware of and fully understand the above information.

19. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraisers have not made a specific compliance survey of this property to determine if it

conforms to the requirements of the ADA. A compliance survey of the property could possibly reveal that the property is not in compliance with one or more of the requirements of the Act. Noncompliance could have a negative effect upon the value of the property. Since the appraisers have no direct evidence relating to this issue, the appraisers did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

20. The subject property's owner and/or their representative provided all income and expense data relied upon within this report. This is un-audited data and is assumed to be representative of the actual financial position of the subject property. The appraisers reserve the right to change or alter the opinion of value if such information is later found to be different.

ACCEPTANCE OF, AND/OR USE OF, THIS APPRAISAL REPORT CONSTITUTES ACCEPTANCE OF THE ABOVE CONDITIONS.

EXTRAORDINARY ASSUMPTIONS AND HYPOTHETICAL CONDITIONS

An **Extraordinary Assumption** is defined as *"an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions."*

Comment: *Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis"* [1]

A **Hypothetical Condition** is defined as *"a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis."*

Comment: *Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis."* [2]

This appraisal was not developed subject to any extraordinary assumptions or hypothetical conditions.

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[1] *Uniform Standards of Professional Appraisal Practice*, 2018-2019 Edition, Appraisal Foundation, Washington, DC, p. 4

[2] *Uniform Standards of Professional Appraisal Practice*, 2018-2019 Edition, Appraisal Foundation, Washington, DC, p. 4.

APPRAISAL SUMMARY

Property Appraised:	Retail petroleum outlet with convenience store and equipment, located at 11011 Jefferson Avenue, City of Newport News, Virginia
Effective Date of Appraisal/Site Visit:	March 29, 2018/March 29, 2018
Real Estate Interest Appraised:	Fee Simple Estate
Property Data:	
Total land area	2.260 acres
Primary frontage	275 feet on Jefferson Avenue
Gross Building Area	5,856 square feet
Year Built	2008
Zoning	C-1, Retail Commercial District
Flood Hazard Zone	Zone X
FIRM	5101030137D December 9, 2014
Highest and Best Use:	
As if vacant	Destination retail or commercial use.
As improved	Continued operation as a retail petroleum outlet with a convenience store and equipment.

The ownership interest in the real estate component is fee simple since the facility is owner operated.

Please note that inventory is not included in the above value opinion. Inventory changes rapidly and is typically handled separately at closing.

SCOPE OF WORK

Discussion of Terminology

A going concern is defined by ***The Dictionary of Real Estate Appraisal,* Sixth Edition, The Appraisal Institute; 2015** as "An established and operating business having an indefinite future life."

The concept of a going concern asset by the appraisal industry has had several transitions over the years. The methods of partitioning that asset remain varied and controversial. In ***The Appraisal of Real Estate,* Fourteenth Edition,** it states on page 64,

> **"It may be difficult to separate the market value of the tangible assets (i.e., the land and the building) from the total market value of the business, but such a division of realty and non-realty assets maybe required by the intended use of the appraisal.... Only qualified practitioners should undertake these kinds of assignments, which must be performed in compliance with the appropriate professional standards."**

In this appraisal several terms are used interchangeably. The entity appraised is sometimes referred to as a going concern since real estate appraisers have traditionally used the term to describe an entity that is more than just real estate. The subject of appraisal is sometimes called "the business", "the going concern", "the property", "the asset", "the facility", or simply "the subject". All of these terms refer to the same thing: a business that requires the use of real property and tangible personal property (such as equipment) to achieve an intended purpose. If successful, the business may create additional value in the form of intangible personal property, such as goodwill or other property rights of value.

Users of this report are referred to the **Definitions** section of this report.

Identification of the Client, Intended Users and Intended Use of this Appraisal

The intended use (function) of the appraisal is to aid Xenith Bank, the client, in proper underwriting, loan classification and/or disposition of the asset. It should be noted that this report is intended to comply with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) as currently amended. This report also conforms to the Uniform Standards of Professional Appraisal Practice and all guidelines of Xenith Bank. Xenith Bank, its subsidiaries or assigns are the intended users.

Identification of the Property Appraised and Relevant Characteristics

The subject property is an existing retail petroleum outlet with convenience store and equipment marketing unbranded fuel. The subject includes an integrated deli and freestanding car wash.

The subject property is located mid-block on Jefferson Avenue, in the City of Newport News, Virginia. The street address is 11011 Jefferson Avenue, City of Newport News, Virginia. Even though the subject is located mid-block, the subject benefits from a traffic signal located at the northeast corner of the property where Dresden Drive ends at Jefferson Avenue. For the complete legal description please refer to the most recent granting deed in the addenda of this report.

Property Ownership History

The current owner of the property is AFAQ Co. L.L.C.. The owner appears to have control over the business and tangible assets.

AFAQ Co. L.L.C. acquired the real property via a Warranty Deed recorded in Deed Book/Page 08000/5854. This acquisition may have included all or some of the equipment currently in use as well as an intangible component of value. The grantor was Raceco Oil Co., L.L.C.. A total consideration of $1,000,000 was reported on the deed, which was dated March 19, 2008. A copy of this deed is reproduced in the addenda.

According to the owner, the property was not listed for sale as of the effective date of this appraisal. The property history was provided by conversations with the owner's representatives, city tax records and city deed records. A title search has not been performed and the appraisers make no warrant of the title history presented herein. Consequently, any person or entity contemplating an interest in the property should rely solely upon either a title search, or legal opinion.

Value to be Developed

In this appraisal, an opinion is formed of the Market Value As Is of the total assets of the business, also known as the going concern. (Definitions appear in a subsequent report section.) The facility is integral to an operating business (also called a going concern) and includes real and personal property. This appraisal provides for a reasonable separation of the components of value including real property, tangible personal property (usually equipment) and intangible personal property (if any). Please see the Definitions section.

The ownership interest appraised for real estate is the fee simple estate since the property is owner occupied.

The client has also requested an insurable replacement cost. The cost amount indicated is for information purposes only. The appraiser and the review appraiser do not accept or assume any responsibility or liability relating to the amount of insurance that is needed to replace the subject improvements as a result of a covered loss. The advice of a professional insurance agent, broker, or adjuster regarding this or other insurance oriented matters is strongly recommended to ascertain the amount of insurance coverage that would be appropriate.

Effective Date of the Appraisal Opinions and Conclusions

The effective date of the appraisal was March 29, 2018. The date of the last site visit was March 29, 2018.

The Appraisal Problem

As previously mentioned, the value sought initially is the Market Value As Is of the total assets of the business. The subject property is an existing retail petroleum outlet with convenience store and equipment marketing SkyMart. The subject includes an integrated deli and car wash. The car wash equipment was replaced in late 2016 with a brushless system, and a new vacuum system. It is noted 2017 did see a significant increase in car wash sales.

The subject suffers from external obsolescence due to a high level of "second tier" competition. There have been four new competitors in the last four years, including two new 7-Eleven stores, a WaWa (discounter), and a Costco hyper-marketer. All are within a three to six-minute drive time from the subject, with the exception of Costco, which is just under a ten-minute drive time.

The effects of these forms of obsolescence are not directly quantifiable, but may be reflected in part by an effective age of the improvements that is older than their actual age. The obsolescence may also be observed by the absence of an intangible component of the going concern.

Retail petroleum outlets associated with convenience stores, traditional service stations, travel plazas or truck stops typically have a significant investment in tangible property such as real estate and equipment. Based on the profitability of the business, there may or may not be an intangible component of value. Therefore, typical profit centers that contribute to value are carefully analyzed including fuel sales, inside sales, car wash sales, deli or prepared food sales and other income such as lottery commissions.

The valuation section of this report is divided into two parts: **Part I: Valuation of the Intangible personal property** incorporates the aspects associated with the income and sales comparison approaches. **Part II: Separating the Value of Real and Personal Property** adds the aspects of the typical cost approach to assist in the separation of the total assets of the business into the components of value: real estate, equipment, and intangibles. The cost approach does not provide an indication of value for the total assets of the business; merely the depreciated replacement costs of the real estate and equipment.

In the case of the subject, there does not appear to be sufficient profits to justify an intangible component of value and the total value is allocated between real estate and equipment.

Assignment Conditions and Scope

The *Uniform Standards of Professional Appraisal Practice* (USPAP) suggests that appraisers must define the scope of work when undertaking an appraisal assignment. Since the property appraised is potentially, if not actually, a business or going concern with a significant investment in real estate and equipment, all of the USPAP developmental standards for real property (Standard 1), personal property (Standard 7), and business appraisal (Standard 9) are applicable. Additionally, USPAP states:

> *"The scope of work must include the research and analyses that are necessary to develop credible assignment results."*
>
> *Comment: The scope of work is acceptable when it meets or exceeds:*
>
> - *the expectations of parties who are regularly intended users for similar assignments; and*
> - *what an appraiser's peers' actions would be in performing the same or a similar assignment."*

Uniform Standards of Professional Appraisal Practice, 2018-2019 Edition, Appraisal Foundation, Washington, DC, page 15.

The scope of work to be performed may or may not include written and/or oral instructions from the client. In this case the client did provide written (see addenda) instructions.

The analysis provided in this report is an "appraisal assignment", whereby the appraisers are retained to act as a disinterested third party and to render an unbiased opinion.

The scope of this assignment includes:

- Preliminary analysis of the appraisal problem;
- A site visit of the subject property including a visual assessment of the real estate and visible equipment components – existing real estate improvements are measured or quantified;
- A tour of the micro-market and neighborhood surrounding the subject property with a visual assessment of those micro-market factors that influence the value of a retail petroleum facility including name brand/pricing strategy, exposure, traffic count, competition, and customer convenience
- Research of public information;
- Analysis of the highest and best use of the land and the improvements (if any);
- Valuation of the site as if vacant;
- Development of valuation analyses using cost, income and comparable sales data;
- Correlation into a final value opinion(s); and
- Separation of the components of the final value as necessary among: real property, personal property, and intangible value if any.

The appraisers researched the market to obtain all data necessary to the appraisal. This research included contact with other appraisers, brokers, developers, lenders, title companies, national cost services, and a thorough study of government records, particularly in the Assessor's and Recorder's offices. The appraisers verified sales and lease data with parties directly involved with the transaction where possible, and verified all other data by the best means available. The appraisers utilized the information considered most applicable to the particular appraisal assignment. Nothing pertinent is withheld that could affect the opinion of value.

Requested Documentation

The following information/documentation is typically requested from the property contact and/or the client:

1. Three full years of profit and loss statements plus any year to date income data. P&L requested to have separate line items for annual fuel sales, inside sales, and other profit centers, as well as the cost of goods sold or gross profit margins for each profit center separately.
2. Current legal description and/or survey, site plan, and/or as-built plans -if available.
3. Fixed Assets Statement or equipment list, and/or tank certification.
4. The most recent property tax bill (if available).
5. Fuel Supply Agreement
6. If the subject is under contract or was purchased within the last three years, a current sale or purchase contract and/or closing statement. Also, details on any listings, other sales, or purchase offers on the subject within the last three years.
7. Any leases including ground leases, operator/dealer leases, rental bay leases, deli leases, and/or any other leases. If the property is dealer leased, any co-marketing, consignment, or supply agreements so we do not miss any items of value. Also, three years of operating and expense history for the leased property.
8. If proposed construction or remodeling and/or upgrading, plans and specs, equipment list, construction cost estimates, sales and profit projections, and land contract or closing statement.
9. If the facility is currently closed, sales projections and start up cost projections.

The owner was contacted by telephone and provided financial data for years 2015 through 2017. January 2018 fuel volumes and January and February profit and loss statements were also provided. Tax returns were not provided due to consolidation of the returns.

This appraisal was not developed with any extraordinary assumptions or hypothetical conditions.

Finally the results of this appraisal are reported in an Appraisal Report format designed as compliant with USPAP Standards Rule 2-2.

Exposure Time

The key factor in exposure time is that it is presumed to have occurred prior to the valuation date. An analysis of a large number of market transactions indicates that the typical exposure time for properties such as the subject property is six months to one year. A marketing time estimate (prospective) is no longer required per amendments to FIRREA in 1994 (CFR 34.44, page 29500 Federal Register).

Marketing Time – Non-Institutional Grade Sales

PetroVal performed a survey of the sales of combination convenience store and retail petroleum facilities nationally. The survey was from the database of CoStar. These sales occurred between July 6, 2017 and February 17, 2018. Nationwide, there were over 430 sales with some data listed, but only 188 sales that had marketing time of more than 40 days and less than 750 days or did not have some extraordinary circumstances about the sale. Sales excluded involved issues such as contamination, REO sales, distressed sales, auction sales, or part of a redevelopment project. The Market Time ranged from a low of 41 days on the market (DOM) to a high of 747 days. The average DOM of the 188 sales was 254 days, or 8.5 months. These numbers are slightly shorter in duration compared to data from the six-months prior. The days on the market data, as reported in the survey, were from the date of listing to the date of closing. The national average Marketing Time is estimated to be approximately eight to nine months.

Narrowing the survey to the southern region, sales were found in nine states, Florida, Georgia, Alabama, Kentucky, Louisiana, North Carolina, South Carolina, Tennessee, West Virginia, and Virginia. There were 70 sales with a range Market Times from 41 to 747 days. The average of those sales was 235 days, or 7.8 months. The average Marketing Time for the southern region is estimated to be approximately eight months.

DEFINITIONS

Purpose

Retail petroleum outlets (gasoline convenience stores, service stations, travel plazas and other petroleum related facilities) are typically businesses that are heavily invested in real estate and equipment. Appraisals of these facilities must consider concepts, terminology, and definitions that go beyond the typical appraisal of tangible assets such as real estate and equipment. Although the tangible real property and/or equipment components of these facilities may be leased, the vitality of the retail business will have a direct bearing on the value of any leased fee or leasehold ownership position. Therefore it is critical that readers and users of this report understand the terminology used in this appraisal report and the definitions of the various terms used herein. It should be noted that not all valuation professionals are in agreement as to the meaning of the terminology and definitions used in this report. Indeed there are many gray areas with respect to the valuation of tangible real and personal property as well as intangible personal property.

The following definitions are taken from ***The Dictionary of Real Estate Appraisal*****, Sixth Edition,** The Appraisal Institute; 2015 unless otherwise indicated.

As Is Market Value

The estimate of the market value of real property in its current physical condition, use and zoning as of the appraisal date. (Interagency Appraisal and Evaluation Guidelines.) Note that the use of the "as is" phase is specific to appraisal regulations pursuant to FIRREA applying to appraisals prepared for regulated lenders in the United States. The concept of "as is" value is not included in the Standards of Valuation Practice of the Appraisal Institute, Uniform Standards of Appraisal Practice, or International Valuation Standards.

Direct Capitalization

A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only one year's income is used. Yield and value changes are implied, but not explicitly identified.

Equipment

The Appraisal Institute defined equipment in ***The Dictionary of Real Estate Appraisal*, Fifth Edition**, page 68, as follows:

Fixed assets other than real estate e.g., office equipment, automotive equipment; as distinguished from fixtures, which are assets that are physically or legally attached to the real estate.

Exposure Time

1. The time a property remains on the market.
2. The estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

   Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market."

   The Dictionary of Real Estate Appraisal, 6th Edition, page 83.

Fee Simple Estate

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

However, this is a real estate or real property term and apparently not applied to other types of property ownership.

Going Concern

An established and operating business having an indefinite future life.

Goodwill

1. Unidentifiable intangible assets.
2. The amount by which the acquisition price exceeds the fair value of identified assets.

3. That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. (International Glossary of Business Valuation Terms)

Income Capitalization Approach

Specific appraisal techniques applied to develop a value indication for a property based on its earning capability and calculated by the capitalization of property income.

Insurable Value

A type of value for insurance purposes.

Intangible Personal Property

Examples of intangible personal property include contracts, name, patents, copyrights, an assembled work force, cash, and other residual intangibles including goodwill.
The Appraisal of Real Estate, Fourteenth Edition, Appraisal Institute, Chicago, Illinois, 2013, p. 705.

Leased Fee Interest (Leased Fee Estate)

The ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary rights when the lease expires. [This appears to be a term used uniquely by the real estate industry.]

Leasehold Interest (Leasehold Estate)

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease.

