

Cap Rate Data

Income Approach — Capitalization Rates: As illustrated in Section 3, after the gross income and expenses for a particular property "use" have been identified, the next step in the development of the "Income Approach" is to subtract the anticipated (market-derived) vacancy rate from the potential gross revenue, to generate the "effective" gross income.

The expenses are then subtracted from the effective gross income, in order to generate the net operating income, or "NOI". The NOI is then divided by a "capitalization" rate, or the market-derived rate investors would expect on alternative investments that share the same degree of risk as the appraised property.

The data and derivation of the capitalization rates (Cap Rate) for various property uses follows:

Cap Rate Code	Basic Cap Rate		Overall Cap Rate	Lease Type	Description	PWCoopers 1Q-'17		Realtyrates Q1 2017		CBRE End 2016 Greater Boston		Net Lease Advisor Class A & B	Other	Institutional Average	Non-Institutional Average
	Cap Rate	ETR				Institution	Non-Institut	Non-Instit	Class B	Class C					
APT	0.062	0.015	0.077	MGross	Apartment	5.33%	6.67%	7.63%	5.50%	6.50%		6.15% h	5.42%	6.74%	
APTS	0.062	0.015	0.077	MGross	Apartment Subsidized							6.15% h			
BANK	0.062		0.062	NNN	Bank	6.75%					4.53% e		5.64%		
BED	0.105	0.015	0.120	Gross	Nurse Hm			10.37%				11.30% j		10.84%	
CARS	0.075		0.075	NNN	Auto/Service Garage										
FF3	0.065		0.065	NNN	Fast Food	6.75%		10.31%			5.17% d		5.96%	7.41%	
HOTF	0.085	0.015	0.100	Gross	Hotel FullServ	7.90%		9.15%	8.00%	9.00%			7.95%	8.68%	
HOTL	0.075	0.015	0.090	Gross	Hotel/Luxury	7.00%							7.00%		
HOTX	0.090	0.015	0.105	Gross	Hotel/Mot. LimServ/Ext S	9.06%		10.61%	8.00%	10.00%			8.53%	9.89%	
IND3	0.075		0.075	NNN	Industrial/Wrhse	5.37%	6.70%	7.78%	6.88%	8.25%			6.13%	7.58%	
INDN	0.075	0.015	0.090	Net	Industrial/Wrhse	5.37%	6.70%	7.78%	6.88%	8.25%			6.13%	7.58%	
LANE	0.090		0.090	NNN	Bowling Alleys										
MHP	0.075	0.015	0.090	MGross	MH Park			8.53%						8.53%	
MIX3	0.070		0.070	NNN	Mixed Use	6.00%	7.17%	8.30%	6.13%	7.38%			6.07%	7.62%	
MIXG	0.070	0.015	0.085	MGross	Mixed Use	6.00%	7.17%	8.30%	6.13%	7.38%			6.07%	7.62%	
MIXN	0.070	0.015	0.085	Net	Mixed Use	6.00%	7.17%	8.30%	6.13%	7.38%			6.07%	7.62%	
OF3	0.080		0.080	NNN	Office NNN	7.13%	8.39% m	8.65%	7.95%	9.23%			7.54%	8.76%	
OFG	0.080	0.015	0.095	MGross	Office MG	7.13%	8.39% m	8.65%	7.95%	9.23%			7.54%	8.76%	
OFN	0.080	0.015	0.095	Net	Office Net	7.13%	8.39% m	8.65%	7.95%	9.23%			7.54%	8.76%	
OFF	0.080	0.010	0.090	MGross	Office MG - Pease	7.13%	8.39% m	8.65%	7.95%	9.23%			7.54%	8.76%	
R+D3	0.083		0.083	NNN	R+D/Flex	7.05%	8.74%	9.69%					7.05%	9.22%	
REST	0.075		0.075	NNN	Restaurant	6.75%		12.45%			5.73% f		6.24%	8.31%	
RET3	0.072		0.072	NNN	Retail NNN	6.32%	7.66%	8.97%	6.75%	8.25%	6.36% c		6.48%	8.29%	
RETG	0.077	0.015	0.092	MGross	Retail MG	6.32%	7.66%	8.97%	6.75%	8.25%	6.36% c		6.48%	8.29%	
RETN	0.077	0.015	0.092	Net	Retail Net	6.32%	7.66%	8.97%	6.75%	8.25%	6.36% c		6.48%	8.29%	
ROOM	0.077	0.015	0.092	Gross	Rooming House										
SELF	0.073	0.015	0.088	Gross	Self Storage	5.40%	7.23% b	9.58%					5.40%	8.41%	
SSTA	0.070		0.070	NNN	Service Station	6.75%		8.62%			5.82% g		6.29%	7.06%	
THET	0.077		0.077	NNN	Theatre										
MAR	0.090	0.015	0.105	Gross	Marina's							9% k			

ETR = Effective RE Tax Rate

(Portsmouth ETR 1.5%)

