Zaxia
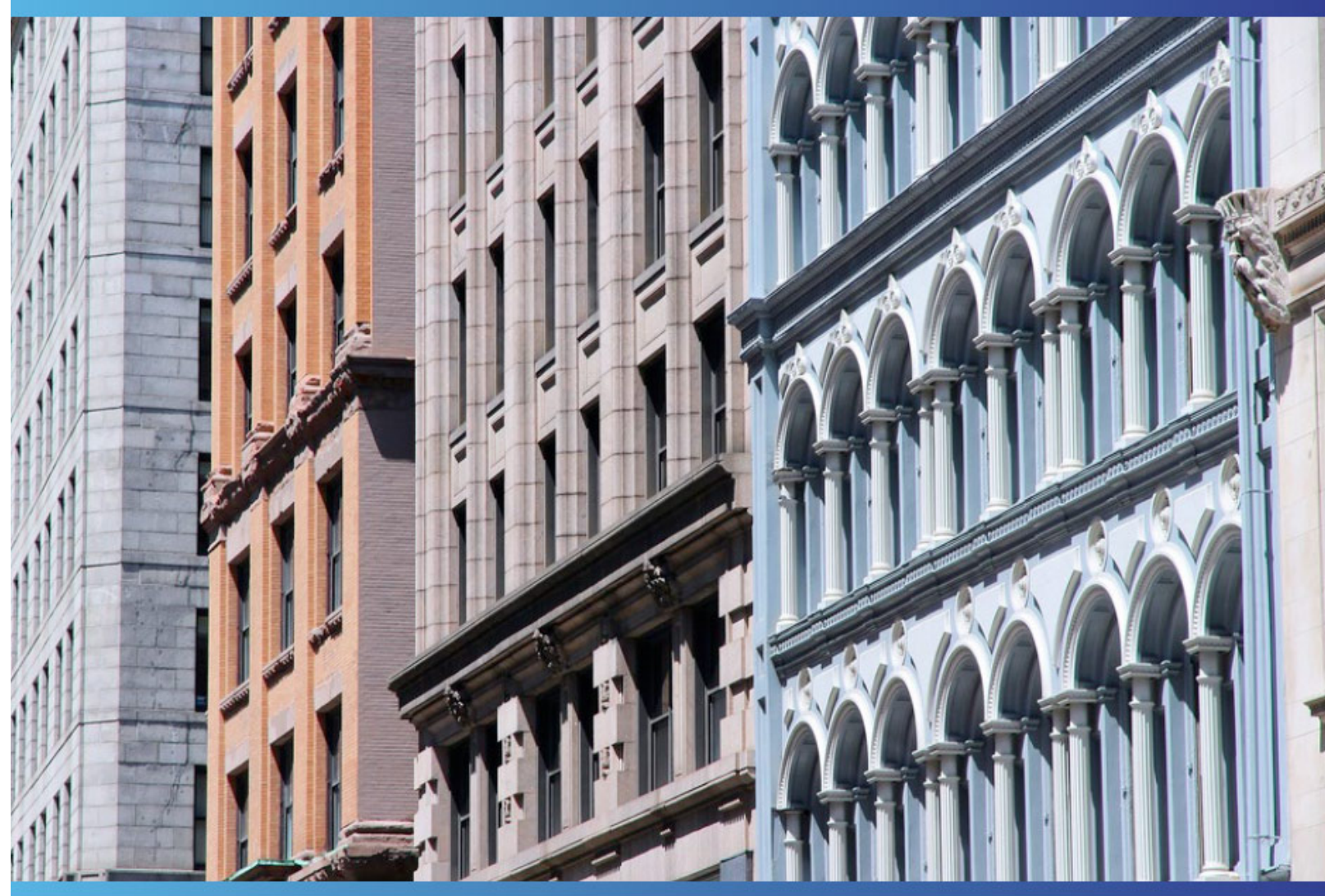## Property Report

100 Union Street
Melrose, MA

Executive Summary

Address: 100 Union Street
                              Melrose, MA

Effective Date: November 27, 2018

Interest: Fee Simple

Metropolitan Area: Greater Boston

Property Sector: Retail

Building Area: 3,700 square feet of Retail space

Market Value Output: $1,420,000.00

Operator: Eric Reenstierna

System: Zaxia

Location, Definitions and Operator

Property Identification

100 Union Street
Melrose, MA

Definitions

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 is 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 interest;
(3) a reasonable time is allowed for exposure in the open market;
(4) payment is made in terms of 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.

