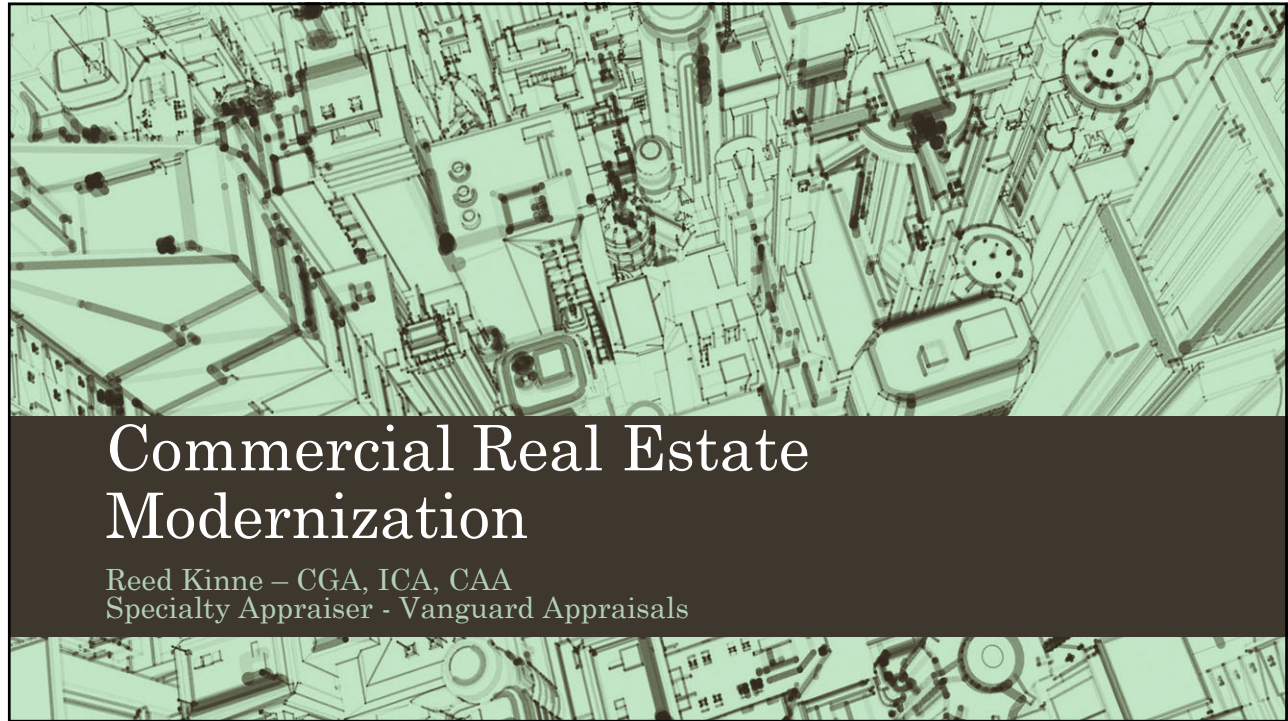




Commercial Real Estate Modernization

Reed Kinne – CGA, ICA, CAA
Specialty Appraiser - Vanguard Appraisals

1

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2

Midwestern History

- Pre WW2 construction
- Central Business District
 - Overwhelmingly brick construction
 - Multi-story
 - Attached buildings
 - Narrow
 - Basements
 - HVAC



3

Midwestern History

- 1950's-1960's
- Starting to see creation and expansion of several commercial occupancies
 - Prior: Retail, Office, Hotel
 - Developing: Garden style Apartments, Warehouses, Shopping Malls



4

Midwestern History

- Modern
- Consumerism
 - Ballooning need for warehousing
 - Drive thru options
 - Speed