Market Value

This definition is from the regulations published by federal regulatory agencies pursuant to Title XI of the *Financial Institutions Reform, Recovery, and Enforcement Act* (FIRREA) of 1989 as currently amended. It is cited in Advisory Opinion 22 of the Appraisal Standards Board of The Appraisal Foundation. The agencies include the FDIC, OTS, OCC, Federal Reserve System and National Credit Union Administration. This is the same definition presented in the current edition of USPAP.

Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. *Buyer and seller are typically motivated;*
2. *Both parties are well informed or well advised and acting in what they consider their own best interests;*
3. *A reasonable time is allowed for exposure in the open market;*
4. *Payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and*
5. *The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Marketing Time

"An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Appraisal Standards Board of The Appraisal Foundation and Statement on Appraisal Standards No. 6, "Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions" address the determination of reasonable exposure and marketing time.) See also exposure time."

An estimate of marketing time is no longer a USPAP requirement.

Personal Property

1. The interests, benefits, and rights inherent in the ownership of tangible objects that are considered by the public as being personal; also called *tangible personal property.*
2. Identifiable tangible objects that are considered by the general public as being "personal" – for example, furnishings, artwork, antiques, gems and jewelry,

collectibles, machinery and equipment; all tangible property that is not classified as real estate. (USPAP, 2018-2019 ed.)

Real Estate

1. An identified parcel or tract of land, including any improvements, if any. (USPSP, 2018-2019 ed.)

2. Land and all things that are a natural part of the land (e.g. trees, minerals) and things that have been attached to the land (e.g. buildings and site improvements) and all permanent building attachments (e.g. mechanical and electrical plant providing services to the building) that are both below and above ground.

Real Property

1. An interest or interests in real estate.

2. The interests, benefits, and rights inherent in the ownership of real estate.

Comment: In some jurisdictions, the terms real estate and real property have the same legal meaning. The separate definitions recognize the traditional distinction between the two concepts in appraisal theory. (USPAP, 2018-2019 ed.)

3. All rights, interests, and benefits related to the ownership of real estate (International Valuation Standards)

Remaining Economic Life

The estimated period over which existing improvements are expected to contribute economically to a property; an estimate of the number of years remaining in the economic life of a structure or structural components as of the effective date of the appraisal; used in the economic age-life method of estimating depreciation.

Sandwich Lease

"A lease in which an intermediate, or sandwich, leaseholder is the lessee of one party and the lessor of another. The owner of a sandwich lease is neither the fee owner nor the user of the property; he or she may be a leaseholder in a chain of leases, excluding the ultimate sub-lessee."

Tangible Personal Property

Examples of tangible personal property include fixtures furniture and equipment that are moveable as well as inventory.

The Appraisal of Real Estate, Fourteenth Edition, Appraisal Institute, Chicago, Illinois, 2013, p. 7.

Total Assets of the Business (TAB)

The market value of an established and operating business including the real property, personal property, financial assets, and the intangible assets of the business. [also referred to as the Market Value of the Total Assets of the Business (MVTAB)]

Value In Place

The Appraisal Institute defined insurable value in ***The Dictionary of Real Estate Appraisal*, Fourth Edition**, page 306, as follows:

The amount a prudent purchaser would pay for an item (e.g., equipment, fixtures) in place; determined by the use the item contributes to the whole.

Discussion

In this report, the intangible component of the "as is" market value of the going concern (if any) is called intangible personal property or simply - intangibles.

Distinctions Between Real Estate, Personal Property and Trade Fixtures

The following text is paraphrased from ***The Appraisal of Real Estate,* Thirteenth Edition**, published by the Appraisal Institute.

Real Estate Characteristics: Items that have been attached to the land or building in a rather permanent manner. Examples are land, buildings and fixtures (plumbing, lighting and air-conditioning).

Tangible Personal Property Characteristics: Moveable items of property that are not permanently affixed to, or part of, the real estate. Personal property is not endowed with the rights of real property ownership. Examples include furniture and furnishings not built into the structure such as refrigerators and freestanding shelves; items that under specific lease terms may be removed at the termination of the lease.

Trade Fixture Characteristics: Trade fixtures are not real estate endowed with the rights of real property ownership. They are personal property, regardless how they are affixed. Trade fixtures may be determined by legal agreements, such as leases or by custom. Examples of trade fixtures include restaurant booths, gasoline dispensers or pumps, storage tanks, air hoses, and piping.

Generally an item is considered tangible personal property if it can be removed without serious injury to the real estate or the item itself. Items that are specifically constructed for use in a particular building or installed to carry out the purpose for which the building was constructed are generally considered permanent parts of the building.

RETAIL PETROLEUM/CONVENIENCE STORE INDUSTRY OVERVIEW

General

This overview has relied heavily on the National Association of Convenience Stores (NACS) State of the Industry Report 2016 Data. This report assembles information from recent data, most of which is from the full 2016 year. NACS has partnered with Nielsen TDLinx to develop the count and classification of convenience stores and retail petroleum facilities.

According to the NACS State of the Industry Report 2016 Data, a convenience store is defined as ".a retail business with primary emphasis placed on providing the public a convenient location to quickly purchase from a wide array of consumable products (predominantly food or food and gasoline) and services." Six formats have been identified as representing trends in the convenience store industry. The six convenience store formats are:

Kiosk

Mini-Convenience Store

Limited Selection Convenience Store

Traditional Convenience Store

Expanded Convenience Store and

Hyper Convenience Store

Kiosk: This design typically contains less than 800 square feet and is intended to provide some additional revenue beyond gasoline sales. Gasoline is always the focus of this operation with the owner usually being an oil company or petroleum marketer. The store sells only the fast-moving items found in traditional convenience stores (tobacco, beverages, snacks, and confectionaries). Groceries items or foodservice are generally absent. Parking is normally confined to the dispensing islands.

Mini-Convenience Store: This format usually ranges from 800 to 1,200 square feet in size and is particularly popular with oil companies. The emphasis is on gasoline sales. However, inside sales are an important component of the revenue and margin picture. Grocery selection is usually thin foodservice does not include prepared sandwiches. Often mini-convenience stores are center island marketers with fuel dispensers on both sides of the mercantile building, and a large canopy covering the dispensers and the building. There are generally minimal parking areas other than at the dispensing islands.

Limited Selection Convenience Store: These stores range from 1,500 to 2,200 square feet and are becoming more numerous. Gasoline and inside sales are equally important components of profitability. They differ from "mini convenience stores" in a broader product mix and grocery offering. Striped parking and extended hours of operation are common.

Traditional Convenience Store: Most of the original stores fall into this category. They range from 2,400 to 2,800 square feet and offer a broad product mix and grocery offering. Most stores of this size have 6 to 12 striped parking spaces or some form of convenient pedestrian access. Hours are extended compared to average retailers, with a large percentage that are open 24 hours per day. Such operations are normally owned by chains, but oil companies have also built or acquired stores of this size.

Expanded Convenience Store: This format generally falls in the 2,800 to 3,600 square feet range. These stores can accommodate more shelving for additional grocery items or contain enough area to house a quick service restaurant (QSR) and seating. Parking is important with most having about 10 to 20 marked spaces. Hours of operation are extended. Such operations attract typical convenience store customers, but also more families, women, and senior citizens.

Hyper Convenience Store: These are typically large stores (>3,600 square feet) that offer an array of products and services arranged in departments. For example, such stores may offer variations such as a bakery, a sit-down restaurant area, or a pharmacy. Many of these locations do sell gasoline. The number of employees per shift can be large, particularly if a small restaurant is present. The number of parking spaces is substantial, especially since the amount of time the average customer spends in such an establishment can be significant.

NACS considers convenience stores to have five general characteristics. These are not fixed, but are considered applicable to most stores.

1. Building size is less than 5,000 square feet.

2. There is off-street parking and/or convenient pedestrian access; at least 10 parking spaces.

3. Hours of operation include seven days per week, and most likely 24 hours daily.

4. The product offering is at least 500 stock keeping units (SKUs).

5. Tobacco, beverages, snacks, candy and grocery items are the mainstay of the inventory.

Key Metrics

The general formula for success in the Convenience Industry is cheap gasoline, stable employment, and easy credit. These factors were in place in 2016. Greater employment opportunities produced more commuters. This increased the demand for fuel. Easier credit led to a second year of record automobile sales. Consumers filled up their new cars, and spent their newfound disposable income on items inside the stores.

2016 saw declining fuel prices and a favorable market. This resulted in the third year of outstanding motor fuel performance. Lowest fuel prices since 2004 spurred fuel volumes upward 2.6% over 2015 levels. The pricing was mostly stable in 2016. With less volatility, the fuel margins were not as strong. But with the higher fuel sales, the fuel volumes were up. This generated increased fuel gross profits by 1.6% over the 2015 levels.

Even though fuel sales and profits were up, Inside Sales were the best performing sector. Stores placed more emphasis on higher profit items and food service in 2016. Inside Sales were up $7.2 billion over 2015 and totaled $233 billion. Food Service accounted for 21.7% of all Inside Sales (another record level), an increase over the 20.8% level in 2015.

Inside Sales (merchandise and food service) and Other Income produced a 3.2% increase in gross profit from these sectors over 2015. Gross profits from Merchandise sales showed an increase of 3.5% over 2015. Gross profits from Food Service sales showed an increase of 7.0% and accounted for 35.2% of all inside gross profit dollars.

The decline in fuel prices put more disposable income in the hands of consumers. Consumer optimism was indicated by an increase of 2.7% in the Personal

Consumption Indicator. In addition to lower fuel prices, several factors are measured in this index. Consumer Confidence increased to its highest level in 15 years. The lowest Unemployment Rate, 4.6%, since before the Great Recession contributed. There was also an increase in Real GDP of 1.6%, mainly in the last half of the year.

The net store count (2015 total, plus new stores, less stores closed) rose by a modest 340 stores in 2016, to 154,535 stores during 2015. The net number of stores was down dramatically in 2016 from the 3,100 net increase in store count in 2015. The chain store sector had 57.3% of this increase. In past years, the single-store operators provided the larger share of net store count. The chain store segment had the most at 97,504 stores, and single-stores were 57,031 stores.

Industry pretax dollars declined from the 2015 level. Pretax dollars declined by $400 million, but were still over $10 billion for the year. This is the third straight year above that level. The industry saw an increase in direct store operating expenses, cutting into the increased total gross profits. These expenses grew by 6.1% over 2015. Some cost sectors were lower, but Wages and Benefits increased by 7.2%.

Total industry sales fell for the second consecutive year to $549.9 billion in 2016, from $574.8 billion in 2015. Motor fuel sales were clearly lower as fuel prices dropped. Overall fuel sales were $316.8 billion, down from $349.0 billion in 2015. Inside Sales increased to $233.0 billion compared to the $225.8 billion in 2015.

Several economic forces bear monitoring in 2017 that could influence the spending patterns of consumers and store profitability, both positively and negatively.

Easy Credit: The Consumer Price Index (CPI) increased throughout 2016. The CPI increased 1.3% for the year with the fastest increase in the fourth quarter. Inflation is expected to continue in the short term. Several economic forecasts point to a 0.3-point increase in 2017. The Federal Reserve raised the discount rate to banks in the last quarter of 2016 and has raised it one time thus far in 2017. Some economists are projecting one more increase before the end of 2017. Commercial lending was modest during most of 2016, but made a significant surge in December of 2016. Commercial lending has declined since. If these trends continue, the impact will be a reduction in consumer spending that can threaten industry profitability.

Jobs and Available Labor: NACS indicates that employment in the convenience store industry is generally perceived as a temporary or entry-level job. Employees consider it something to do until new opportunities arise or the economy improves. 2.1 million jobs were created in 2016 per the Bureau of Labor Statistics. That meant employers were competing for new employees. To complicate the competition for employees in the convenience store industry, there is pressure from other retail channels. Dollar stores and QSRs have initiated an aggressive short-term growth, recruiting from the same employee pool as the convenience store industry. This is resulting in increased wages and increases in benefits for health insurance and worker's compensation.

Cheap Gasoline: Except for temporary interruptions in the supply channels, fuel supply and pricing will remain steady for 2017. A steady pricing reduces the possibility of significant increases in fuel margins. Credit card fees, which have been lower over the past couple years, move with the pricing of fuel. Increases in fuel prices will create an increase in operating costs associated with credit card fees.

Operational Outlook: As noted, the emphasis of the industry has shifted from fuel sales to inside sales. Inside sales are dependent on getting consumers into the stores. The largest category of inside sales is tobacco products. Declining smoking rates and increased excise taxes are threatening increased sales levels. Additional pressure on the inside sales at convenience stores is coming from the increased emphasis on convenience sales at dollar stores and drug stores. QSRs are also "fighting back" with increased emphasis on convenience, which could impact the food service sector of the convenience store business. The last four months of 2016 saw direct store operating expenses related to wages and benefits increase more than the increase in gross profits. This is unsustainable and could have a more significant impact on the retailers in the lower quartile of the industry.

General Data

The average store size of all existing convenience store is 2,951 square feet compared to the 2,963 square feet in 2015.

The average new store in 2016 is much larger, with urban convenience stores containing approximately 4,672 square feet (3,320 SF Retail/1,352 SF Other) compared to 4,594 square feet for 2015. Rural new stores showed some downsizing from 2015 levels, with stores having 4,349 square feet compared to 4,938 square feet in 2015.

The larger size of new stores reflects the importance retailers are placing on creating destination uses within their stores. These include areas for coffee islands, food service areas with seating, and even incorporating kiosks for financial services, such as check cashing or other financial offerings.

The convenience store industry is a destination for food and refreshments. With falling revenues from fuels and tobacco products, food service sales are increasingly becoming the convenience store's most profitable category. Convenience store food service was a $65 billion industry in 2016, contributing 21.7% to all Inside Sales, an increase over the 20.8% level in 2015. Gross profits from Merchandise sales showed an increase of 3.5% over 2015. Gross profits from Food Service sales showed an increase of 7.0% and accounted for 35.2% of all inside gross profit dollars.

As of December 31, 2016, there were 154,535 convenience stores in the United States. This is a modest increase of 0.2% (340 stores) from the previous year. To illustrate the increased pressure from dollar and drug stores, those retailers added 3,000 new locations in 2016. Additionally, Wendy's and Taco Bell, considered legacy QSRs, have each announced their intent to add 2,000 new locations over the next five to six years.

The national average monthly fuel volume per store is 141,501 gallons. The average store has 10 fueling positions. The average customer purchases approximately 11 gallons per visit. That equates to approximately 423 fuel purchases per day, 365 days per year.

The convenience store industry is America's primary source for fuel. Over 80% of convenience stores sell motor fuels. Of the 154,535 stores, 72.1% are owner-operated (114,419) and 27.9% are leased. This is a 3.9% increase over the percentage of stores owned in 2015. Independent operators, defined as those with three or fewer stores, accounted for 63.1% of the total U.S. store count in 2016. Of these independent operators, 79.2% operated their stores, and 20.2% of their stores were leased. 89.0% of independent operators sold fuel, and 84.0% of these sold nationally branded fuel.

Convenience stores offer speed of service to time-starved consumers who want to get in and out of the store quickly. These shoppers recognize this channel of trade for its convenient locations, extended hours of operation, one-stop shopping, grab-and-go foodservice, variety of merchandise and fast transactions. Convenience stores have an unmatched speed of transaction. The average time it takes a customer to walk in, purchase an item and depart is between 3 to 4 minutes. Here's the breakdown: 35 seconds to walk from the car to the store, 71 seconds to select item(s), 42 seconds to wait in line to pay, 21 seconds to pay and 44 seconds to leave the store. (NACS Speed Metrics Research, 2002)

Convenience Store Growth

The following chart shows new c-store growth since 2007. The store count increased by just 340 stores in 2016. 36.9% of all stores are chain stores, unchanged from 2015.

The following tables illustrate the total number of stores (independent and chain), the key cost components of Urban and Rural stores, and average costs for remodeling existing locations.