(Source: *Rules and Regulations*, Federal Register, Vol. 55, No. 165, Page 34696)

A *Fee Simple Estate* is 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.

(Source: *The Appraisal of Real Estate*, Thirteenth Edition, The Appraisal Institute, Chicago, 2008, p. 114)

The Value Output produced by Zaxia is the Market Value. It is the value of the Fee Simple Estate.

Operator

Eric Reenstierna

Greater Boston

Greater Boston is one of the U.S.' largest and oldest metropolitan areas, stretching from downtown Boston with its office towers to small towns about an hour's drive distant at midday. Boston began as a shipping port, evolved into a center of finance in the 1900s, and today has grown into a nationally important computer and life sciences center. Much of Greater Boston's economic growth is fueled by startups run by graduates of Harvard, M.I.T., and other colleges and universities near the urban center. The demand for housing at present is strongest in and near the city, where extensive new construction of multi-family buildings is under way and where housing rents and prices have increased strongly since the recession of 2007-2009. By contrast, distant suburbs have seen little growth in population or in prices since the recession. Greater Boston is characterized by low unemployment, a highly educated work force, high housing rents and prices, and a high cost of living.

Greater Boston Described in Statistics

- 10th-largest metropolitan area (MSA) in U.S
- slow population growth (rate of increase in 10 years 50% of U.S. rate)
- highly educated workforce (59% above U.S. average with bachelor's degree or higher)
- low unemployment (3.1%, versus U.S. rate of 4.1%, in November, 2017)
- high median household income (21% above U.S. median)
- high median household income (21% above U.S. median)
- high cost of housing (87% above U.S. average)
- high cost of living (44% above U.S. average)
- older housing stock (36.8% of housing units built before 1940, versus 13% for U.S.)

Like those of many urban areas, Greater Boston's transportation network follows a spoke-and-ring pattern, with two interstate highways forming the inner and outer suburban rings. The Massachusetts Turnpike is the western spoke, and other interstate and state highways form the northern and southern spokes. The ocean is on the east. Greater Boston has a well developed, older subway system serving the city and its immediate neighbors. Commuter rail serves the outer suburbs and extends into neighboring states. The commuter rail system makes use of part of the freight rail network developed in the 1800s. Freight rail has declined in importance since the 1950s. Traffic is congested at rush hours, particularly at the urban core, where the street pattern was laid out as cow paths in early Colonial times. Lanes and trails to accommodate bicycle commuters are in the process of installation. Managers and staff in the dense older neighborhoods near downtown commute to work on foot.

Retail Market

Nationwide, the retail market is in a period of relative stability. More than other sectors, the retail sector responds strongly to economic cycles, with high vacancy and tenant failure at times of recession and with strong occupancy at times of expansion. In early 2018, the U.S. economy, like the economies of most nations, is in a period of expansion.

The retail sector for 15 years has been affected adversely by the continuing trend to online sales. The trend is one factor in the current decline of major retailers like Sears and K-Mart and smaller stores as well. Large enclosed malls, once the state of the art for retail, now are threatened with vacancy and closure. The salvation for the retail sector has been the growth of new businesses: restaurants (which capture a steadily increasing proportion of food expenditures), banks, salons, spas, fitness centers, yoga centers, and even medical practitioners. Online shopping has resulted in strong demand in the warehouse sector, with warehouses becoming as desirable in investors' eyes as apartments, as seen in these sectors' similar capitalization rates. Retail's loss has been warehouses' gain.

Greater Boston's retail sector is similar to that of the nation, with an older downtown that once was the area's prime shopping district, suburban malls at highway interchanges, older suburban downtowns with storefront-style development, and suburban retail strips served by good on-site parking. The peak of rents, at $150 per foot per year, net, is at high-foot-traffic urban locations like Newbury and Boylston Streets. Low rents below $15.00 per foot are common at low-traffic suburban and rural locations.