(Pease Airport Dist ETR 1.00%)

a= PWC Net Lease

b=C&W Q2 16

c= Avg of Wal-Mart 4.74%; family Dollar 6.37%; Dollar Tree 6.68%; Dollar General 6.70%; Best Buy 8.29%; AutoZone 5.42% and Kohl's 6.31%; Mattress Firm 6.60%; Pep Boys Auto 6.16%

d= Avg of Arby's 5.97%; BurgerKing 5.79% Dunkin Donuts 5.13%; Mc Donald's 4.01%; Starbucks 5.05%; Taco Bell 4.57%; and Wendy's 5.68%

e = Avg of Bank of America 4.55%; Chase 4.30%; PNC 4.95%; TD Bank 4.30%;

f =Avg of Applebee's 5.95% and IHOP 5.51%

g = Avg of Circle K 5.75%; Shell Oil 6.79%; and 7 Eleven 4.91%

h = NH DORA 2016-17 Rockingham County

j = Senior Living Valuation Services, Inc. Senior Housing Investment Survey 2016

k = Loopnet Marina's 7%- 10%

m = Greater Boston Suburban

Economic/Market Income Rates

From the actual I&E data and other data, economic/market rental rates were estimated. Other sources of data included PWCoopers RE Survey, New England RE Journal articles, Loopnet, Costar, Craig's List Portsmouth Apartment Rentals, NH Housing Rental Survey 2017, Realty Rates.com, Keypoint Partners Northern MA and So NH Retail Real Estate Survey, CBRE Office and Industrial Reports, Collier's-NH, and New England Commercial Property Exchange (NECPE), etc.

Income Approach — Income and Expense and Vacancy Data: As previously described, the "Income Approach" is based upon the principle of "anticipation" which recognizes that value is created by the owner's expectation of future benefits. Typically, these benefits are anticipated in the form of income, and/or in the anticipated increase in the property's value over time. Therefore, a primary consideration is the relative level of anticipated income and expenses a property is likely to achieve, and "base" rates for both income and expenses must be established. Consequently, research was undertaken in order to identify the appropriate "base" levels of income and expenses for each commercial property "use" type, such as apartments, office, retail, industrial, etc.

As illustrated in Section 3, after the gross income and expenses for a particular property "use" have been identified, the next step in the development of the "Income Approach" is to subtract the anticipated (market-derived) vacancy rate from the potential gross revenue, to generate the "effective" gross income. The expenses are then subtracted from the effective gross income, in order to generate the net operating income, or "NOI".

An explanation for the derivation of the base rates for various property uses follows:

SETTING ECONOMIC MARKET RENTS AND INCOME PARAMETERS

1. Acquire all Actual Rents/Asking Rents and screen reports for any extremes or incorrect data.

2. Manually set average economic rents for all Use Codes

A. Average Base Size	Base Unit Income	\$
B. Maximum Size	Minimum Unit Income	\$
C. Minimum Size	Maximum Unit Income	\$

NOTES:

(A) Determine average size for each Use Code and an average rent per unit for this size.

(B) Determine the maximum size for each Use Code and the minimum rent per unit for this size.

(C) Determine the minimum size for each Use Code and the maximum rent per unit for this size.

4. Manually set average vacancy percentages and expense ratios for each Use Code.

Typically, average properties will run 2% - 10% vacancy rates. Use any data available from Vacancy and Expense data and reports.

A. Debt/Vacancy Percent:

B. Expense Percent:

Expense percent will vary dependent on lease type. Note typically which expenses and utilities are paid by or not paid by owners on the Actual Rental Reports: Gross = All by Owner, and NNN = none, etc..

5. Manually set economic adjustments for non-average:

A. Location Adj. (Quality of Location)

B. Use Code Adj. (Quality of Space)

C. Debt/Vac Adj. (Current and future projection)

D. Expense Adj. (Current and future projection)

NOTE: A and B are multipliers of Average Rent/Unit for all Use Codes.

EX: If Use Code 10 (Retail) = \$10.00/Unit (Average)

	\$10.00
Location Adj.	<u>X 1.10 (Good)</u>
	\$11.00
Use Adj.	<u>X 1.20 (Good)</u>
	\$13.20

Therefore, \$13.20 equals Adjusted Rent/ Unit.

