



Commercial Insights



Risk Management Insights

What Fuels the Value of Gas Station/Convenience Store Properties?

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Gas station/convenience stores are generally considered to be a special-use property, and are unique in their valuation when compared to other commercial properties. They have essentially evolved from a variety of other property types such as ice houses, dairy stores, neighborhood grocery stores and even small restaurants/delicatessens, and with the addition of fueling services, have become the gas station/convenience stores that we know today.

Characteristics that can significantly influence the overall income generating potential, and more specifically the value, of a gas station/convenience store include factors such as the size of the site, the number of fueling positions, the overall quality of the site's location as a retail use, prevailing traffic speeds, the number of required turning maneuvers to both enter and exit a site, the flow thru traffic patterns through the site, the number of curb cuts, and traffic counts. In addition, the size of the c-store itself and the configuration of the c-store can greatly impact the potential of either c-store or food sales of a property, which are today's driving force behind gross profits. In general, the convenience and quality/quantity of consumer products is what essentially drives the sales, and thus the value of most gas station/c-store properties.

According to the National Association of Convenience Stores (NACS) constitution and bylaws, the NACS definition of a convenience store is:

"... 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." While such operating features are not a required condition of membership, convenience stores have the following characteristics:

- (a) While building size may vary significantly, typically the size will be less than 5,000 square feet;
- (b) Off-street parking and/or convenient pedestrian access;
- (c) Extended hours of operation, with many open 24 hours, seven days a week;
- (d) Convenience stores stock at least 500 SKUs; and
- (e) Product mix includes grocery type items, and includes items from the following groups: beverages, snacks (including confectionery) and tobacco.

According to the NACS *State of Industry Report — 2009/TDLinx*, a service of the Nielson Company, the number of convenience stores has increased since 1995 from 101,000 to 144,541 in 2009, of which 115,340 properties offer fuel. Of the six U.S. regions, the Southeast region has the most convenience stores, with a total of 36,055 properties including 31,030 properties offering fuel.

In terms of physical characteristics, a property's age, condition and curb appeal often drives both fuel and store sales, but more often than not, other factors such as convenience, traffic and competition will have a more direct negative or positive affect on a property's income generating potential. Another physical characteristic of a property that must be noted though, is the type of underground fueling system that is in place. A property's value can change significantly depending on whether or not the property has compliant underground fuel lines and fuel tanks, with some states requiring that all single-wall underground fuel lines and fuel tanks be replaced with double-wall fuel lines and fuel tanks. Costs to replace these underground fuel lines and fuel tanks typically cost \$150,000–\$250,000, depending on the size and number of tanks, as well as the length of the necessary underground piping and any other necessary site work.

In general, the average size site and average size c-store has trended upward significantly in the past several years. Many newer properties are constructed on sites that range in size from one acre to one and a half acres, with average size c-stores ranging from 3,000 to 4,500 square feet. Furthermore, c-stores are increasingly being designed to account for one or two quick service restaurant areas (QSRs), more walk-in cooler doors, beer caves, and larger fountain drink and coffee stations. C-store operators are increasingly turning to food-service to drive traffic and improve profitability, with most QSRs generating a substantial percentage of a property's inside sales. Nearly every major QSR segment has a presence in the c-store channel. Furthermore, generic food such as fried chicken and deli sandwiches prepped in-store are becoming increasingly common.

This is far different from the days when most gas stations were owned and operated by oil companies and most stations were constructed as small food booths (less than 1,000 square feet), with the primary focus on generating fuel profits. This is in effect a result of the significantly higher profit margins that are obtained from both c-store and food sales. Average c-store profit margins typically range from 25–30 percent, while food margins are often 40–60 percent. Meanwhile, average fuel margins as a percentage of gross sales have trended downward significantly over the past 10 to 15 years as fuel prices have increased from what used to be around 12 percent in 1995 to today's current figures of approximately 5–6 percent. Fuel margins on a price-per-gallon basis, however, have been somewhat consistent during this time frame, typically ranging from approximately \$0.10–\$0.17 per gallon. As an interesting note, many property owners have reported that net fuel margins typically decrease as the price of fuel increases.

Cigarettes typically account for the highest percentage of in-store sales, averaging roughly 30–35 percent of c-store sales, while packaged beverages have the second highest percentage of in-store sales, averaging roughly 15 percent of c-store sales. Beer accounts for the third highest percentage of in store sales, averaging roughly 5–10 percent of c-store sales. The highest merchandise gross margin is typically packaged beverages, followed by cigarettes.

Car washes are also becoming increasingly popular with operators and are becoming standard installations on many new gas station/convenience store properties with adequate land area. Data indicates that car washes increase both store sales and fuel sales, in addition to another profit center with average net car wash margins typically ranging from 70–90 percent.

The valuation of gas station/convenience store properties is unlike most other commercial/retail properties in that there is a business component involved in their operation that in essence makes the income approach a vital component of valuation for these properties.

At one time, many gas station/c-store properties were valued by primarily utilizing a gallonage multiplier. However, the use of a gallonage multiplier has become less reliable as properties place more emphasis on c-store and food sales. When oil companies owned and operated most gas station/c-store properties and focused their sales effort on fuel sales, many properties tended to sell based on a gallonage multiplier of approximately 1.0. Today, however, gallonage multipliers typically range from as low as 0.75 to as high as 2.75, with most properties selling based on a gallonage multiplier in the 1.0–1.50 range.

In order to accurately value the fee simple interest of these properties via the income approach, one must be able to accurately project fuel sales and fuel margins, c-stores and c-store sales margins, food sales and food margins (if applicable), car wash sales and car wash margins (if applicable), other income, and operating expenses. Given the difficulty in obtaining this information on comparable sales and operating comparables — this information is usually well guarded — obtaining detailed and accurate historical operating information on the subject property is often essential in accurately valuing a property.

Other components that are essential in the valuation process of a gas station/c-store are determining appropriate operational costs, gross income multipliers (GIM) and cap rates. As a percentage of gross income, operational costs typically range from 40–70 percent. Of these costs, wages are typically the largest expense, followed by food service and other wages not broken out, utilities, repairs and maintenance, and credit card fees. It should be further noted that large chain firms tend to have higher operational costs than small owner-operators, with most chains spending more for labor (including fringe benefits) and other expenses than small operators.

Gross income multipliers (GIM) and cap rates are typically both extracted from comparable sales and again are often difficult to obtain. Gas station/convenience stores are a specialized segment of the market and cap rates are not tracked by the national surveys. Capitalization rates for triple-net leased stations to companies such as 7-Eleven or Circle K, typically range from 6–8 percent depending on various factors but most notable the quality of the tenant and the length of the lease term. However, a fee simple capitalization rate will have to be loaded for the increased risks associated with a small business operating in a specialized facility and cap rates will typically range from 10–16 percent.

In conclusion, numerous factors are fueling the value of today's gas stations/c-stores, with most new stores focusing more on the higher profit generators such as c-store and food sales, and less on fuel sales. As the gas station/c-store customer's convenience needs have evolved, the industry has also had to continuously evolve and adapt to meet the ever-changing needs of the customer. These changes have been paramount to the continued success of the gas station/c-store industry and will be the key driver to its growth and future success.

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