Preferences for investors in retail buildings include these:

- a high-traffic location
- a consumer population with substantial disposable income
- strong credit tenants
- "net" leases that require tenants to reimburse for operating costs
- leases with provisions that allow rents to keep pace with inflation and that may allow the landlord to share in a tenant's success.

The most important of these is a high-traffic location. Buildings of relatively poor quality can command high rents if they are well located. Buildings with expensive finishes nevertheless earn only low rent if they are at low-traffic locations. "Traffic" may be either pedestrian or vehicular. The highest rents typically are generated by locations with heavy pedestrian traffic.

Retail Market (continued)

Retail buildings are usually one-story. Their common element is exposure to traffic. Retail buildings typically are not viable on side streets. Older storefront-style buildings were constructed before the car became dominant, and these remain in place in communities developed before 1940. Storefront buildings were built adjacent to the street line and relied on pedestrian traffic at older downtowns. Retail strips and malls became popular together with the car. These require large parking lots (usually to the front of the building), good exposure to traffic, and easy access in and out. Buildings with difficulties of low traffic, poor exposure, no parking, or difficult access become occupied by secondary tenants like supply companies and agency offices.

The most desirable rental arrangement for a building owner is a net lease. In a net lease, the tenant(s) pay operating expenses in addition to base rent. At strong locations with high rents, net leases are standard. At lower-rent locations, building owners are unable to obtain reimbursements, and rental arrangements are on a "gross" basis. Tenants typically are responsible for the build-out of the space they occupy. Build-out costs can be large for banks and restaurants.

Many landlords seek "percentage rent" clauses, particularly for franchise restaurant tenants. When the tenant's gross business exceeds a pre-established level, the building owner is paid a percentage of the business owner's sales above that level. The arrangement allows the landlord to take on a high-risk tenant like a restaurant. In return, the percentage rent arrangement allows the building owner to profit when the tenant's business succeeds.

Municipality and Neighborhood (Retail)

Municipality

Melrose

Neighborhood

- Street parking only
- Municipal water
- Municipal sewer
- Property is at a concentration of commercial buildings
- Most or all nearby spaces are occupied
- Bank(s)
- Medical office(s)
- Coffee shop(s)
- Moderate traffic (steady traffic; can cross on foot without light)
- Bus stop nearby
- Moderate foot traffic (typical kind of foot traffic at older suburban downtowns)
- Middle income community

Subject Property (Retail)

The subject property is described as follows:

- 3,700 square feet of gross building area
- One story of retail space (or one story with basement storage or work space)
- Storefront style (building fronts on sidewalk)
- Handicapped accessible
- New or updated building
- 100% air conditioned building
- Party wall with adjacent building(s)
- Basement under all or most of the building
- Good exposure (building or sign easily seen from road)
- Other (for instance, no on-site parking)
- Two occupants (either tenants or owner)
- No occupancy or minor occupancy by high credit tenants (less than 10% of the space)
- Building has no vacancies
- New owner could not take occupancy of 50% or more of the building

Income Capitalization Method (Retail)

Retail Analysis
Calculation of Value
Direct Capitalization Method

Rent -- $24.00/s.f. x 3,700 square feet =		$88,800
Other Income		0
Expense Reimbursements		25,409
Potential Gross Income:		$114,209
Vacancy and Rent Loss (5.3%):		- 6,053
Effective Gross Income:		$108,156
Expenses --		
Real estate tax:	$16,606	
Insurance:	1,800	
Heat:	2,785	
Electricity:	925	
Water and/or sewer:	925	
Maintenance:	2,368	
Management:	3,785	
Administrative:	2,379	
Replacement reserve:	0	
	$31,573	- 31,573
Net Income:		$76,583
Capitalization Rate:		/ 5.4%
Income Value Output:		$1,418,204
rounded to		$1,420,000

Income Capitalization Discussion

Market Rent is the annual rent that the property would bring if it were put on the market.

Other Income may be achieved through fees for parking, use of laundry machines, storage, and other sources.

Expense Reimbursement Income is common in leases of retail and industrial buildings. The tenant(s) may reimburse the building owner for some or all of a building's expenses. When they do, that is a "net" lease. When they don't and the owner pays all the expenses without reimbursements, that is a "gross" lease.

Vacancy and Rent Loss is a deduction for those times when space is not occupied or when a tenant can't or won't pay rent.