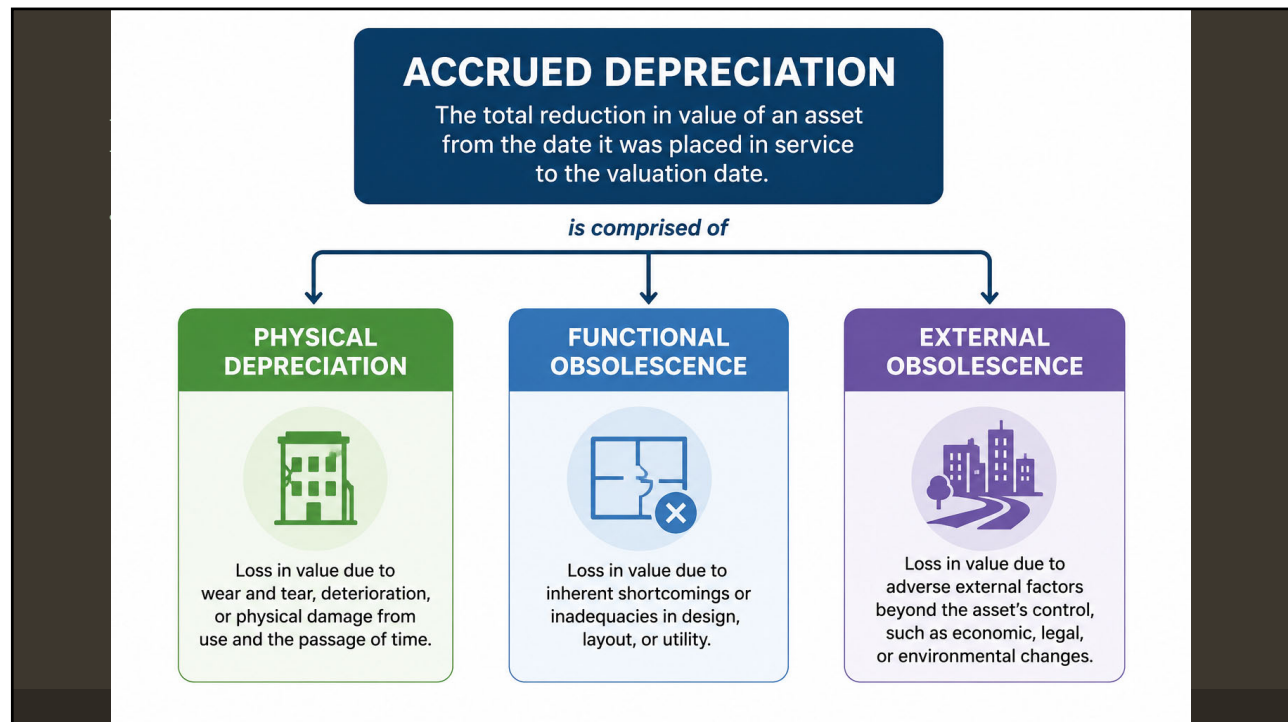


5

Evolution of Commercial Real Estate

- What do these changes have to do with real estate?
- What about Appraisal?
- Loss in value due to lack of utility
 - ----- ????

6



7

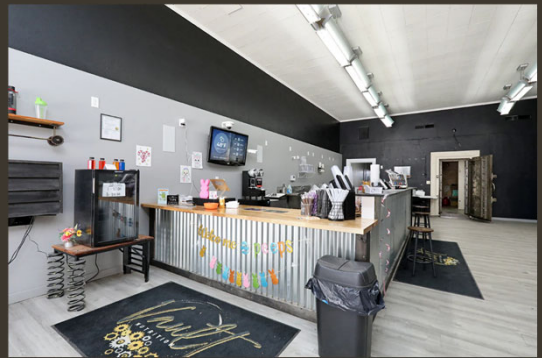
Retail

- Originally founded by open air markets
- 1920's downtown buildings (apartment/office uppers)
- 1950's - Started seeing mixed use shopping centers
- 1990's - Emergence of large retail or "Big Box" stores
- 2000's – Online retailers start to grow
- Modern – "experience retail" and service oriented bldgs
 - Salons, Medical, Specialized

8

Retail - Historical

- Retrofitting old bldgs to modern demand
- Width restrictions
- Plumbing concerns
- Basements
- Multi-story
- Functional utility
 - Drilling thru brick walls



9

Retail - Modern

- Large “Big Box” megastores
- No width restrictions
- Ample plmg
- No need for bsmts
- Single Story
- Back of the House Storage for warehousing and mechanicals