	2012	2013	2014	2015	2016
INVESTMENT PER NEW STORE					
LAND	$922,980	$1,150,875	$1,355,179	$1,433,873	$1,506,344
BUILDING	$1,042,563	$1,201,286	$1,103,805	$1,374,842	$1,355,048
EQUIPMENT					
Foodservice	$197,801	$207,904	$265,904	$322,135	$333,583
Motor Fuels	$477,643	$488,114	$189,986	$670,520	$620,515
Merchandise	$329,958	$279,205	$543,190	$260,043	$276,609
Carwash	$395,468	$279,205	$324,843	$587,189	$545,411
Technology	$47,689	$61,895	$62,296	$58,210	$67,477
INVENTORY					
Beginning Motor Fuels Inventory (At Cost)	$56,760	$84,127	$80,129	$75,445	$67,358
Merchandise Inventory (At Cost)	$67,420	$81,679	$116,837	$87,357	$95,981
TOTAL	**$3,358,282**	**$3,834,290**	**$4,042,169**	**$4,869,614**	**$4,868,327**
NEW STORE SIZE					
Average Sales Area (sq ft)	2,694	2,694	3,070	3,271	3,320
Average Non-Sales Area (sq ft)	1,539	1,539	1,641	1,668	1,555
Average Total Area (sq ft)	4,233	4,233	4,711	4,594	4,672
Average Property Size (sq ft)	58,946	58,946	69,498	80,052	79,019

Source: CSX

All stores include Land, Building, and Equipment. Not all stores include a car wash. When considering the total costs, excluding Inventory and Car Wash, the average investment in an Urban store is $4,159,577, or $890,32 per square foot. This is the cost used in the following component analysis.

The average store includes 1.814 acres of land, or 79,019 square feet at a cost of $19.03 per square foot. This represents approximately 36.2% of the costs, without car washes and inventories.

The average urban convenience store building costs $1,355,048 for 4,672 square feet. Building costs are $290.04 per square foot. This represents 32.58% of the total costs, excluding car wash and inventory costs.

	2012	2013	2014	2015	2016
INVESTMENT PER NEW STORE					
LAND	$700,523	$924,082	$991,241	$941,636	$1,110,224
BUILDING	$763,476	$957,559	$1,432,993	$1,636,156	$1,563,327
EQUIPMENT					
Foodservice	$151,573	$169,873	$330,954	$248,377	$265,370
Motor Fuels	$361,743	$397,313	$184,318	$568,535	$611,428
Merchandise	$179,513	$238,004	$714,116	$324,341	$223,301
Carwash	$470,300	$543,498	$340,938	$433,936	$280,144
Technology	$40,606	$67,849	$76,614	$53,439	$68,579
INVENTORY					
Beginning Motor Fuels Inventory (At Cost)	$77,788	$75,651	$177,106	$57,842	$56,486
Merchandise Inventory (At Cost)	$72,332	$75,691	$102,980	$99,056	$89,322
TOTAL	**$2,817,854**	**$3,449,520**	**$4,351,261**	**$4,363,319**	**$4,268,179**
NEW STORE SIZE					
Average Sales Area (sq ft)	3,638	2,965	2,710	3,627	3,004
Average Non-Sales Area (sq ft)	2,084	1,612	1,425	1,521	1,415
Average Total Area (sq ft)	5,722	4,383	4,135	4,938	4,149
Average Property Size (sq ft)	65,145	72,128	74,753	71,525	60,708

Source: CSX

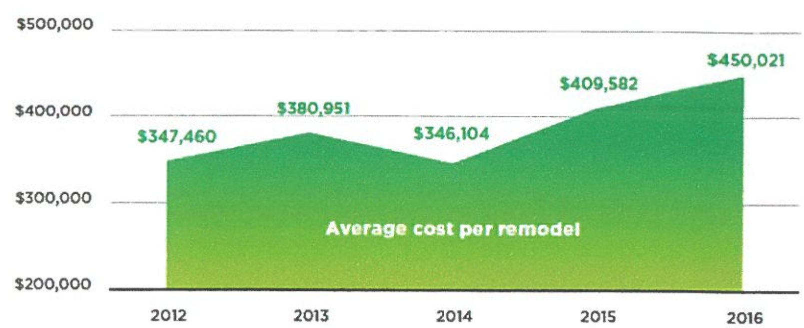
When considering the total costs excluding Inventory and Car Wash, the average investment in a Rural store is $3,842,227, or $926.06 per square foot. This is the cost used in the following component analysis.

The average store includes 1.3937 acres of land, or 60,708 square feet at a cost of $18.29 per square foot. This represents approximately 28.9% of the costs, without car washes and inventories.

The average urban convenience store building costs $1,563,327 for 4,149 square feet. Building costs are $376,80 per square foot. This represents 40.69% of the total costs, excluding car wash and inventory costs.

The average remodel cost for 2016 was $450,021, an increase from 2015 ($409,582). The average interval between remodels for 2016 was 12.2 years compared to 10.0 years for 2015. 19.2% of all stores were remodeled in 2016, and 29.4% of all stores have been remodeled in the last five years.

	2012	2013	2014	2015	2016	AVG
Interval Between Remodels (yrs)	13.3	11.2	13.0	10.0	12.2	11.9
Percent of Stores Remodeled	4.1%	13.8%	9.9%	12.0%	19.2%	11.8%
Percent of Stores Remodeled in Last 5 Yrs	27.0%	28.6%	28.2%	26.0%	29.4%	27.8%
AVERAGE COST PER REMODEL	$347,460	$380,951	$346,104	$409,582	$450,021	$386,824



Source: CSX

Same Firm Average Monthly Store Performance

The following chart summarizes the average monthly store performance for 2015 and 2016. The average gallons sold per month for 2016 were 149,257, an increase of 2.6% from 2015 with a pool margin of $0.2129 per gallon. Inside sales averaged $127,029 per month, an increase of 2.8% over 2015. Foodservice added another $35,149, an increase of 5.2% from 2015. All sales totaled $462,407 monthly, or $5,548,884 annually. This is a decline of 4.8% from 2015. The average store had 43,748 transactions monthly, which is an increase over 2015 of 1.3%.

Even though total sales were lower, the total gross profits were higher than 2015 levels. Total gross profits averaged $88,388 per month ($1,060,656 annually), or an increase of 3.4% over 2015. Gross profit represented 19.11% of total sales. The average monthly EBITDA was $23,158, per month, or $277,896 annually. This represents 26.2% of the total gross profits.

PER STORE, PER MONTH VALUES	2015	2016	% Change
Motor Fuels Gallons Sold	145,479	149,257	2.6%
Average Selling Price of Fuel	$2.39	$2.12	(11.5)%
Motor Fuels Sales ($)	$348,350	$316,157	(9.2)%
Merchandise Sales	$123,557	$127,029	2.8%
Foodservice Sales	$33,398	$35,149	5.2%
Subtotal Inside Sales	**$156,637**	**$161,907**	**3.4%**
TOTAL SALES	**$485,906**	**$462,407**	**(4.8)%**
Motor Fuels Gross Profit	$31,252	$31,778	1.7%
Merchandise Gross Profit	$34,052	$35,311	3.7%
Foodservice Gross Profit	$17,825	$19,071	7.0%
Subtotal Inside Gross Profit	**$51,707**	**$54,235**	**4.9%**
TOTAL GROSS PROFIT	**$85,514**	**$88,388**	**3.4%**
Direct Store Operating Expenses	$49,348	$52,337	6.1%
Facility Expense	$11,655	$12,850	10.3%
STORE OPERATING PROFIT	**$23,664**	**$23,753**	**0.4%**
Corporate G&A	$7,317	$7,723	5.6%
PRETAX INCOME (LOSS)	**$16,051**	**$15,667**	**(2.4)%**
EBITDA	**$22,790**	**$23,158**	**1.6%**
Motor Fuels Pool Margin (cpg)	21.48	21.29	(0.9)%
Card Fees (cpg)	5.00	4.76	(4.8)%
Pool Margin After Credit Card Cost (cpg)	16.50	16.55	0.3%
Breakeven Pool Margin (cpg)	9.80	10.24	4.5%
Return on Assets	11.19%	8.41%	(24.9)%
Return on Equity	26.21%	25.48%	(2.8)%
Return on Capital Employed	14.11%	13.17%	(6.6)%
Employee Turnover Percent	86.2%	86.3%	0.1%
Manager Turnover Percent	21.1%	24.2%	15.1%
Customer Transactions per Store	43,206	43,748	1.3%

Based on same-firm data submitted for both 2015 and 2016 by 149 firms with 14,373 stores.
All lines are averages of the number of stores of firms reporting that line.

Even though total gross profits increased in 2016 by 3.4%, the store operating profits only increased by 0.4%. The gross profits were whittled away by a significant increase in Direct Store Operating Expenses, mainly higher wages, payroll taxes, and supplies. Facility expenses included Depreciation and Amortization, Interest Expenses, Gross Occupancy Costs and Store Subrent Income.

Other Store Operating Income declined by 6.9% from 2015. These sources of income include Net Lottery Commissions, Gaming income, ATM Commissions, Check Cashing and Money Order Commissions, and other miscellaneous sources. Rebates or Allowances from Motor Fuel Imaging can also contribute to this category. However, these allowances are not always permanent.

Additional Profit Center

Not all retail petroleum facilities with convenience stores include car wash services. For those locations that do include a car wash, 2016 saw another year of excellent results. Sales grew in 2016 by 13.9% over 2015 levels. According to the International Carwash Association, 72.0% of drivers surveyed in 2014 indicated a preference to use a carwash instead of washing the car themselves. This trend has continued over the past ten years, showing an increase of 47.0% since 2006.

Petroleum Infrastructure

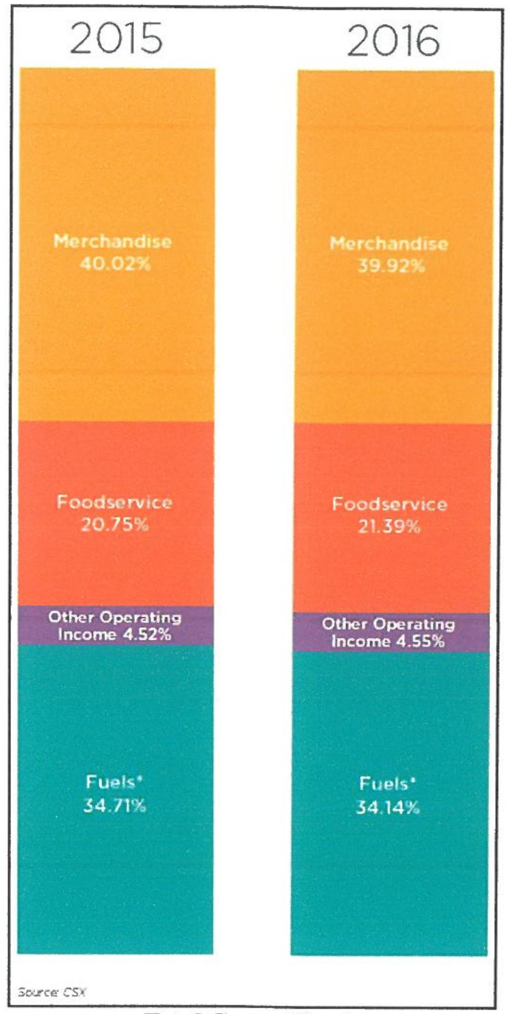
According to the 2016 NACS Retail Fuels Report, the U.S. petroleum distribution industry includes:

- 140 refineries
- Approximately 192,000 miles of oil and refined product pipelines (though some new lines are under construction)
- 38 Jones Act vessels (U.S. flag ships that move products between U.S. ports)
- 3,300 coastal, Great Lakes and river tank barges
- 400,000 rail tank cars (up significantly in recent years)
- 1,400 petroleum product terminals
- 100,000 tanker trucks

Gross Sales Compared To Gross Profit

The following charts show the breakdown of totals sales and total gross margin per profit center. Fuel represents 64.99% of the total sales, but only 34.14% of the total gross profit, while merchandise represents 27.47% of the total sales but 39.92% of the total gross profit.

Total Sales



Total Gross Margin

Fuel Sales

Oil Price Information Service publications indicate some optimism to boost sales from 2016, which saw improvement from prior years. Less regulation is expected to boost production and maintain good sales. Margins were strong in 2016, even though pricing was slightly lower. The lower pricing stimulated some higher demand. Pricing going forward in 2017 is expected to be higher. OPIS data indicates that the last two weeks of 2016 and the first two weeks of 2017 indicate gasoline consumption off 1.6% nationally. The western and southwestern regions saw some increases, but the other regions saw larger decreases in consumption.

OPIS calculations indicate that the total U.S. consumption was over $302 billion in 2016, a decline of $35 billion from 2015. As the result of lower prices, the average

American household spent $2,616 annually on gasoline purchases in 2016. This is about $324 less than in 2015 and the lowest level in over a decade. The lower pricing is reflected in the decline in the percentage of income the typical household spends on gasoline. The typical household spent 5.0% for gasoline in 2016 compared to 5.4% in 2015.

Americans depend upon the automobile to get to work. About 86% use a private vehicle (76.4% drive alone and 9.4% carpool) as their primary means of transport to work, compared to 5.2% who use public transit, 2.8% who walk and 4.4% who work at home.

While the major oil companies are withdrawing from retail operations, their brands remain. Approximately 31 percent have a major oil company brand and another 19 percent carry the brand of a refining company. Independent operators, defined as those with three or fewer stores, accounted for 63.1% of the total U.S. store count in 2016. Of these independent operators, 84.0% of these sold nationally branded fuel.

Convenience stores sell approximately 80% of the gasoline purchased in the U.S. The remainder of the motor fuel sold in the U.S. is through hyper-marketers, service stations without convenience store operations, and "kiosk" operations, which are typically small convenience operations with a very limited product selection and limited customer access.

A growing number of big-box retailers ("hyper-marketers") are now selling motor fuels to entice consumers with "one-stop shopping of gasoline and in-store items." These big box retailers sold over 13% of the motor fuels purchased in the United States. These sites sell approximately 285,000 gallons per month, considerably more than a traditional fuel retailer.

The top five hyper-marketers, by store count, in the fuels retailing area are Kroger, Walmart (including Murphy USA sites), Sam's Club, Costco, and Safeway. The remainder of fuel sales in the United States comes from traditional service stations without convenience operations, truck stops (which sell over 10 billion gallons of mostly diesel fuel annually) and very low-volume fueling sites, such as marinas.

Two in five gas customers (41%) go inside the store, whether to buy an item, pay for their gas at the register, or use the bathroom or ATM.

For every 100 gas customers, 29 go inside the store to buy another item. The percentage is roughly the same regardless of whether they are paying at the pump, or going inside the store to pay for their gas purchase.

The average fuel customer spends 4 minutes and 26 seconds on the fueling island. The majority (56%) spends their time looking at the pump while fueling.

Sales of premium and mid-grade have declined over the past decade because consumers traded down octane levels when prices increased. Regular grade gasoline accounted for about 90% of all gasoline gallons sold in 2015, a sharp increase from 78.2% in 2002.

Credit card fees are the second-largest expense at the store level, averaging approximately $0.05 per gallon sold for larger chains and closer to $0.06 per gallon sold for smaller chains and single-unit operators. Labor costs are the only operating expense line item that exceed credit card fees. Card usage as a payment method declined to 64.1% in 2016, a five-year low. Conversely, cash payments increased to 34.4% in 2016 from 33.9% in 2015.

Fuel Pricing

U.S. regular unleaded gasoline prices averaged $2.1226 per gallon in 2016. This is the lowest annual average since 2004. This is a drop of 27.73 cents per gallon (cpg) from the 2015 average.

The graph below charts and compares regular retail fuel prices for Virginia and the national average over the last 24 months. Note the recent price spike. This is due to a disruption of refining capacity after hurricane damage.

Decades ago, when the major oil companies owned and operated a significant percentage of the fueling locations, today less than 1% of all convenience stores selling fuels are owned by one of the major oil companies. About another 4% are owned by a refining company like Valero, Sunoco or Hess. Instead, the vast majority — about 95% of stores — are owned by independent companies, whether one-store operators or large regional chains.

There are four broad factors that can impact retail prices:

- Branded or unbranded fuels: Typically, stores that sell fuel under the brand name of a refiner pay a premium for that fuel, which covers marketing support and signage, as well as the proprietary fuels additive package.
- "Dealer tank wagon" or rack: Retailers who purchase fuels via dealer tank wagon have the fuel delivered directly to the station by the refiner. They may pay a higher price than those who get their fuels at "the rack" or terminal. However, rack prices typically experience more price volatility. In addition, whether a retailer contracts with a jobber to deliver the fuel to his stations or operates his own trucks will influence his overall cost.
- Length of contract: Even if they sell unbranded fuels, retailers may have long-term contracts with a specific refiner. The length of the contract — which can be 10 years, sometimes longer — and associated terms of that contract can affect the price that retailers pay for fuels.
- Volume: As in virtually every other business, retailers may get better deals based on the amount of fuel that they purchase, whether based on volume per store or total number of stores.

