

## Gas Stations

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Gas stations are among the most common types of commercial real estate and the most difficult to appraise. The valuation of a gas station can be as simple as the gathering of a handful of good comparable sales and valuation analysis of the same kind that is applied to a house. Or it may involve analysis on different levels: of income, of a going concern, of construction cost, and of equipment.

The gas stations of the early 20th century were vehicle-oriented facilities offering gas, oil, repairs, and accessories and often sporting decorative architecture like domed roofs and columned fronts. By mid-century, these had evolved into the standard, functional two-bay concrete block station with pumps out front, the kind of stations that line the main streets of the era. Gas sales and car repair became separate functions. Gas stations of the '70s and '80s were sited on large lots near highway interchanges. Older gas stations often abandoned gas sales in favor of repairs. The trend in recent years has been to the development of convenience stores, or "C-stores," that offer very little for the car other than gas but everything - chips, doughnuts, coffee, and magazines - for the people inside. *National Petroleum News* reports that, nationwide, between 1994 and 2000, sales volume in C-stores grew by 86%, versus a lower growth rate of 46% in the retail gas industry as a whole. All these different types of gas stations remain on the landscape. At one time or another, it may be the job of the appraiser to value any one.

The Sales Comparison Approach is the most useful method of analysis for an older two-bay station. Because most of the value is in the land, comparisons are generally made on the basis of the price paid per square foot of land. Important differences between a subject property and a comparable property that has sold may be in terms of traffic volume, exposure (does the traffic have time to look or just whiz by?), access (is half the traffic blocked by a median?), presence of nearby competition, and the contribution of the building (tired and old or up-to-date?). It also can help to know the comparable property's tank capacity, the age of the tanks, whether contamination has occurred, and whether side agreements were involved in the transfer of pumps and lifts. A superior appraisal ferrets out that data.

The Income Capitalization Approach can be applicable for a gas station. The aim is to make comparisons from the rental arrangements for other gas stations to derive a net income for a subject property and to capitalize the result. One obstacle to this approach is in obtaining information from landlords and tenants who are tight-lipped. Another is that gas station leases are often accompanied by vendor agreements that require the tenant to buy petroleum product exclusively from the landlord. The real estate lease then is only part of a larger relationship, making the rental information less than useful.

The Cost Approach is applicable in the valuation of a newly constructed station. Much of the cost is incurred for what is typically considered equipment, requiring allocation of the value to different components (real estate, personal property) when the interest of the client (a lender

encumbering only the real estate for collateral; a condemning authority; a tax assessor) is in the real estate alone.

A fourth analysis considers the value of the going concern. A station may have value beyond that reflected in its real estate and equipment. Valuation of the going concern is made through analysis of historic and prospective income and operating costs.

Part of the work of an appraiser is to determine which of these analyses is likely to be useful in a given assignment. It is important at the start that the appraiser and the client be clear what is to be valued and which methods applied.

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