10

Retail - Modern

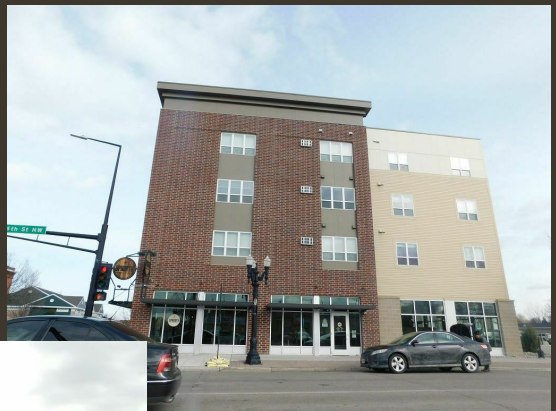
- Neighborhood Shopping Centers
 - “Strip malls”
- Anchor stores
 - Not needed, but can still have
- Allow for mixed use in small area
 - But you don’t need to walk thru an entire mall



11

Retail - Modern

- Recycled ideas



12

Restaurant - Historical

- Same limitations as Retail
- Sit down dining only
- Limited kitchen prep
 - Layout
 - Amenities
 - Range Hood ventilation



13

Restaurant - Modern

- Rise of fast food
- Drive-thru
 - Thicker pavement
- Online ordering
- Kitchen prep
 - Larger Prep Areas
- Kiosks



14

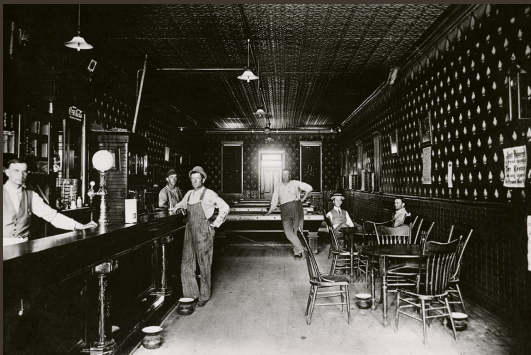
Restaurant – Functional Obsolescence

- Inadequate Parking
- No Drive thru potential
- Limited Kitchen Prep amenities
 - Could price as a bar instead

15

Bars / Lounges - Historical

- Same limitations as Retail



16

Bars / Lounges - Modern

- Rooftop Bars
- Outdoor activities
- Breweries / Distilleries



17

Bar/Lounge – Functional Obsolescence

- None
- People don't care where they drink



18

Gas Stations

- First Filling station: 1905 in St. Louis
- Full-Service, Drive-in Pre-1950
- 50's thru 80's mostly self service
- 1970's fuel crisis
 - Needed to sell more than fuel
- 1990's – large scale automation
 - Pay at the pump
- Retail sales
- EV charging
- Restaurants



19

Gas Stations

- Service stations are rarely still operational
- With or without bays
- Once gas is no longer sold, functional obsol spikes. Usually becomes personal storage.
- Sale prices are very low
- Hot food sales
 - Attached FF Restaurants
- Dedicated diesel lanes
- Car washes



20

Gas Stations

- Convenience Store



- Travel Center



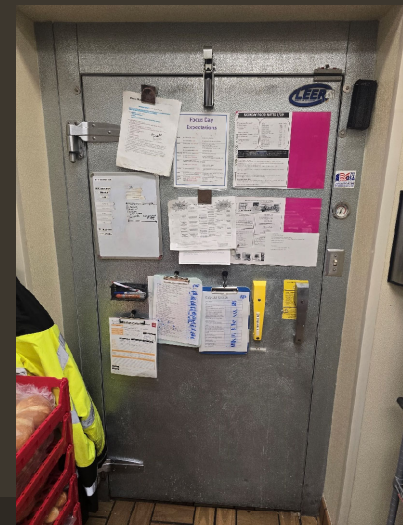
- Truck Stop



21

Gas Stations - Appeals

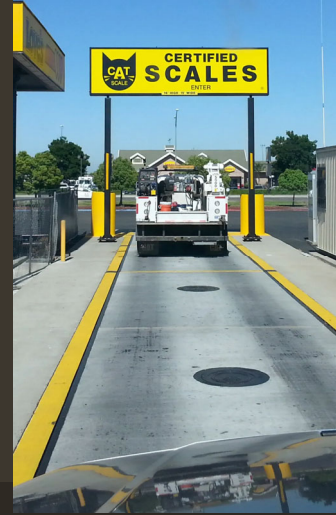
- Modern Convenience stores are not comparable to 80's, 90's stores
- Considerable differences in amenities
 - Interior commercial grade kitchen amenities