Even within a specific company, stores may not each have the same arrangements, since companies often sell multiple brands of fuels, especially if they have acquired sites with existing supply contracts.

No matter who owns the station, retail fuels prices are ultimately determined by four sets of costs: crude oil costs, taxes, refining costs, and distribution and marketing (which accounts for all costs after the fuel leaves the refinery).

Crude oil prices have, by far, the biggest effect over retail prices. Crude oil costs are responsible for about two-thirds of the cost of a gallon of gasoline. In 2011, crude oil costs were 67% of the retail price of gasoline. While there may be slight variations in the costs of refining or distributing and retailing fuels, crude oil prices can experience huge swings. (Taxes are largely per gallon, although some areas have sales taxes on fuels, and those taxes increase as the price increases. Refining and marketing margins have a much less significant impact on prices, and are often a function of wholesale prices.)

Fuels retailers face the same question that all retailers face: a) sell at a low profit per unit and make up for it on volume, or b) sell at a higher profit per unit and expect less volume?

But there also are many more complications in setting fuel prices that other retailers don't face.

- Wholesale price changes: Gasoline is a commodity, and its wholesale price can have wild swings. It's not unusual to see wholesale price swings of 10 cents or more in a given day. Competing retailers in an area may have very different wholesale prices based on when they purchased their fuel when there is extreme price volatility.
- Contracts: Retailers sign long-term contracts (10 years is the norm) and these contracts may dictate the amount and frequency of your shipments. When supplies are tight, retailers with long-term contracts may have lower wholesale costs than retailers who compete for a limited supply on the open market, but they may also face allocations on the amount of fuel they receive. How retailers buy fuel can play a significant role in pricing strategy.
- Brand: Branded retailers often pay a premium for fuel in exchange for marketing support, imaging and other benefits. Branded retailers typically have the least choice in how they obtain fuel, or at what price. But that is offset by the many benefits that a brand provides. Where retailers buy fuel ultimately affects pricing strategies.

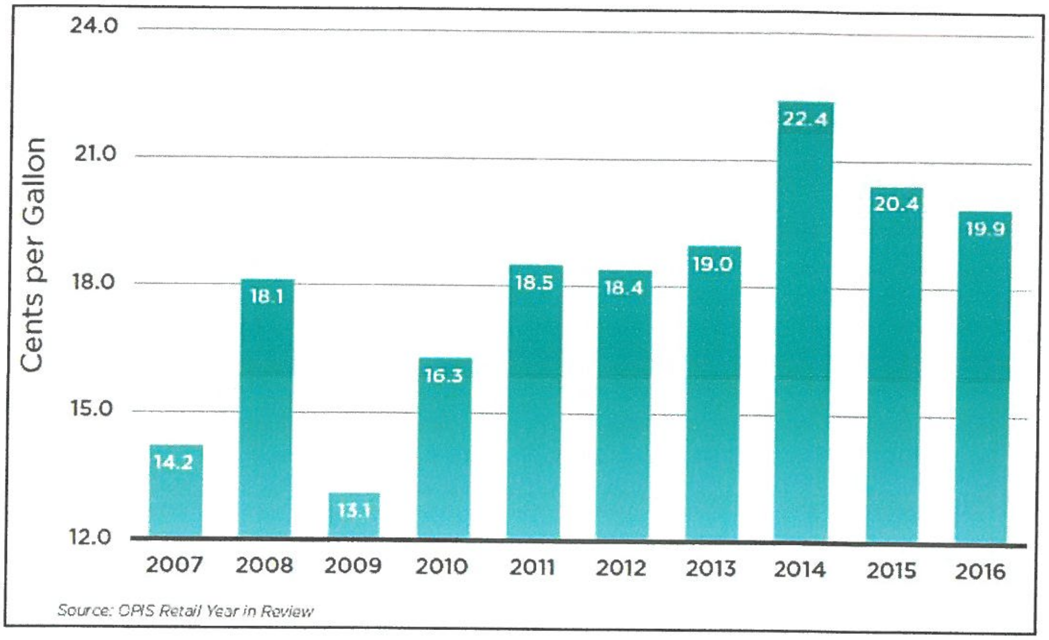
Each of these factors adds complexity to a retailer's pricing strategy. They can also create unusual market dynamics. There are times when the retailer with the highest posted price in an area might be making the least per gallon, based on when, how and where the fuel was purchased.

No matter what their pricing strategy, retailers tend to reduce their markup to remain competitive with nearby stores when prices go up. This can lead to a several-day lag from the time wholesale prices rise until retail prices rise. Likewise, when prices go down, retailers may be able to extend their markup and recover lost profits, with retail prices dropping slower than wholesale prices. In the end, the annual average retail mark-up (the difference between retail price and wholesale cost) has averaged 20.02 cents per gallon over the past five years. Ultimately, retailers set a price that best balances their need to cover their costs with the need to remain competitive and attract consumers, who are very price sensitive and will shop somewhere else for a difference of a few cents per gallon.

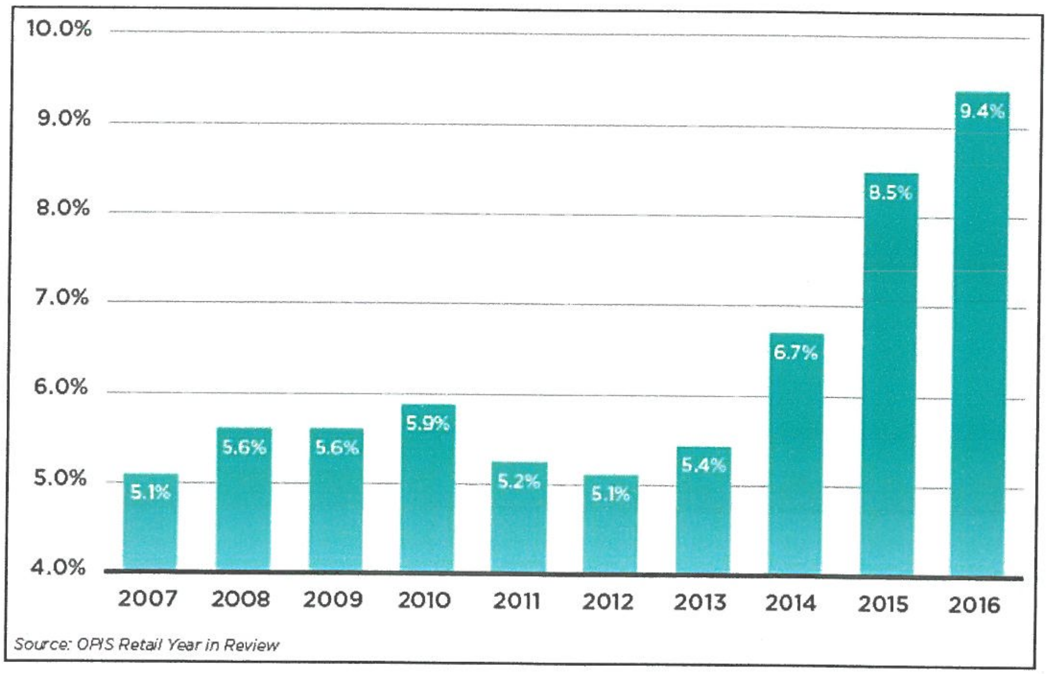
The pattern of retail profitability is the opposite of what most consumers think. Due to the volatility in the wholesale price of gasoline and the competitive structure of the market, fuels retailers typically see profitability decrease as prices rise, and increase when prices fall. On average, it costs a retailer about 13 cents to sell a gallon of gasoline. Using the five-year average markup of 20.02 cents, the typical retailer averages about 7 cents per gallon in profit. In 2012, the average national retail markup was 18.4 cents per gallon, delivering an average profitability of 5 to 6 cents per gallon. (Retailer costs, such as credit card fees, increase as the retail price increases.)

Over the course of a year, retail profits (or even losses) on fuels can vary wildly. In some cases, a few great weeks can make up for an otherwise dreadful year – or vice versa.

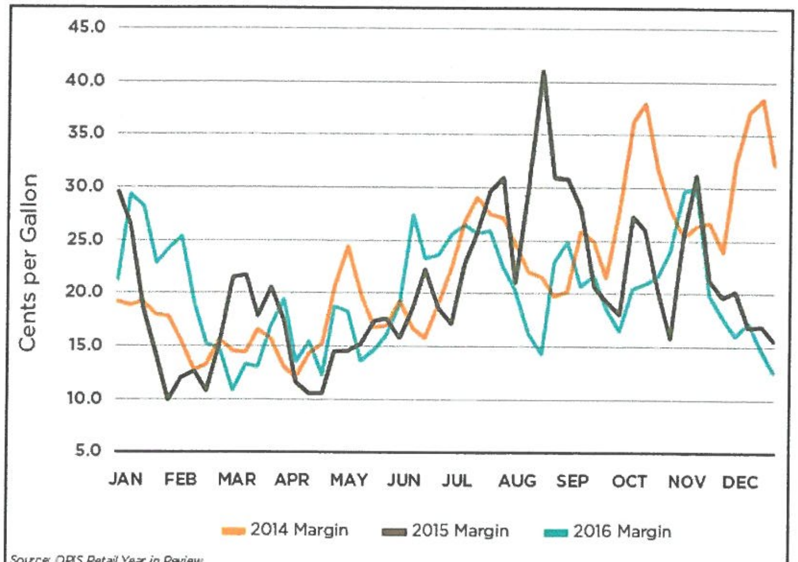
The following charts list average national pool margins (rack-to-retail) for fuel from 2007 through 2016. The chart was compiled from OPIS Retail Year in Review. The average pool margin for 2016 was $0.199 per gallon, down from $0.204 from 2015.



Pool margins as a percentage of revenue have increased dramatically over the past two years to 9.4% in 2016. This is the highest ratio since 1999, when the percentage was 11.1% of revenue. This is primarily due to the lowest wholesale price levels since 2004.

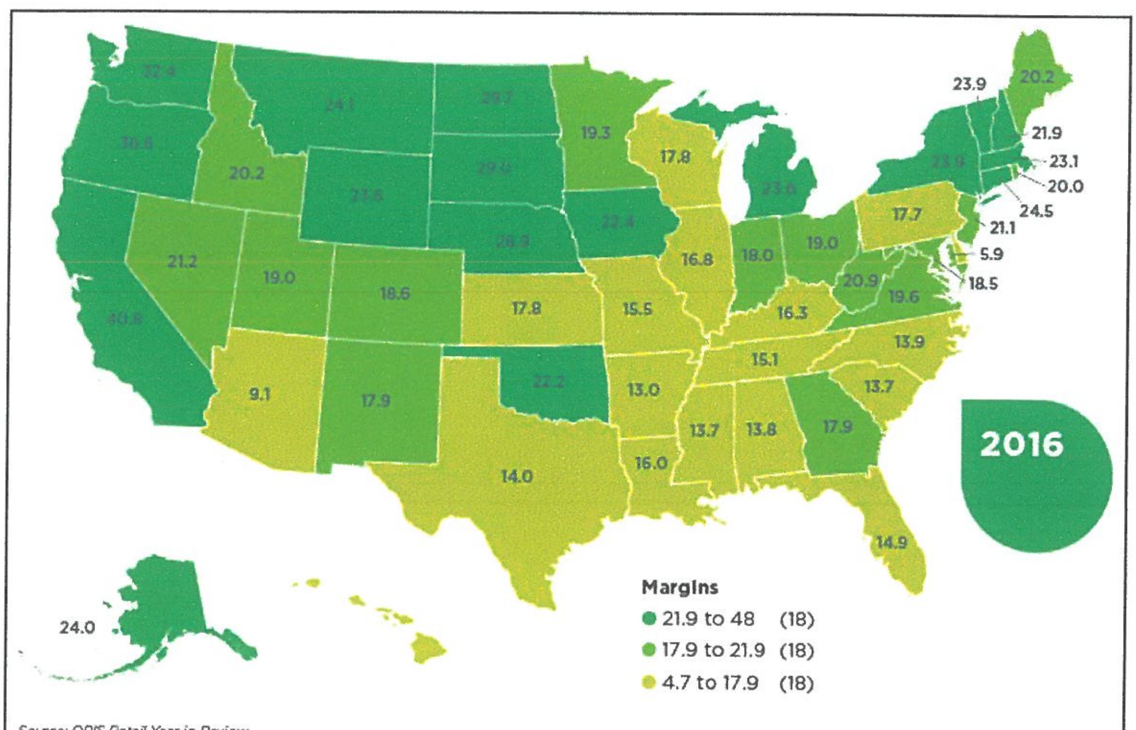


The following charts display weekly pool margins for the past three years, according to OPIS data. They show the weekly volatility of pool margins. Pool margins are constantly changing, but tend to even out over the course of a year. The table illustrates the wild swings between extreme highs and extreme lows. The pool margins in 2016 were more stable, with the first six months averaging 18.7 cents per gallon and the last six months averaging 21.0 cents per gallon.



Source: OPIS Retail Year in Review

The following chart shows the average pool margin per state for 2016.



Source: OPIS Retail Year in Review

Trends in Inside Sales

U.S. convenience stores again reached record in-store sales in 2016, with sales climbing 3.2% to $233.0 billion. The convenience store industry's in-store sales have seen rapid growth over the last decade, an increase of approximately $70 billion, as consumers seek out more food and beverages on the go. Although fuel sales represented 64.99% of all sales dollars generated in 2016, in-store sales generated 61.36% of the total gross profits. In-store sales in 2016 experienced continued growth in foodservice (up 5.2%), driven by largely by prepared food. Although cigarettes are still by far the largest source of in-stores sales dollars, this category is shrinking annually as more of the U.S. population quit smoking and fewer young adults take up the habit.

The following is based on NACS 2016 data:

Nearly 80 percent of in-store sales were from the top five categories:

1. Cigarettes (31.07%)
2. Foodservice (21.59%)
3. Packaged beverages (15.01%)
4. Beer (6.76%)
5. Other tobacco products (4.93%)

Just over 76 percent of gross margin dollars were from the top five categories:

1. Foodservice (34.96%)
2. Packaged beverages (18.52%)
3. Cigarettes (14.02%)
4. Candy (4.51%)
5. Other Tobacco Products (4.24%)

According to NACS, the average gross profit margin for inside sales was 27.80% for 2016, which is a slight increase from 27.56% for 2015. The average store generated $1,942,880 in total inside sales for 2016, a 2.81% increase from the 2015 average of $1,879,643 in total inside sales.

The follow chart shows the average sales for merchandise and foodservice and the percentage of in-store sales.