Average Market (Economic) Rent Income Valuation Tables

Portsmouth Economic Rents 4/2017

Use Code	Description	Unit Type	Base Size	Base Unit Income	Max Size	Min. Unit Income	Minimum Size	Max. Unit Income	Debt Vacancy %	Expense %	(Lease Type)
10	DT Retail	SQFT	1,300	\$ 28.50	6,000	\$ 22.00	400	\$ 33.00	4%	33%	MG
11	Discount St	SQFT	70,000	\$ 8.00	100,000	\$ 8.00	30,000	\$ 14.00	5%	15%	NNN
12	Conv Store	SQFT	3,000	\$ 25.00	7,000	\$ 21.00	500	\$ 33.00	3%	12%	NNN
13	Supermarket	SQFT	50,000	\$ 12.00	100,000	\$ 12.00	30,000	\$ 12.00	6%	13%	NNN
14	Large Retl	SQFT	30,000	\$ 14.00	100,000	\$ 12.00	10,000	\$ 15.00	5%	13%	NNN
15	Retl Strip	SQFT	3,000	\$ 18.00	10,000	\$ 15.00	400	\$ 24.00	8%	15%	NNN
20	Industrial	SQFT	8,000	\$ 6.50	100,000	\$ 5.50	600	\$ 8.50	5%	14%	NNN
21	R&D	SQFT	10,000	\$ 8.00	80,000	\$ 8.00	1,500	\$ 8.25	7%	15%	NNN
22	Warehouse	SQFT	8,000	\$ 6.50	100,000	\$ 6.00	600	\$ 8.50	5%	14%	NNN
23	Mill Bldg	SQFT	7,000	\$ 4.00	50,000	\$ 4.00	1,000	\$ 5.00	9%	45%	Gross
24	Serv Shop	SQFT	3,000	\$ 9.25	10,000	\$ 8.50	400	\$ 12.25	5%	14%	NNN
25	Self Storage	SQFT	80	\$ 10.50	800	\$ 8.50	48	\$ 12.50	15%	33%	Gross
30	Restaurant	SQFT	3,000	\$ 22.00	10,000	\$ 17.00	600	\$ 26.00	5%	14%	NNN
31	Fast Food	SQFT	2,500	\$ 30.00	6,000	\$ 28.00	1,200	\$ 35.00	4%	12%	NNN
32	Club/Lng	SQFT	3,000	\$ 18.00	10,000	\$ 15.00	600	\$ 24.00	5%	14%	NNN
40	Effic Apt	APT	1	\$ 9,600	1	\$ 9,600	1	\$ 9,600	3%	38%	MG
41	1 BR Apt	APT	1	\$ 12,000	1	\$ 12,000	1	\$ 12,000	3%	38%	MG
42	2 BR Apt	APT	1	\$ 15,600	1	\$ 15,600	1	\$ 15,600	3%	38%	MG
43	3 BR Apt	APT	1	\$ 18,600	1	\$ 18,600	1	\$ 18,600	3%	38%	MG
44	4 BR Apt	APT	1	\$ 21,600	1	\$ 21,600	1	\$ 21,600	3%	38%	MG
45	Room Hse	ROOM	1	\$ 7,200	1	\$ 7,200	1	\$ 7,200	8%	42%	Gross
46	Mbl Hm Pk	SITE	1	\$ 5,700	1	\$ 5,700	1	\$ 5,700	4%	30%	Gross
47	n/a										
48	Motel	ROOM	1	\$ 32,850	1	\$ 32,850	1	\$ 32,850	40%	72%	Gross
49	Hotel	ROOM	1	\$ 52,156	1	\$ 52,156	1	\$ 52,156	34%	83%	Gross
50	Office NNN	SQFT	2,500	\$ 13.75	50,000	\$ 11.00	400	\$ 15.00	7%	16%	NNN
51	Bank	SQFT	3,000	\$ 26.00	8,000	\$ 20.00	600	\$ 32.00	5%	15%	NNN
52	Office MG	SQFT	1,800	\$ 17.75	50,000	\$ 14.25	400	\$ 19.50	7%	33%	MG
53	Office Net	SQFT	1,800	\$ 16.75	50,000	\$ 13.25	400	\$ 18.50	7%	28%	Net
60	Serv Statn	UNIT	1	\$ 50,000	1	\$ 50,000	1	\$ 50,000	7%	15%	NNN
61	Svc Garage	SQFT	3,000	\$ 9.25	10,000	\$ 8.75	400	\$ 12.25	5%	14%	NNN
62	Auto Dealer	SQFT	10,000	\$ 10.50	25,000	\$ 10.50	1,000	\$ 15.00	6%	14%	NNN
63	Serv St/Conv	UNIT	1	\$ 60,000	1	\$ 60,000	1	\$ 60,000	7%	14%	NNN
64	Car Wash	SQFT	3,000	\$ 12.50	6,000	\$ 12.50	400	\$ 21.00	5%	14%	NNN
70	n/a										
90	Misc	SQFT	1,000	\$ 2.20	3,000	\$ 2.20	500	\$ 2.20	10%	20%	Net
91	Dead Storage	SQFT	1,000	\$ 2.20	3,000	\$ 2.20	500	\$ 2.20	10%	20%	Net
92	Bowling	LANE	1	\$ 4,000.00	1	\$ 4,000.00	1	\$ 4,000.00	8%	15%	NNN
93	Theatre	SQFT	4,000	\$ 10.50	20,000	\$ 10.50	1,000	\$ 10.50	6%	15%	NNN
94	Nursing Hm	BED	1	\$ 51,100.00	1	\$ 51,100.00	1	\$ 51,100.00	10%	87%	Gross
99	n/a										