Real Estate Taxes are based on the property's assessed value.

Insurance is the cost of property insurance.

Heat is the cost of oil, gas, or any other fuel excluding electricity.

Electricity is the cost for lights, plugs, air conditioning, and, if the heat is electric, heat.

Water and Sewer are the charges, usually by the municipality, for either or both of these services.

Maintenance includes the costs of repairs, supplies, trash removal, snow plowing, landscape maintenance, cleaning, security, exterminating, elevator maintenance, and similar items.

Management is a cost that assumes third-party management rather than management by the owner. It pays for oversight of the building's operation.

General and Administrative Costs are for legal, accounting, architectural, secretarial, and other services.

A Replacement Reserve to allow replacement of fast-depreciating items like stoves in apartments is typically applied in the analysis of apartment buildings. It is usually not applied for analysis of office, retail, or industrial buildings.

The Capitalization Rate is the rate of return needed to attract investors. A high-risk, low-quality building requires a high capitalization rate to attract investors. A low-risk building requires only a low capitalization rate.

The Income Value Output is calculated as the net income after all expenses are paid divided by the capitalization rate.

The Income Value Output for the subject property is $1,420,000.

Comparable Sales and Conclusion (Retail)

Comparable Sale #1

23 Market Street, Ipswich, MA

Date of Sale: February 2018

Sale Price: $3,350,000.00

Building Area: 7,510 sq ft

Price Per Sq Ft: $446.07

Comparable Sale #2

180 Broadway, Chelsea, MA

Date of Sale: May 2018

Sale Price: $1,200,000.00

Building Area: 3,036 sq ft

Price Per Sq Ft: $395.26

Subject Property

100 Union Street, Melrose, MA

Date: November 27, 2018

Valuation Price: $1,420,000.00

Building Area: 3,700 sq ft

Price Per Sq Ft: $383.78

Comparable Sale #3

100 Boston Street, Salem, MA

Date of Sale: March 2018

Sale Price: $650,000.00

Building Area: 2,342 sq ft

Price Per Sq Ft: $277.54

Three sales are presented for comparison to the subject property. The sales are useful as comparisons for their similarity to the subject property in terms of location, building size, and building quality. The sales are at a position in the market similar to that of the subject property. They are competitive with the subject property as investments.

In general, the sales support a level of value similar to that found for the subject property through the Value Output from the Income Capitalization Method.

Conclusion

The Market Value Output for the subject property is $1,420,000.

Zaxia

Zaxia is an Automated Valuation Model (AVM) for commercial real estate. The model makes use of market data, algorithms that are designed and tested to produce accurate results, and inputs from our clients, the system's operators. Zaxia allows the operator the freedom to describe the operator's property, including its locational and physical characteristics and its rent and other financial characteristics. Used this way, the Zaxia system allows the operator to describe the property either "as is" or as it might be after a program of upgrades, so that the operator can test the feasibility of the upgrades. Zaxia can produce valuations in the absence of inputs for financial characteristics from the operator. However, greatest accuracy in the results can generally be achieved with complete and accurate inputs by the operator.

Zaxia maintains confidentiality with respect to the Market Value Output delivered to the operator. It maintains confidentiality with respect to the financial inputs. Outside Zaxia, no one but the operator can access the operator's Market Value Output. The operator is able to return to Zaxia, retrieve the inputs from a prior session, and edit the inputs, in order to produce a new result.

Zaxia is best suited to analysis of income-producing property with a stable income stream. It is less well suited to properties at which the income stream is likely to vary significantly from year to year. It is not suited to properties that are not income-producing, such as development land, gas stations, or schools.

The Market Value Output applies only to the part of the property that produces the income stream. If a property includes other substantial sources of value like surplus developable land, the value of that other property is not reflected in the Market Value Output.

The Market Value Output is effective as of the date on which the valuation is made and not as of a date in the past or future.

Zaxia's Market Value Outputs are tested against known selling prices of properties, with the results of these tests used to adjust the factors in our algorithms for greater accuracy. The Market Value Outputs delivered online are the product of the system and are not reviewed "in real time" by Zaxia personnel. When a Zaxia Report is reviewed by an appraiser or other person operating in the capacity of an appraiser, a Zaxia Report can be used as part of an appraisal.