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**Appraising Convenience Stores: Focusing on Highest and Best Use to Explain  
Damages Caused by Reductions in Access**

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## Appraising Convenience Stores

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### Focusing on Highest and Best Use to Explain Damages Caused by Reductions in Access

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#### **Introduction**

Degradation or diminution of access to real property can have a severe negative impact on the property's fair market value. The key to explaining the impact (or lack thereof) that a change in access may have on a property in the context of a condemnation action is in the Highest and Best Use analysis portion of the appraisal report and the appraiser's testimony. This article and presentation explore the sometimes complex issue surrounding the concept of access in condemnation cases and how it relates to highest and best use in the particular example of convenience stores.

#### **Why Convenience Stores?**

Convenience stores are both uniquely susceptible to damage from changes in access, and they are, in most markets, one of the highest and most valuable land uses per square foot. They also are very plentiful and very close to roads and intersections by their nature, which puts them in range of all forms of road widenings and road improvement projects. While the same analysis will apply to varying degrees to other types of land uses, convenience stores help illustrate our point best.

Convenience stores are all about speed. The average time it takes a customer to park, walk in, purchase an item at a C-Store, walk out, and depart is under 4 minutes.<sup>1</sup> For customers who are purchasing gas only and paying at the pump, they spend almost no time at the site other than the time it takes to navigate the pump instructions and dispense fuel. This is what C-Stores are selling – your time. You can buy cigarettes, beer, ice, a soft drink, coffee, at many other places, but you buy them at a C-Store when you want to save time. This is important to remember when an access change makes a driver spend any additional amount of time getting into, navigating around, or leaving the property.

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<sup>1</sup> NACS Speed Metrics Research, 2002

C-Stores are everywhere. There are over 152,000 C-Stores in the United States — one for every 2,095 people.<sup>2</sup> As will be explained below, ready alternatives to one C-Store make each C-Store more susceptible to damages from changes in access.

C-Stores sell essentially the same or fungible goods. Fuel is fuel. Ice is ice. Beer is beer. Losing lottery tickets are losing lottery tickets. Even the prepared foods at C-Stores almost all seem the same. Would you really use a less convenient C-Store when more convenient ones are available?

C-Stores have very high customer numbers. The average C-Store in United States that sells fuel will have around 1,100 customers per day – more than 400,000 customer visits per year.<sup>3</sup> The business model for C-stores demands very high customer numbers to because most transactions are relatively small. The average in-store sale transaction amount is less than \$2.00. While the average fuel purchase is \$17.00, there are very, very small margins on fuel sales especially once the credit card fees are considered.

C-Stores operate on thin margins. The average C-Store will register sales of around \$5 million per year, and of these sales, only \$1.3 million will be inside sales as opposed to fuel sales.<sup>4</sup> The average C-store will generate a profit, after all expenses but before taxes, of around \$46,000.<sup>5</sup> Any business model that relies on a less than 1% margin needs very, very high customer volume and gross sales. The slightest interruption or impediment to customer volume can rapidly erode the property's ability to be used as a C-store since it would be unprofitable to do so.

C-Store sites have very high per square foot market values and they tend to be one of, if not the, highest per square foot land use type in most markets. This means that a site suitable for C-store development (or a viable C-store that is operating in the before condition) may be the most profitable, and thus the Highest and Best, type of land use to which a commercial property could be put. This also means that any step away from this land use is likely a step down in the per unit market value of the remainder.

### **Not all Degradations in Access have the same impact**

All property is unique, and so of course each C-store is unique even though they seem very, very similar to the casual observer. The market value of some C-stores will react differently, or not at all, to changes in access due to market factors. Consider two C-Stores that are exactly the same in every physical aspect - same number of pumps, same amount of square feet, same age of building and improvements, even same brand of gasoline being sold. Further

<sup>2</sup> Nielsen, as of December 31, 2014

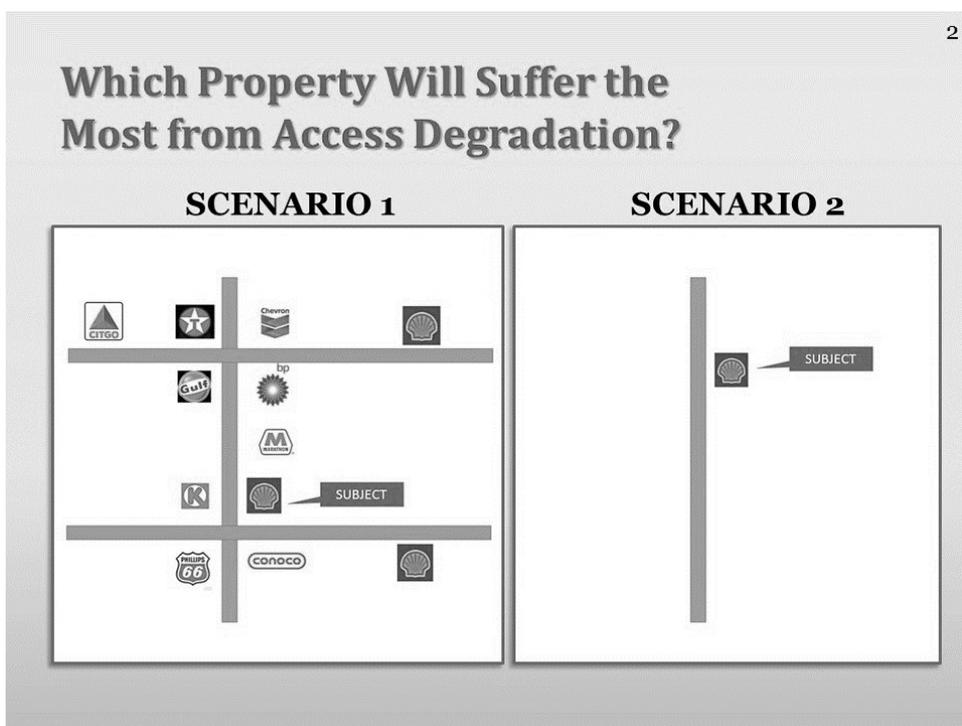
<sup>3</sup> NACS Website ([www.nacsonline.com/Research/](http://www.nacsonline.com/Research/)).

<sup>4</sup> *Industry Report*, Convenience Store News. 2014.

<sup>5</sup> *Ibid*.

assume they each have the same number of customers per year, the same gross income, the same expenses, the same profit. Further assume that both of these sites have the exact same number, width, and location of access points into the store from the adjoining road. Further assume both stores have the exact same fair market value in the before condition. Now assume that both of these stores are the subject of a road widening project that takes the same small portion of land from each store, does not take any of the improvements, but renders the site less accessible to the public in the after condition. All other things being exactly the same, which of the stores shown on Figure 1 is more likely to suffer a greater injury in market value in the after condition due to the degradation of access?

**Figure 1**



The answer is the C-Store in Scenario 1. The reason is because a greater number of purchase alternatives exist for the store in Scenario 1. Even a slight reduction in accessibility or convenience to the subject property in Scenario 1 could cause a significant enough number of customers to shift their purchase decision to one of the rival locations. Conversely, no ready alternative appears to be available for customers patronizing the store in Scenario 2, so while access might even be severely impaired, the store may retain enough of its customers to continue to operate thereby retaining the same per unit value in the after condition for the remainder.

The point is that the number, width, and quality access is not just a characteristic of the site, but is also a function of market position, or the location within the trade area in relation to alternative choices. How good is one sites access relative to the other purchase alternatives? So while all property is unique, every C-Store site is made even more unique due to the complicating factor of considering its characteristics relative to competing stores. This is where