

INCOME MODEL APPROACH

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

Apartments

Hotels/Motels

General Retail/Shopping Center

General Office/Medical Office

Convenience Stores

Restaurant/Franchise Restaurant

Manufacturing/Warehouse

Mobile Home Parks

Self -Storage

Service Shop/Service Garage

Income and Expense Models are developed for each property group to cover the range of properties located within Haywood County. Income and expense models are based on typical net lease situations. For triple net and other type leases, expense ratios should be adjusted to reflect actual or typical expenses of the landlord in this type of arrangement.

Economic Income is developed on a gross square foot or unit basis. Potential Gross Income is adjusted for occupancy loss to produce an Effective Gross Income. Income and Occupancy factors may be adjusted for exceptional properties on an individual basis.

Expenses for management and marketing, maintenance, utilities, reserve for replacement, property taxes and other operating expenses are specified as a percentage of Effective Gross Income. Expenses are deducted from Effective Gross Income to generate a Net Income, which is then capitalized using a band of investment technique.

Income Models include associated capitalization parameters:

- a) Typical financing percentage rates and terms.
- b) Cash on cash requirements.

These capitalization parameters may be adjusted for lower or higher risk properties through an override of the Indicated model rates. Capitalization Rates are computed excluding an effective tax rate and applied to the Net Income to generate an indicated value.

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

HOTELS/MOTELS

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

APARTMENTS

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

GENERAL RETAIL/SHOPPING CENTER

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

GENERAL OFFICE/MEDICAL OFFICE

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

CONVENIENCE STORES

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

RESTAURANTS/FRANCHISE RESTAURANTS

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

MANUFACTURING/WAREHOUSE

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

MOBILE HOME & RV PARKS

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

SELF-STORAGE

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

SERVICE SHOP/SERVICE GARAGE

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