	% of In-Store Sales			Avg. Sales/Store*			% of Stores Selling	
	2015	2016	Chg (Pts)	2015	2016	% Chg	2015	2016
MERCHANDISE								
Cigarettes	31.78%	31.07%	(0.71)	$605,415	$606,533	0.18%	99.72%	99.81%
Other Tobacco Products	4.67%	4.93%	0.26	$90,482	$99,326	9.77%	99.77%	99.74%
Beer	6.61%	6.76%	0.15	$171,758	$179,559	4.54%	80.92%	78.86%
Wine	0.40%	0.45%	0.05	$13,114	$14,852	13.25%	68.88%	61.57%
Liquor	0.88%	0.93%	0.05	$41,669	$42,235	1.36%	30.61%	18.04%
Packaged Beverages	14.85%	15.01%	0.16	$282,676	$296,151	4.77%	99.69%	99.80%
Candy	3.18%	3.13%	(0.05)	$63,260	$64,911	2.61%	98.80%	99.8%
Salty Snacks	3.79%	3.80%	0.01	$80,811	$84,298	4.32%	99.81%	99.87%
Packaged Sweet Snacks	1.64%	1.61%	(0.03)	$32,034	$32,851	2.55%	99.59%	99.76%
Alternative Snacks	1.27%	1.27%	0.00	$26,170	$27,562	5.32%	99.48%	99.52%
Frozen Foods	0.12%	0.15%	0.03	$2,904	$3,841	32.27%	91.91%	94.25%
Ice Cream/Novelties	0.72%	0.71%	(0.01)	$16,351	$16,741	2.39%	99.30%	99.56%
Ice	0.57%	0.62%	0.05	$12,883	$14,337	11.29%	98.47%	89.61%
Edible Grocery	0.75%	1.00%	0.25	$16,728	$22,632	35.29%	99.36%	99.64%
Non-Edible Grocery	0.26%	0.21%	(0.05)	$5,299	$4,482	(15.42)%	99.01%	91.55%
Perishable Grocery	1.14%	1.02%	(0.12)	$19,725	$18,975	(3.80)%	88.28%	75.06%
Milk	1.97%	1.83%	(0.14)	$43,425	$42,306	(2.58)%	99.50%	99.66%
Dairy and Deli	0.81%	0.80%	(0.01)	$17,669	$18,397	4.12%	98.81%	98.07%
Bread	0.36%	0.36%	0.00	$7,282	$7,437	2.13%	98.07%	97.87%
Health and Beauty Care	0.84%	0.84%	0.00	$17,491	$18,114	3.56%	99.61%	99.74%
Automotive Products	0.48%	0.51%	0.03	$10,579	$11,589	9.55%	99.68%	99.14%
Publications	0.65%	0.59%	(0.06)	$13,825	$13,131	(5.02)%	98.40%	98.62%
General Merchandise	1.25%	1.47%	0.22	$27,938	$34,570	23.74%	99.23%	98.78%
Merchandise Sales	**78.36%**	**78.06%**	**(0.30)**	**$1,482,686**	**$1,524,345**	**2.81%**	-	-
FOODSERVICE								
Prepared Food	12.63%	13.23%	0.60	$371,842	$393,515	5.83%	82.91%	93.54%
Commissary	1.97%	1.76%	(0.21)	$42,901	$40,190	(6.32)%	94.91%	97.48%
Hot Dispensed Beverages	3.74%	3.74%	0.00	$73,963	$76,639	3.62%	98.60%	97.85%
Cold Dispensed Beverages	2.47%	2.48%	0.01	$50,525	$52,457	3.82%	97.39%	97.74%
Frozen Dispensed Beverages	1.02%	1.06%	0.04	$26,186	$23,414	(10.59)%	77.43%	95.95%
Foodservice Sales	**21.17%**	**21.59%**	**0.42**	**$400,780**	**$421,788**	**5.24%**	-	-
TOTAL IN-STORE SALES	-	-	-	**$1,879,643**	**$1,942,880**	**3.36%**	-	-

Source: CSX

The following paragraphs address current trends in top merchandise categories within U.S. convenience stores:

Tobacco: According to NACS, smokers as a percentage of the U.S. adult population have fallen from 1965. Today there are approximately 40 million adult smokers in the United States. Cigarettes taxes were a primary reason for the decline in recent years, though sales have been relatively unchanged in the past two years. Despite the decline, tobacco (comprised of cigarettes and other tobacco products) remains the largest convenience store category, contributing 36.0% of in-store sales in 2016 and 18.26% of in-store gross profit dollars. The profit margin for 2016 was 15.11% for cigarettes and 29.15% for other tobacco products, which despite generous rebates offered by tobacco companies, have dropped by almost one-quarter since 2002. On April 1, 2009 the Federal Government increased the excise tax on cigarettes from $0.39 to $1.01, more than doubling the federal portion of taxes. The national mean cigarette excise tax among all states has increased steadily and was $1.36 per pack as of January 1, 2015. Tobacco products tend to be a low profit, but high-volume category that brings consumers inside the food shop at convenience stores/gas stations. Because tobacco use is decreasing in the U.S., the negative side for store sales is that fewer people will come in to purchase tobacco products. On the other hand, those who do quit will have more disposable income to use on food purchases. Several states, caught in budget crunches, are also considering raising taxes on tobacco. Overall this will likely have a negative effect on inside sales for the foreseeable future.

Beer: Beer provides operators willing and able to sell this age-restricted product with significant gross sales, solid margins, and a strong inventory turnover performance. However, several states still forbid beer sales within c-stores. With the average store selling $179,559 annually, c-stores account for approximately 59% of all beer sold in retail channels. Beer gross profit dollars averaged $34,322 per store in 2016. This was a modest increase from the average of $33,110 in 2015.

Packaged Beverages: This category accounted for 15.01% of inside sales and 18.52% of gross profit within c-stores nationally in 2016. Packaged beverage sales totaled $296,151 per store in 2016 and continued to generate both high sales volumes and excellent margins. Second only to the grocery stores, c-stores are responsible for over 41% of packaged beverage sales in the U.S.

Foodservice: According to both NACS and Convenience Store News, foodservice is the number one gross profit contributor, constituting 34.96% of total gross profit nationally in 2016. Foodservice accounted for 21.59% of in-store sales in 2016 with an average gross profit margin of 54.26%. More stores are seeking to become restaurants that happen to sell gas. The convenience store industry is a destination for on-the-go meals. The average store achieved $421,788 in foodservice sales in 2016.

	% of Foodservice		Avg. Store Sales		GP Margin $		Gross Margin %	
	2015	2016	2015	2016	2015	2016	2015	2016
Prepared Food	65.8%	67.1%	$371,842	$393,515	$208,780	$221,852	56.15%	56.38%
Commissary	7.6%	6.9%	$42,901	$40,190	$14,913	$14,199	34.76%	35.33%
Hot Dispensed Beverages	13.1%	13.1%	$73,963	$76,639	$45,865	$46,956	62.01%	61.27%
Cold Dispensed Beverages	8.9%	8.9%	$50,525	$52,457	$25,607	$26,326	50.68%	50.19%
Frozen Dispensed Beverages	4.6%	4.0%	$26,186	$23,414	$16,133	$15,136	61.61%	64.64%
TOTAL	**100.0%**	**100.0%**	**$400,780**	**$421,788**	**$213,894**	**$228,850**	**53.37%**	**54.26%**

Source: CSX

The overall foodservice category is broad and includes mainly non-packaged consumables: food prepared on-site, commissary/packaged sandwiches, hot dispensed beverages, cold dispensed beverages, and frozen dispensed beverages.

Other Income: According to NACS, the national average of Other Income was approximately $4,026 per month or $48,312 annually in 2016. The primary sources of Other Income include net lottery commissions ($1,629 per month), ATM revenue ($792 per month), and games and amusement income ($641 per month).

The follow chart shows the gross margin percentage for merchandise and foodservice.

	Gross Margin %			AVG GM$/Store*			GM Contribution		
	2015	2016	Chg (Pts)	2015	2016	% Chg	2015	2016	Chg (Pts)
MERCHANDISE									
Cigarettes	14.76%	15.11%	0.35	$89,373	$91,644	2.54%	14.21%	14.02%	(0.19)
Other Tobacco Products	29.04%	29.15%	0.11	$26,274	$28,953	10.20%	4.06%	4.24%	0.18
Beer	19.28%	19.11%	(0.17)	$33,110	$34,322	3.66%	3.71%	3.71%	0.00
Wine	24.87%	24.60%	(0.27)	$3,261	$3,653	12.02%	0.28%	0.31%	0.03
Liquor	26.06%	26.01%	(0.05)	$10,860	$10,984	1.14%	0.67%	0.69%	0.02
Packaged Beverages	41.09%	41.45%	0.36	$116,151	$122,754	5.68%	18.44%	18.52%	0.08
Candy	48.45%	48.96%	0.51	$30,650	$31,779	3.68%	4.59%	4.51%	(0.08)
Salty Snacks	37.40%	37.66%	0.26	$30,225	$31,747	5.04%	4.11%	4.08%	(0.03)
Packaged Sweet Snacks	37.35%	39.10%	1.75	$11,964	$12,846	7.37%	1.75%	1.78%	0.03
Alternative Snacks	45.59%	46.35%	0.76	$11,932	$12,775	7.07%	1.58%	1.59%	0.01
Frozen Foods	34.82%	33.18%	(1.64)	$1,011	$1,274	26.01%	0.12%	0.13%	0.01
Ice Cream/Novelties	44.42%	44.49%	0.07	$7,264	$7,449	2.55%	0.90%	0.88%	(0.02)
Ice	69.57%	63.01%	(6.56)	$8,963	$9,035	0.80%	1.11%	1.08%	(0.03)
Edible Grocery	40.77%	38.63%	(2.14)	$6,819	$8,743	28.22%	0.87%	1.08%	0.21
Non-Edible Grocery	38.55%	38.11%	(0.44)	$2,042	$1,708	(16.36)%	0.27%	0.21%	(0.06)
Perishable Grocery	14.67%	19.52%	4.85	$2,894	$3,704	27.99%	0.49%	0.58%	0.09
Milk	29.93%	27.86%	(2.07)	$12,995	$11,787	(9.30)%	1.86%	1.48%	(0.38)
Dairy and Deli	39.23%	42.07%	2.84	$6,932	$7,740	11.66%	0.90%	0.94%	0.04
Bread	26.90%	28.96%	2.06	$1,959	$2,153	9.90%	0.29%	0.30%	0.01
Health and Beauty Care	51.26%	52.62%	1.36	$8,965	$9,532	6.32%	1.26%	1.27%	0.01
Automotive Products	46.94%	51.93%	4.99	$4,965	$6,019	21.23%	0.65%	0.74%	0.09
Publications	13.78%	14.23%	0.45	$1,904	$1,869	(1.84)%	0.26%	0.24%	(0.02)
General Merchandise	39.31%	37.18%	(2.13)	$10,981	$12,853	17.05%	1.39%	1.52%	0.13
Merchandise Margin	**27.56%**	**27.80%**	**0.24**	**$408,630**	**$423,733**	**3.70%**	**64.60%**	**64.15%**	**(0.45)**
FOODSERVICE									
Prepared Food	56.15%	56.38%	0.23	$208,780	$221,852	6.26%	21.78%	22.18%	0.40
Commissary	34.76%	35.33%	0.57	$14,913	$14,199	(4.79)%	2.00%	1.78%	(0.22)
Hot Dispensed Beverages	62.01%	61.27%	(0.74)	$45,865	$46,956	2.38%	6.93%	6.75%	(0.18)
Cold Dispensed Beverages	50.68%	50.19%	(0.49)	$25,607	$26,326	2.81%	3.69%	3.61%	(0.08)
Frozen Dispensed Beverages	61.61%	64.64%	3.03	$16,133	$15,136	(6.18)%	1.77%	1.92%	0.15
Total Foodservice	**53.37%**	**54.26%**	**0.89**	**$213,894**	**$228,850**	**6.99%**	**34.21%**	**34.96%**	**0.75**
TOTAL IN-STORE MARGIN	**33.01%**	**33.50%**	**0.49**	**$620,484**	**$650,818**	**4.89%**	-	-	-

Source: CSX

The average gross profit margin on merchandise sales was 27.80% for all U.S. c-stores in 2016, up slightly from 2015 of 27.56%. The average gross profit margin on foodservice was 54.26% in 2016, up slightly from the 2015 gross profit margin of 53.37%.

Additional Observations and Conclusions

During calendar year 2016 the U.S. convenience store industry continued a trend of consolidation and enjoyed near record pre-tax profits. U.S. stores generated $10.2 billion in total pre-tax profit versus $10.6 billion in 2015. This is the third consecutive year with over $10 billion in pre-tax profits.

Inside sales rose significantly in 2016 year-over-year to offset a slight decline in motor fuels sales dollars (fuel volumes were up from 2015, but retail fuel prices dropped). Continuing a trend from 2015, gains in foodservice during 2016 offset relatively flat demand for cigarettes due to rising taxes and fewer smokers. The net result was inside gross profit growth of 3.36% over 2015 levels.

Consumer confidence has increased, unemployment has declined, fuel prices are lower than a couple years ago, and consumer credit is easier to get. These factors bode well for the convenience store industry. However, a shock to any one of these factors might reverse the trend.

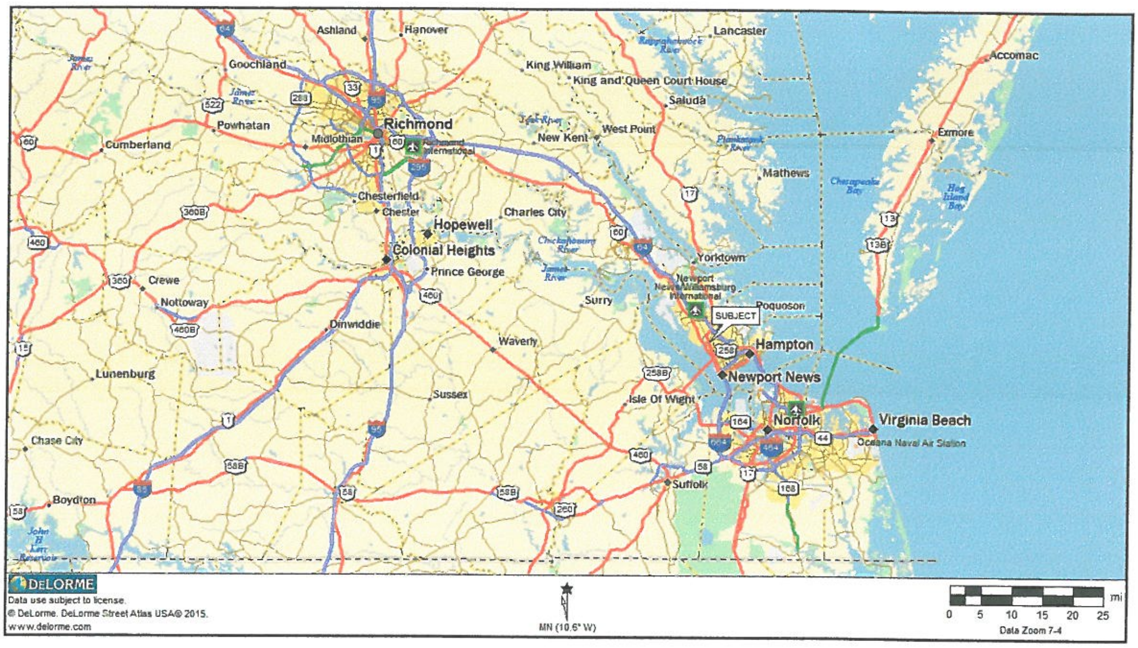
Despite the improving economy and resulting overall industry optimism, the convenience store industry still faces many challenges. The significant increase of other retail sectors such as hyper-marketers, drug stores, and fast food restaurants will put increased pressure on retailers to continue to provide fast and efficient service to their customers. The trend to expand foodservice offers significant profit margins, but the increased risk of food spoilage presents a higher risk of the erosion of profits, and the retailer must be vigilant in the daily operations of that profit center.

Encouraging signals continue from the overall U.S. economy, as job growth increases and unemployment rates decline. Consumer confidence is up and equity prices are higher, while interest rates remain relatively low. These are all positive factors for the convenience store industry, suggesting that competent and prudent operators should continue to see sales and profit increases at their stores in the intermediate future.

AREA DATA

The subject property is located in the southeastern section of the State of Virginia in the City of Newport News. The subject property is approximately 60 radial miles southeast of Richmond, the state capital and 15 radial miles north-northwest of Norfolk. The subject property is approximately five miles north-northwest of the central business district of the City of Newport News. The map below shows the subject property's relative location within the region.

Regional Map



Presented in the following paragraphs is a summary of the four major forces that affect real estate values in the region.

Environmental Trends

The property appraised is located in Mid-Atlantic region. The climate and geographic characteristics of the area are conducive to future growth in population, employment and business expansion.

Social and Demographic Trends

The table below reflects the demographic trends of the City.

Demographic and Income Profile City of Newport News	
Population	
2000 Total Population	180,150
2017 Total Population	188,299
2022 Total Population	192,506
Growth 2000 - 2017	4.52%
Growth 2017 - 2022	2.23%
Households	
2000 Households	69,686
2017 Households	72,586
2022 Households	73,961
Growth 2000 - 2017	4.16%
Growth 2017 - 2022	1.89%
Total Housing Units	
2000 Housing Units	74,117
2017 Housing Units	78,653
2022 Housing Units	80,286
Growth 2000 - 2017	6.12%
Growth 2017 - 2022	2.08%
2016 Average Household Size	2.48
2017 Households by Income	72,586
<$15,000	12.0%
$15,000 - $24,999	9.5%
$25,000 - $34,999	11.0%
$35,000 - $49,999	15.6%
$50,000 - $74,999	20.7%
$75,000 - $99,999	12.9%
$100,000 - $149,999	11.9%
$150,000 - $199,999	3.6%
$200,000+	2.8%
2017 Median Home Value	$203,746
Average Household Income	$65,115
Median Household Income	$51,469
Per Capita Income	$26,231

Source: STDB Online (Site To Do Business) 2017

Newport News has an estimated 2017 population of 188,299 persons. This represents an increase of 4.52% since 2000. The population is expected to increase by 2.23% over the next five years. It has an estimated median household income of $51,469, which is lower than the state average of $66,285.

Economic Trends

United States Bureau of Labor Statistics data indicates that the January 2018 unemployment rate was 4.58% for the City of Newport News, compared to 3.66% for the State of Virginia and 4.10% for the United States in aggregate (seasonally adjusted). The labor force in the city totaled 84,463 workers as of January 2018.

The chart below reflects the City of Newport News household expenditure patterns:

Household Expenditure Patterns

City of Newport News

Total Households 2017	72,586	
Median Household Income 2017	$51,469	
Average Household Income 2017	$65,115	
Total Average Household Expenditures	$41,197	
Apparel and Services	$1,782	4.33%
Computers & Accessories	$176	0.43%
Entertainment & Recreation	$2,506	6.08%
Food at Home	$4,161	10.10%
Food Away from Home	$2,786	6.76%
Financial	$2,722	6.61%
Health/Personal Care Products	$862	2.09%
Home	$12,156	29.51%
Household Furnishings and Equipment	$1,011	2.45%
Household Operations	$1,340	3.25%
Insurance	$4,542	11.02%
School Books & Supplies	$131	0.32%
Travel	$1,217	2.95%
Vehicle Purchases	$1,847	4.48%
Vehicle Repairs & Maintenance	$870	2.11%
Gas/C-Store-Related Retail Goods:		
Alcoholic Beverages	$462	1.12%
Smoking Products	$346	0.84%
Gasoline & Motor Oil	$2,279	5.53%

Source: STDB Online (Site To Do Business) 2017

The City of Newport News has an estimated total demand for petroleum products of approximately $165.4 million annually.

Government

The subject property lies within the city limits of the City of Newport News and is therefore governed by the city's zoning regulations.

Conclusions

The outlook for the region is continued stability with moderate growth. There are no known factors in the region that would negatively impact the subject property.

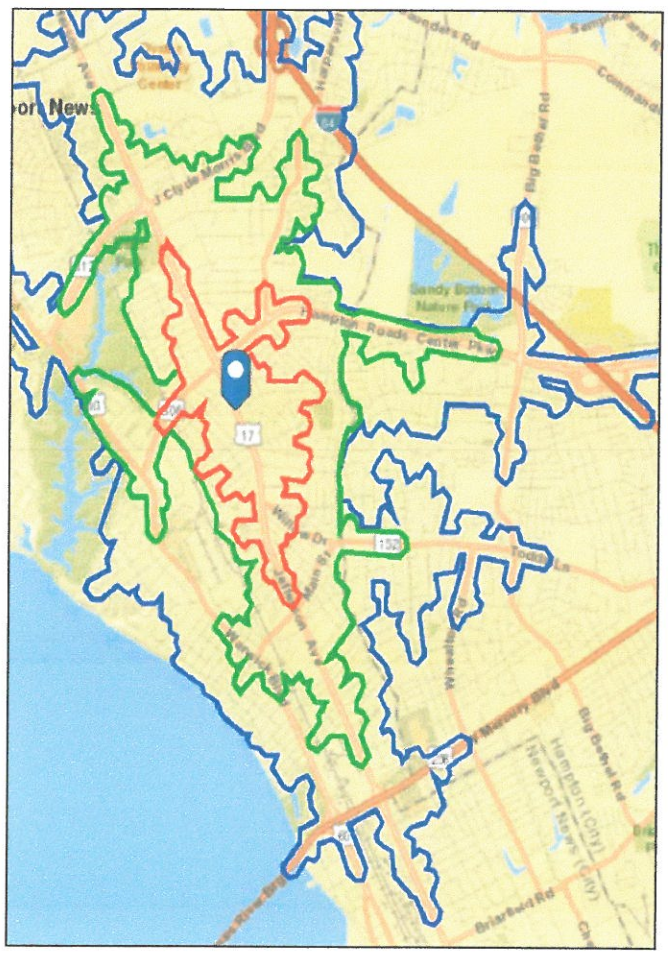
MICRO-MARKET ANALYSIS

This section includes an analysis of the location and economic factors affecting the viability of a retail petroleum outlet.

Neighborhood Description

The subject property is located mid-block at the junction of Jefferson Avenue and Dresden Drive in the City of Newport News. This location is approximately five miles northwest of the central business district of the City of Newport News. The area is best described as suburban. The subject neighborhood and primary trade area is defined by a two-minute driving time from the subject property as outlined in red on the following map. The four-minute drive time is outlined in green and the six-minute drive time is outlined in blue.

Neighborhood Map



General land uses in the subject neighborhood include a mix of general commercial, retail, office, office-service, residential, and institutional uses. The neighborhood's commercial uses are predominantly located along primary thoroughfares, including Jefferson Avenue and Warwick Boulevard.

Institutional development in the subject neighborhood includes several churches and schools. Both single-family and multifamily residential development constitutes the majority of development along the neighborhood's secondary streets. Due to the built-up nature of the area, very little vacant land suitable for commercial development was noted. The subject's immediate area has experienced very little growth and development in recent years.

The subject is immediately surrounded by the following development/land uses:

North:	a Hardee's Restaurant with a large parking lot
South:	a small local motel
East:	small retail
West:	single-family neighborhood

The demographics for the two, four, and six-minute drive times surrounding the subject facility are displayed on the following chart:

Demographic and Income Profile

11011 Jefferson Ave, Newport News, Virginia, 23601

	2 minutes Drive Time	4 minutes Drive Time	6 minutes Drive Time
Population			
2000 Total Population	4,440	17,495	32,966
2017 Total Population	4,219	18,274	35,075
2022 Total Population	4,317	18,579	35,808
Growth 2000 - 2017	-4.98%	4.45%	6.40%
Growth 2017 - 2022	2.32%	1.67%	2.09%
Households			
2000 Households	1,775	6,952	13,575
2017 Households	1,705	7,107	14,612
2022 Households	1,733	7,182	14,879
Growth 2000 - 2017	-3.94%	2.23%	7.64%
Growth 2017 - 2022	1.64%	1.06%	1.83%
Total Housing Units			
2000 Housing Units	1,930	7,318	14,193
2017 Housing Units	2,003	7,868	15,751
2022 Housing Units	2,062	8,024	16,071
Growth 2000 - 2017	3.78%	7.52%	10.98%
Growth 2017 - 2022	2.95%	1.98%	2.03%
2016 Average Household Size	2.44	2.52	2.36
Household Income Base	1,705	7,107	14,612
<$15,000	16.5%	14.3%	11.80%
$15,000 - $24,999	18.2%	12.0%	10.60%
$25,000 - $34,999	11.0%	12.2%	12.20%
$35,000 - $49,999	14.8%	15.3%	15.30%
$50,000 - $74,999	17.0%	21.1%	20.60%
$75,000 - $99,999	11.1%	11.3%	11.90%
$100,000 - $149,999	9.3%	9.8%	11.00%
$150,000 - $199,999	1.8%	2.4%	3.30%
$200,000+	0.3%	1.6%	3.30%
2016 Median Home Value	$176,870	$181,008	$195,178
Average Household Income	$49,071	$56,546	$64,351
Median Household Income	$38,381	$45,223	$50,050
Per Capita Income	$19,742	$22,928	$27,733

Source: STDB Online (Site To Do Business) 2017

The subject's primary trade area reflects a median household income of $38,381, which is lower than the city's median household income of $51,469. There are a total of 1,705 households located within a two-minute drive time of the subject.

The next chart reflects the commuting patterns within the two, four, and six-minute drive times from the subject.

Commuter Patterns 11011 Jefferson Ave, Newport News, Virginia, 23601	2 minutes Drive Time	4 minutes Drive Time	6 minutes Drive Time
No. of Households	1,705	7,107	14,612
Workers Age 16+ Years Place of Work	2,044	9,083	18,345
Worked in state and in county of residence	52.9%	54.2%	56.5%
Worked in state and outside county of residence	46.8%	44.5%	42.5%
Worked outside state of residence	0.3%	1.2%	1.0%
Workers 16+ by Means of Transportation to Work	2,044	9,083	18,345
Drove alone	73.68%	75.27%	78.93%
Carpooled	14.92%	13.96%	12.09%
Public transportation (excluding taxicab)	7.53%	4.10%	2.91%
Walked	0.44%	2.35%	2.25%
Other means	0.00%	1.73%	0.88%
Worked at home	1.52%	1.65%	2.20%
Workers 16+ by Travel Time to Work	2,013	8,934	17,942
Less than 10 minutes	7.15%	9.34%	10.47%
10 to 19 minutes	34.23%	40.59%	43.66%
20 to 34 minutes	35.32%	28.53%	28.32%
35 to 59 minutes	16.00%	13.55%	11.83%
60 minutes or more	7.30%	8.00%	5.71%

Source: STDB Online (Site To Do Business) 2017

There are 2,044 workers age 16 or older with in the subject's primary trade area. Approximately 73.68% commute alone to work each day. Additionally, approximately 14.92% utilize car pools. Approximately 69.55% commute between 10 minutes and 34 minutes one-way to work.

The following chart reflects the household expenditure patterns for the area.

Household Expenditure Patterns

11011 Jefferson Ave, Newport News, Virginia, 23601

	2 minutes Drive Time		4 minutes Drive Time		6 minutes Drive Time	
Total Households 2017	1,705		7,107		14,612	
2017 Median Household Income	$38,381		$45,223		$50,050	
2017 Average Household Income	$49,071		$56,546		$64,351	
Total Average Household Expenditures	$30,715		$35,615		$40,328	
Apparel and Services	$1,337	4.35%	$1,544	4.34%	$1,785	4.43%
Computers & Accessories	$132	0.43%	$151	0.43%	$177	0.44%
Entertainment & Recreation	$1,869	6.09%	$2,158	6.06%	$2,462	6.11%
Food at Home	$3,101	10.10%	$3,572	10.03%	$4,148	10.29%
Food Away from Home	$2,051	6.68%	$2,375	6.67%	$2,791	6.92%
Financial	$1,951	6.35%	$2,278	6.40%	$2,702	6.70%
Health/Personal Care Products	$634	2.06%	$733	2.06%	$837	2.07%
Home	$9,263	30.16%	$10,779	30.27%	$11,646	28.88%
Household Furnishings and Equipment	$737	2.40%	$855	2.40%	$990	2.46%
Household Operations	$997	3.25%	$1,158	3.25%	$1,319	3.27%
Insurance	$3,382	11.01%	$3,918	11.00%	$4,395	10.90%
School Books & Supplies	$98	0.32%	$113	0.32%	$133	0.33%
Travel	$929	3.02%	$1,071	3.01%	$1,191	2.95%
Vehicle Purchases	$1,322	4.30%	$1,546	4.34%	$1,824	4.52%
Vehicle Maintenance & Repairs	$647	2.11%	$747	2.10%	$859	2.13%
Gas/C-Store-Related Retail Goods:						
Alcoholic Beverages	$346	1.13%	$399	1.12%	$464	1.15%
Smoking Products	$248	0.81%	$284	0.80%	$343	0.85%
Gasoline & Motor Oil	$1,671	5.44%	$1,935	5.43%	$2,263	5.61%

Source: STDB Online (Site To Do Business) 2017

The average household within a two-minute drive had total expenditures of $30,715. Of these, the average household spent approximately $1,671 annually (contrasted with $2,279 for the City as a whole), or 5.44 percent of its budget, on fuel. The total for all Gas/C-Store-Related Retail Goods was approximately 7.38 percent of the total household expenditures.

Relative to the number of petroleum retailers in the area, this represents 568 households per location.

The area contains households with below average income levels (compared to the city in aggregate) and typical commuter patterns for a suburban area in the Hampton Roads area of Virginia.

Valuation Factors

The micro-market factors that influence the value of a retail petroleum property include name brand/pricing strategy, exposure, traffic count, competition, and customer convenience. In this section, the focus is on the sale of petroleum products as opposed to inside sales. The level of Inside Sales is typically a function of the ability to sell petroleum products, weighted for the square footage of the mercantile building.

Traffic Generators and Exposure: There are several primary sources of traffic in the subject's immediate area, described as follows:

- The subject is able to interdict consumers as they access such neighborhood traffic generators as Wal-Mart, Home Depot, the Peninsula Town Center, the Patrick Henry Mall, Whole Foods, Costco, Sam's Club, and the numerous supporting retail uses within a ten-minute drive time of the subject both north and south.
- Jefferson Avenue represents a primary, north-south highway connecting the main commercial area of City of Newport News to the downtown/government area. This generates heavy through/commuter traffic in the subject's immediate area.
- Traditional retailer strategy suggests a location between concentrations of employment and residential areas. The subject occupies such a location.
- The single-family and multifamily residential development located throughout the neighborhood generates moderate local traffic flow near the subject.

The subject facility has good exposure to north-south bound traffic on Jefferson Avenue.

Streets and Traffic Count Data: Jefferson Avenue is a major arterial with 6 lanes of traffic with a raised and minimally landscaped median and turning lanes. The most recent traffic counts on Jefferson Avenue (2016) show a total of 49,000 average daily trips (ADT). The posted speed limit is 45 mph and the prevailing speed is 45 mph. Dresden Drive intersects with Jefferson Avenue forming a three-way intersection with the property adjacent north of the subject. This intersection is controlled by electronic signals. There are no median breaks along the subject's frontage. Northbound motorists must turn west into the adjoining property easement or make a u-turn at the Dresden Drive intersection to access the subject facility. The following aerial photo shows the road configuration at the subject.

Overall, this traffic volume is considered fairly heavy in comparison to similar streets in Newport News. The volume can restrict the ingress/egress of the subject during peak traffic periods.

Competition: There are two direct competitors within the subject's primary trade area. In addition, there are numerous "second tier" competitors within a four to ten-minute drive time of the subject, which likely influences the sales at the subject. Within a four-minute drive time, there are two 7-Eleven stores, one north of the subject and one south of the subject. The north store is new 2016. Within a six-minute drive time of the subject, there are two WaWa stores, a well-known discounter, one new in 2016. One is north of the subject and one (the new one) south of the subject. In addition, there are three hyper-marketers within a ten-minute drive time of the subject. A Costco, which opened in 2016, a Sam's Club (one of the few elected to remain open after numerous stores were sited to close), and Kroger. Besides these formidable competitors, there are also numerous smaller stations, both branded and unbranded. The high-volume discounters and hyper-marketers have a larger market area that the typical petroleum retailer such as the subject.

As mentioned previously, there are 1,705 households within the primary trade area. Relative to the number of competitors within this area, there are 568 households per retail petroleum outlet (including the subject). This is considered a moderate level of competition. However, when considering the magnitude of the "second tier" competitors within a four to ten-minute drive time of the subject, this is a high level of competition.

The two direct competitors within a two-minute drive time of the subject includes an Exxon, with similar curb appeal and at a lighted intersection. This competitor also has a car wash and a Dunkin Donuts. The other competitor is a small, front island marketer that is considered inferior to the subject in access and curb appeal.

Details concerning the competitors follow:

COMPETITOR 1 – CITGO FRONT ISLAND MARKETER WITH FOUR MPD'S SELLING AT $2.49[9] PER GALLON.

COMPETITOR 2 – EXXON FRONT ISLAND MARKETER WITH SIX MPD'S SELLING AT $\$2.49^{9}$ PER GALLON.

Map of Direct Competitors and New (Four Years or Less) "Second Tier" Competitive Properties

Land Availability: There are very few vacant sites in proximity to the subject with frontage along Jefferson Avenue that are for sale or could possibly redeveloped. It is possible that one or more of the sites could be purchased and/or developed with a retail petroleum facility in the foreseeable future. However, based on the new entries into the market surrounding the subject and its previously described existing competitors, it is unlikely that further direct competition will be developed in the subject's immediate vicinity in the near term. According to the City of Newport News Planning office, no retail petroleum facilities are currently under construction or are known to be planned along Jefferson Avenue as of the effective date of this appraisal.

Name Brand/Pricing Strategy: Fuel Retailers pursue different marketing and pricing strategies to gain a competitive advantage. One of the key components is the nature of their fuel supply arrangements, which ultimately dictate their brand and pricing strategy. Some choose to sell motor fuel under a nationally recognized brand of their supplier while others choose to establish their own brand (sometimes a single location, a corporate name or label spread over all or some of their stores, or sometimes a nationally recognized corporate label).

According to the National Association of Convenience Stores, there are four categories of ownership/fuel supply arrangements commonly found in the retail petroleum market place:

1. **Major Integrated Oil Company Owned and Operated** (less than 2% of the market and shrinking)

2. **Refining Company Owned and Operated** (less than 2.5% of the market is owned operated by non-major refining companies)

3. **Branded Independent Retailer** (around 44.5% of the retail petroleum market)

4. **Unbranded Independent Retailer** (approximately 51% of convenience gasoline retailers)

The majority of the fuel retailers are branded and unbranded independent retailers.

The branded independent retailers sign a contract to sell only one brand of fuel at any particular location. Branded retailers pay a slight surcharge per gallon for using the refiner's brand, benefiting from the supplier's marketing and ensuring a more secure supply of product. Branded independent retailers benefit the most when supplies are constrained by securing a higher level of priority for accessing product, although access to supplies may be restricted.

The unbranded retailers are independent business owners that do not sell gasoline under a brand owned or controlled by a refining company. Their retailers purchase fuel on the unbranded wholesale market, which is made up of gallons not dedicated to fulfill a refiner's contracts. There is no marketing surcharge and fuel can often be purchased below the cost of branded fuel. However, when supplies are low, these retailers have the lowest priority to access product and often incur the largest wholesale price increases. When fuel supplies are constrained, these retailers may be completely denied access to product.

The subject property is an unbranded independent retailer. Of the identified competitors, both are selling branded fuel. The property is a locally or regionally known and well-recognized and respected private label (SkyMart) that competes well with the branded and unbranded competitors.

Customers continue to reward those retailers who understand their needs and desires. As such, it appears that price, quality of the facility and brand name recognition are the main determining factors most consumers consider when purchasing fuel. Of these three factors price is the most important and quality of the facility and brand name recognition closely follow. As noted in the Industry Overview, consumers remain price-sensitive in the current economic climate. In a NACS survey, some 70% say price is the most important factor in deciding where to fill up, and 51% say they will still drive ten minutes out of their way to save $0.05 per gallon. The following chart compares the prices at the subject and the competition as of the effective date of appraisal.

Name Brand/Pricing

Property	Reg.	Plus	Prem.	Diesel	Quality	MPDs
Subject	$2.49	$2.89	$3.15	$2.70	Superior	8
1 Citgo	$2.49	$2.99	$3.19	na	Average	4
2 Exxon	$2.49	$2.65	$2.95	$2.79	Superior	6
	"Second Tier Pricing"					
7-Eleven	$2.49	$2.79	$3.05	$2.69	Superior	
WaWa	$2.49	$2.65	$2.85	$2.75	Superior	
Costco	$2.41	na	$2.71	na	Good	

The management of the subject is competing on the basis of price. It is likely the downward pressure on fuel margins from the pricing strategy at Costco has a far reaching effect on the subject and its competitors, both direct and "second tier".

Customer Convenience: This is important in all types of businesses and real estate concerns, however it is particularly important for retail petroleum facilities.

Consumers have become used to rapidly accessing the fueling points at retail petroleum facilities and make decisions as to which store to use accordingly. The subject property has fair level of convenience for a retail petroleum property.

Conclusion:

The subject property occupies a fair location along Jefferson Avenue in City of Newport News, Virginia. The property has the advantages of name recognition, semi-corner influence, traffic signalization, and new and modern improvements. Disadvantages include too much competition from far reaching competitors within a ten-minute drive time, contributing to external obsolescence.

Currently the property is maintaining a competitive pricing position relative to the pricing strategies of the competition.

SUBJECT DATA

Zoning

The subject site is zoned C-1, Retail Commercial District, by the City of Newport News. Permitted uses in this district include but are not limited to:

- Places of worship
- Financial institutions
- Professional offices
- Barber/Beauty shop
- Convenience stores without gasoline
- Motels/Hotels
- Retail stores
- Restaurants
- Car wash (with conditional use permit)
- Automobile gasoline supply station (with conditional use permit)

The existing use of the subject property is a legal conforming use (with conditional use permit) under this zoning classification. There are currently no zoning moratoriums that would effect the development of this property.

Assessed Valuation and Taxes

The subject property is assessed by the City of Newport News and is identified for tax purposes as parcel 247000641. The city has the subject property valued at $1,996,300 for 2018 and assessed at 100% of market value for a total assessed value of $1,996,300. According to the City Tax Collector, 2017 real estate taxes were reported at $24,355 along with a stormwater tax of $4,579, resulting in total taxes and assessments of $28,934 (paid). Copies of the tax cards and paid tax bills are included in the addenda.

Flood Hazard Information

According to Federal Emergency Management Agency, Flood Insurance Rate Map (FIRM) #5101030137D dated December 9, 2014; the subject is in Flood Zone X and is outside of the 100-year flood hazard area. A copy of the FIRM is included in the addenda.

Utilities

All public utilities are available in sufficient quantity to serve the existing use.

Deed Restrictions, Easements and Encroachments

The property is subject to typical utility easements. There are no deed restrictions, easements, or encroachments known to the appraisers that would negatively affect value. The reader is referred to a qualified title examiner or attorney for these legal matters.

Site Description

Land Area-	2.260 acres or 98,446 square feet
Shape	Rectangular
Primary Frontage-	275 front feet on Jefferson Avenue
General Topography-	level and at street grade
Drainage-	appears adequate
Access-	Access to the property is by one wide curb cut on Jefferson Avenue and on . Access is considered to be good.
Visibility-	Visibility is good from both directions of traffic.
Conclusions/remarks:	The site is suitable for commercial development.

Site Improvements (real estate)

Concrete paving-	50,000 square feet (all paved surfaces are concrete)
Asphalt paving-	square feet (over all other driving and parking areas)
Concrete curbing-	1,000 linear feet
Yard lighting-	15 pole lights
Pump islands-	8 raised and formed concrete islands
Signage-	1 brick monument style sign with electronic pricing
Trash-	masonry trash enclosure
Landscaping-	minimal landscaping
Other-	stainless steel can vacuum/air dispensers, and concrete-filled steel bollards protecting fuel dispensers (50 total)

Conclusions/remarks: The subject's site improvements appear to be well maintained and are in good condition.

Photographs of the Subject Property

PHOTOGRAPH TAKEN FACING SOUTH ALONG THE JEFFERSON AVENUE FRONTAGE.

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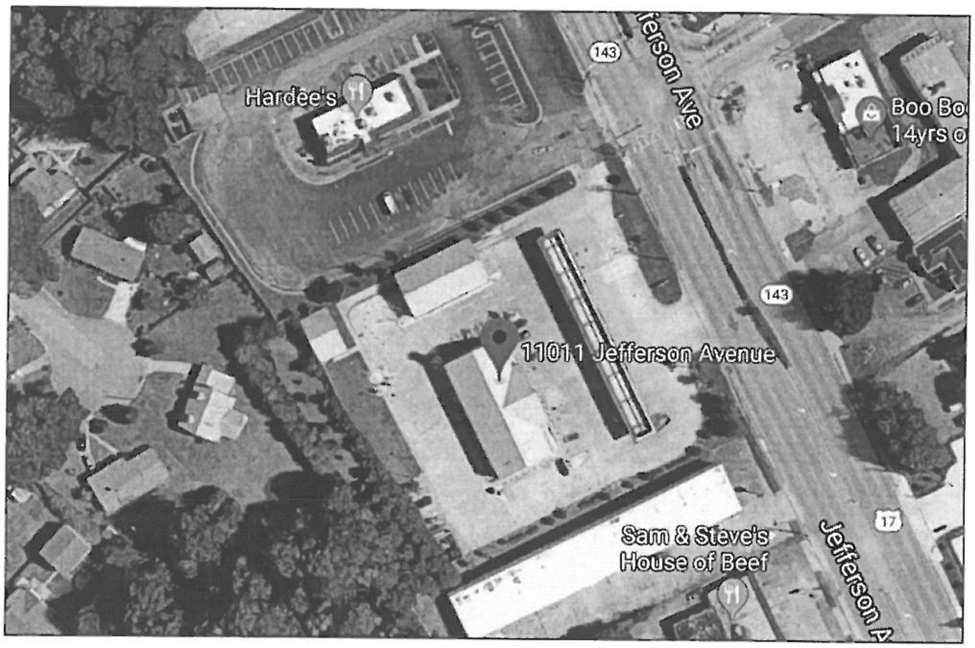

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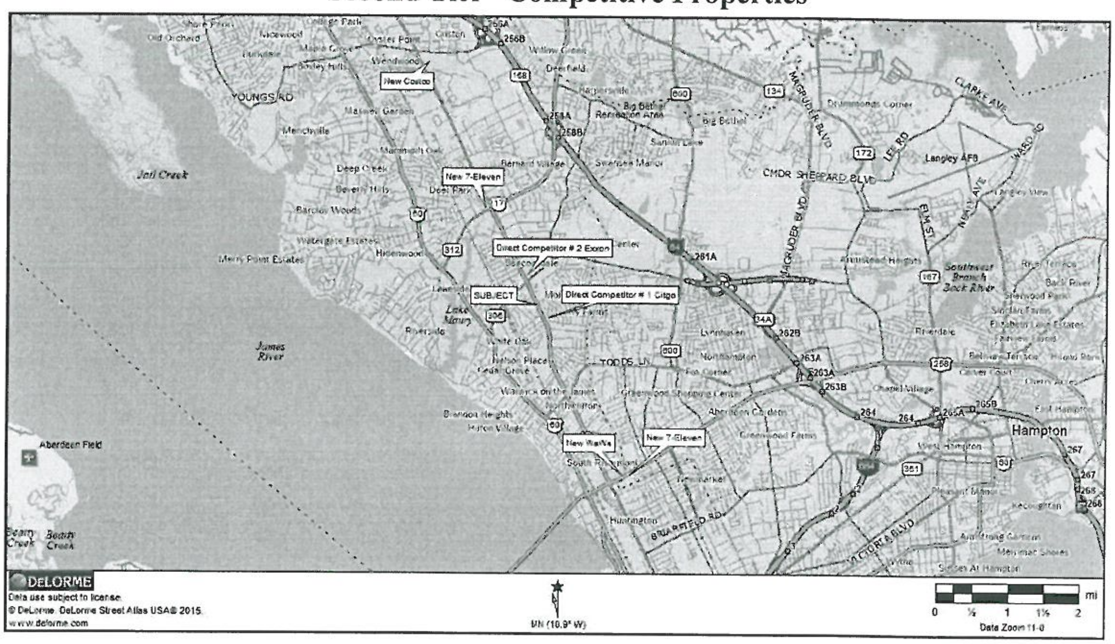

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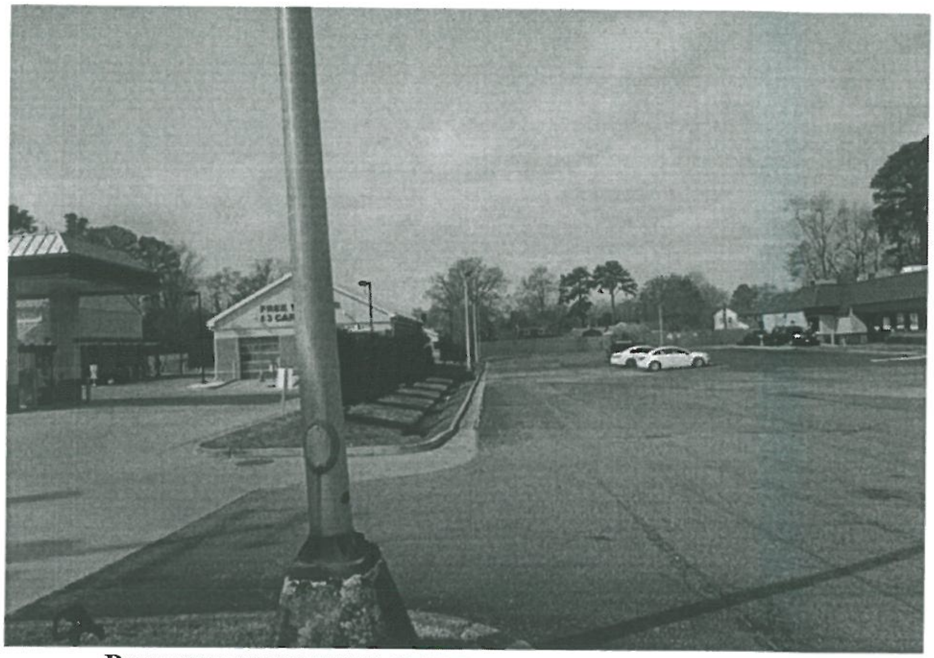
PHOTOGRAPH TAKEN FACING SOUTH ALONG THE JEFFERSON AVENUE FRONTAGE.

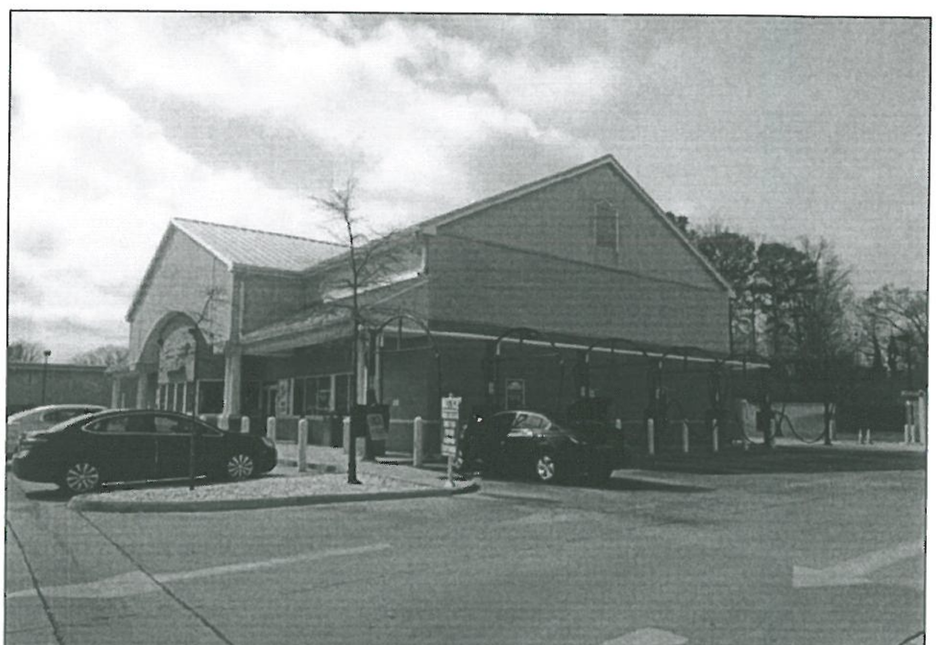
PHOTOGRAPH TAKEN FACING NORTH ALONG THE JEFFERSON AVENUE FRONTAGE.



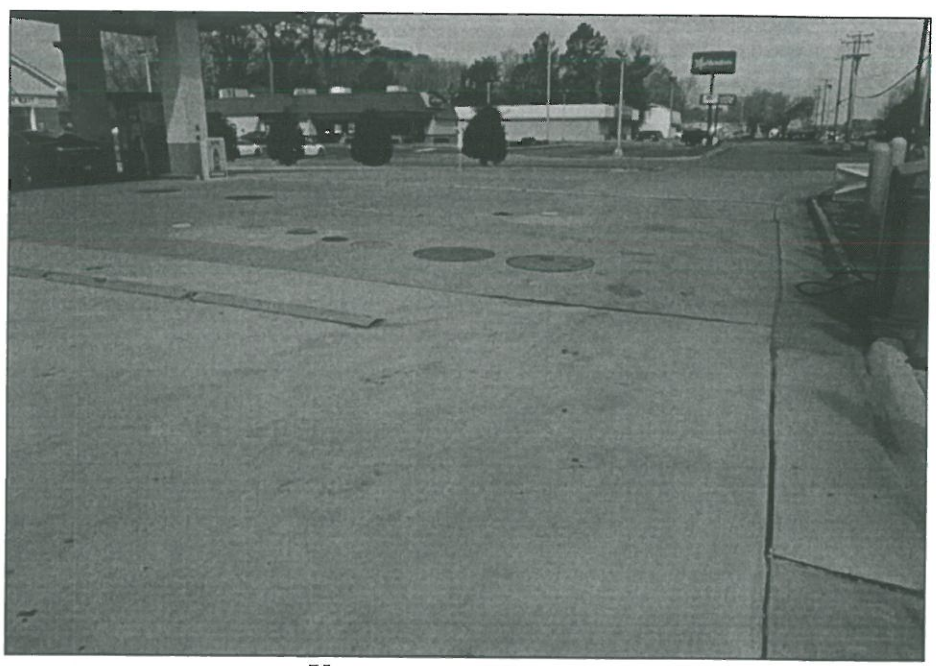
PHOTOGRAPH TAKEN ALONG THE NORTH PROPERTY LINE.

PHOTOGRAPH TAKEN ALONG THE SOUTH PROPERTY LINE.

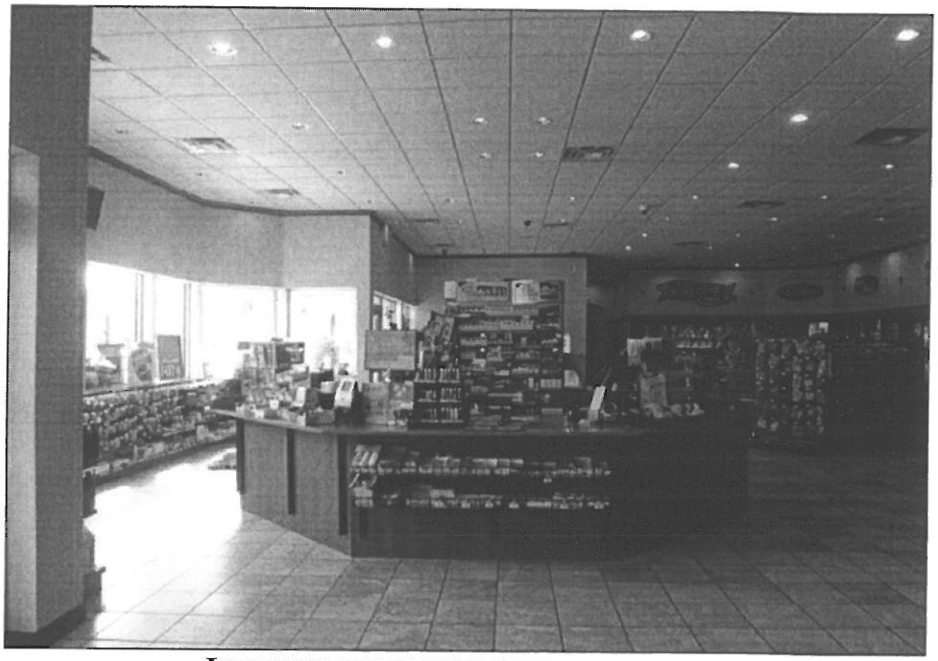
VIEW OF THE MERCANTILE BUILDING AND CANOPY


VIEW OF THE MERCANTILE BUILDING AND NEW VACUUM SYSTEMS

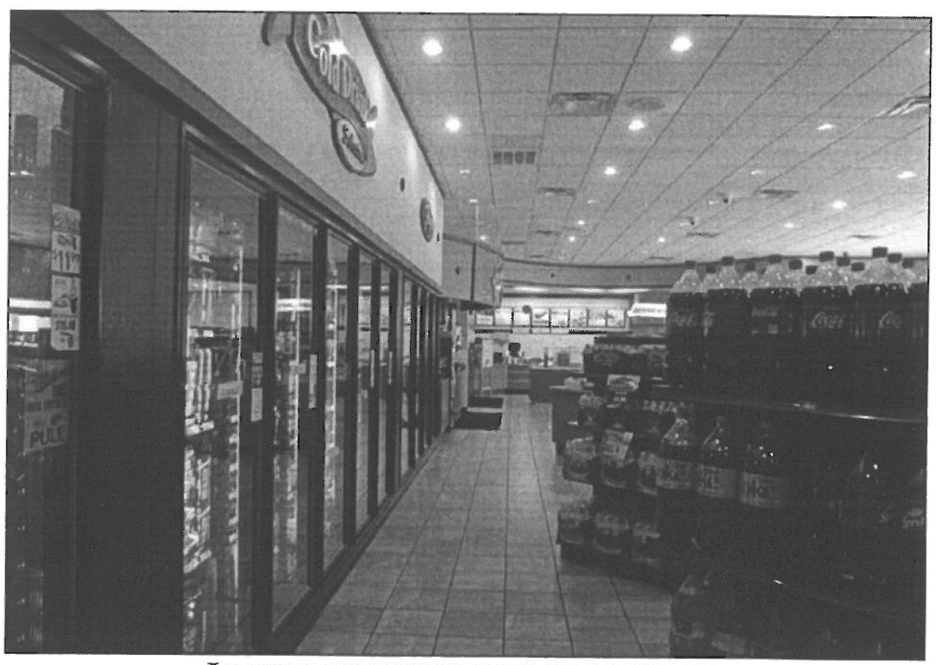
VIEW OF THE CAR WASH AND AUXIALLARY BUILDING.



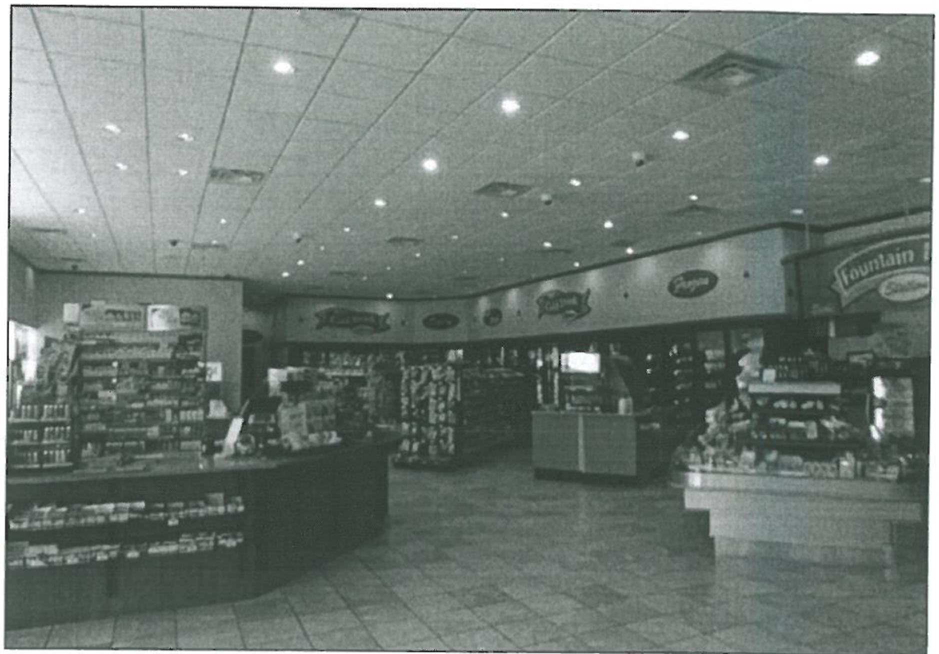
VIEW OF THE TANK FIELD.



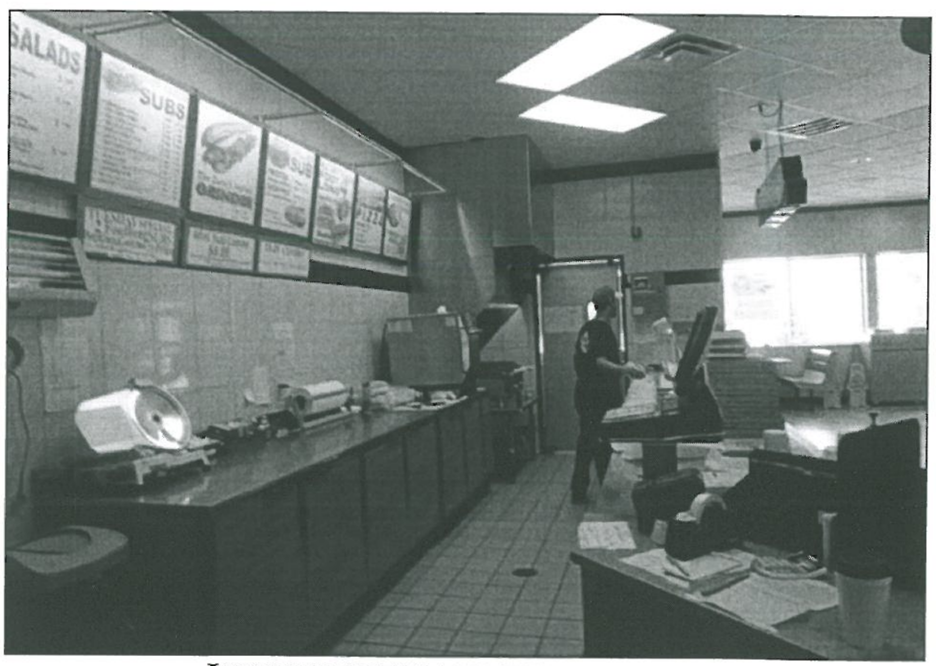
INTERIOR OF THE MERCANTILE BUILDING.



INTERIOR OF THE MERCANTILE BUILDING.



INTERIOR OF THE MERCANTILE BUILDING.



INTERIOR OF THE MERCANTILE BUILDING.

Mercantile Building (real estate)

Gross building area-	5,856 square feet
Breakdown	5,856 square feet - Convenience Store 800square feet - Auxiliary Building
Roof-	multi-pitched with standing seam metal cover
Foundation-	concrete slab
Frame-	steel
Exterior veneer-	brick
Fenestration-	glass in anodized aluminum frame windows on front wall
Entrance-	two sets of two glass in anodized aluminum frame doors on the front wall
Interior floor covering-	ceramic tile floor covering
Interior walls-	painted sheetrock
Interior lighting-	recessed can lighting
Ceiling-	acoustical tile in a suspended metal frame
HVAC-	central heat and air
Restrooms-	two, three-fixture facilities (interior access)
Built-ins-	32' granite octagonal cashier counter with cabinets, 12' granite beverage counter with cabinets, 30' granite deli counter with cabinets, 16-door insulated walk-in cooler, 4-door insulated walk-in freezer, and 1-door insulated walk-in cooler
Office/Storage-	small office and storage area near north end of building, additional storage near rear of building
Year Built-	2008
Condition/actual age-	excellent/10 years
Other features-	Generac Generator

Conclusions/remarks: The mercantile building appears to be well maintained and is in excellent condition.

<u>Canopy (real estate)</u>

Total overhang-	4,400 square feet
Support-	16 metal posts
Fascia-	painted brick
Under canopy lighting-	27 box type mercury vapor lights
Year Built-	2008
Condition/actual age-	good/10 years
Conclusions/remarks:	The canopy is in good condition for its age.

<u>Car Wash Building (real estate)</u>

Gross building area-	3,880 square feet w/ two roll-over wash tunnels
Roof-	pitched with standing seam metal cover
Foundation-	concrete slab
Frame-	steel
Exterior veneer-	brick
Entry-	four roll-up doors
Year Built-	2008
Condition/actual age-	good/10 years

Conclusions/remarks: The car wash building has a complimentary design to the primary mercantile building. The auxiliary building holds some of the back house car wash equipment, and other storage needs.

Petroleum and Site Equipment

Underground Storage Tanks:	#	Size and Type
(All tanks are 1998 compliant)	3	25,000 gallon single-wall Act 100 UST (17K/8K)
	1	25,000 gallon single-wall Act 100 UST

(Tanks have leak detection, overfill protection, observation wells, and vapor recovery.)

Tank Monitoring:		Veeder Root TLS-350
Fuel Dispensers:	#	Type
	7	two-hose MPDs with card readers
	1	two-hose diesel dispenser with card reader
	1	four-hose MPD incl. diesel with card reader
Controller:		integrated cash register/controller
Car Wash Equipment:		two CavTech tunnel car wash systems

Inside Equipment

Convenience Store Equipment

ice maker	five, 2-burner coffee pot warmers
security system	three, 3-burner coffee makers
ATM	microwave
refrigerated sandwich reach-in	5-spigot cappuccino machine
medium 1-door reach-in freezer	two, 2 spigot frozen drink machines
12-spigot soft drink dispenser	milkshake machine
6-spigot soft drink dispenser	center island
single-door freezer	various condolas and end camps

Deli Equipment

stainless steel bread rack	sandwich warmer
commercial bread oven	stainless commercial microwave
2-door stainless steel freezer	stainless cookie display
stainless steel work tables	refrigerated condiment/work table

No detailed equipment inventory was provided. This list was compiled by observation at the time of the site visit.

Conclusions

The improvements were completed in 2008 and are considered to have an actual age of 10 years. Tanks were installed in 2008 and are believed to be in compliance with 1998 EPA guidelines. The tanks are estimated to have an actual age of ten years. The dispensers and other petroleum equipment are estimated to have an effective age of eight years. The car wash equipment and the vacuum systems were installed in 2016 with an actual age of two years. The buildings are of a relatively modern design and are competitive when compared to the design of other properties in the area. The site visit did not reveal any significant functional problems.

HIGHEST AND BEST USE

Highest and Best Use may be defined as:

> *"The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."* [3]

Highest and Best Use of the Site as if Vacant

The following paragraphs analyze the four criteria as they apply to the subject property as if it is currently vacant and available for development to its highest and best use. The four criteria are discussed as follows.

Legally Permissible: The subject site is zoned C-1, Retail Commercial District, by the City of Newport News. Permitted uses are listed in the zoning section above. There are currently no zoning moratoriums that would effect the development of this property. There are no known deed restrictions that would limit the development of this property. The zoning does require setbacks from streets and property lines. Any potential uses not in conformity with the current zoning of the site are **eliminated** for consideration of Highest and Best Use.

Physically Possible: Construction of improvements appears to be physically possible because building and site improvements were constructed in the past and no manmade or natural barriers to construction were observed as of the date of inspection. (However, the appraisers are not engineers.) The setback requirements of the zoning do, of course, limit the floor area of any potential buildings.

Uses that are constrained by height and/or setback requirements in light of the size and shape of the site are **eliminated**. Hotels are obviously eliminated given the size of the site.

Financially Feasible: If they are to succeed, retail petroleum outlets require good access. Due to the concrete median that divides the street in front of the subject, despite a relatively high traffic count, the site is not an optimal location for a retail petroleum outlet. The same can be said for uses such as fast food restaurants or any

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[3] *The Dictionary of Real Estate Appraisal*, Sixth Edition, Appraisal Institute, Chicago, Illinois, 2015, p. 109.

non-destination type use requiring ease of access. This is however, somewhat offset with traffic signalization at the subject.

Financial feasibility assumes a favorable rate of return on investment. The net revenue from the investment must be sufficient to reflect the "market rate of return" after construction. Exploring all financially feasible uses for the subject site is beyond the scope of the appraisal assignment. Some uses have been eliminated for practical reasons.

Given the less than optimal access, a destination-type retail use such as a small strip shopping center or a single tenant building for a specialty retailer may be feasible when economic conditions normalize.

Maximally Productive: Based on the estimated cost new of the improvements, land and equipment, and the following valuation approaches, if the site were vacant, the current improvements would not be the highest and best use of the site because the stabilized market value is less than the costs required to purchase the site, build the improvements, and install the equipment.

The legally permissible, physically possible and financially feasible highest and best use of the subject site as vacant is a destination retail or commercial use.

Highest and Best Use as Improved

This analysis considers the suitability of the existing improvements. Generally the existing improvements remain the highest and best use of the property until the value of land exceeds the ability of the improvements to provided a sufficient return to the land component. This appears to be the case for the subject as depicted on the following table.

Cost New plus Land Value*	**$ 4,502,432**

Legally Permissible: The existing improvements are a legal use of the property under the existing zoning ordinance. There is no change anticipated in the zoning classification of the subject property. The property is not subject to any known deed restriction, which would preclude the continued existing use.

Physically Possible: The improvements were designed as a retail petroleum outlet with convenience store. The facility requires associated petroleum equipment and other equipment in order to operate. While the primary improvements can be converted to alternative uses, only their use as a retail petroleum outlet with convenience store takes full advantage of their functionality.

Financially Feasible: Based on the estimated cost new of improvements, land and equipment and the following valuation approaches, if the site were vacant, the current improvements would not be the highest and best use of the site because the opinion of market value is less than the cost required to purchase the site, build the improvements and install the equipment.

The current use will remain until the value of the site as if vacant exceeds the value of the property as currently improved.

Maximally Productive: It appears that the current use of the property as a retail petroleum outlet with a convenience store and car wash is the maximally productive use of the property as currently improved.