22

Gas Stations - Appeals

- Modern Convenience stores are not comparable to 80's, 90's stores
- Considerable differences in amenities
 - Dedicated semi/diesel sales
 - Truck Scales



23

Gas Stations - Appeals

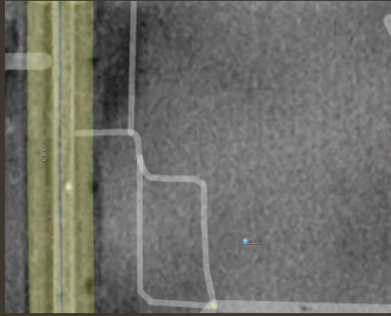
- Modern Convenience stores are not comparable to 80's, 90's stores
- Considerable differences in amenities
 - Car washes



24

Gas Stations – Altoona, IA

• 1990



• 2000 (completed 1996)



• 2010



25

Gas Stations - Appeals

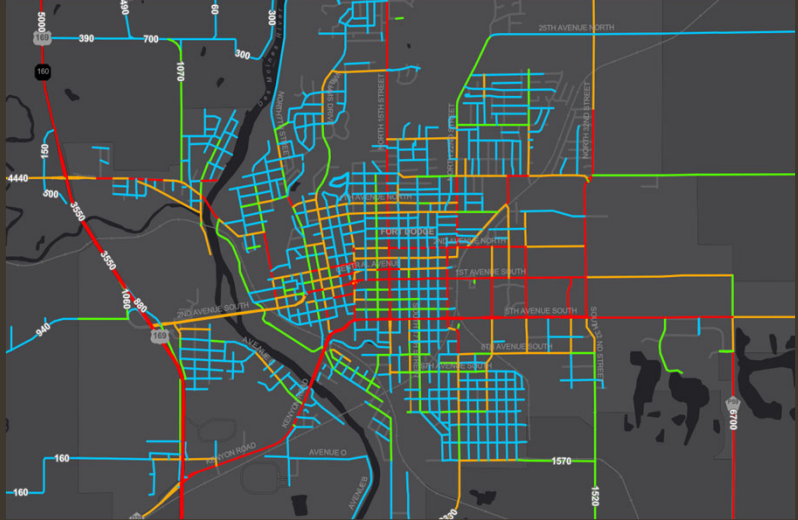
- Modern Convenience stores are not comparable to 80's, 90's stores
- Considerable differences in amenities
 - Fuel Capacity = \$4-5/gallon
 - Parking differences = \$5-8/SF
 - Curbs and yard lighting



26

Gas Stations - Appeals

- Locational Differences:
 - Compare traffic counts
 - Competition



27

Gas Stations

- Questions?

28

Grocery Stores- Historical

- Sell food only
- Lower eave height



29

Grocery Stores- Modern

- Taller eaves
 - Office mezzanine
- More parking
- Several business within
 - Pharmacy, Bank, Coffee Shop, liquor store, restaurants



30

Grocery Stores- Modern

- 50's themed diner inside

2014

- 1st – The Lucky Pig Pub & Grill, Ogden
2nd – Brick Street Café, Bondurant

Top Five:

- TC's Point After, De Witt **
B&S's 529, Carroll **
Go Fish Marina Bar & Grill, Princeton
Menlo Café, Menlo **

2013

- 4th – River Bank Café, Mt. Pleasant **



31

Offices - Historical

- Similar restrictions to retail
- Old downtown bldgs
- Shared RR's



32

Offices - Modern

- Large Corporate Offices
- Amenities:
 - Cafeterias
 - Gym/Rec facilities
 - Daycare
 - Game rooms
 - Greenspace/walking paths



33

Apple Park

- California, 2017
- \$5 billion cost, 2,820,000 SF
 - 1 mile circumference
- Entirely powered by renewable energy
- No HVAC needed 9 months a year
- 100,000 SF fitness center
- 80% of the site is green scaped
- 11,000 parking spaces
 - -mostly within a garage



34

Offices - Obsolescence

- Multi-Tenant
- Covid-19
- Appeals
- Lack of windows
- Layout flaws

35

Bowling Alleys - Historical

- Very simple design
- Typically, lanes and a small bar
- Roots back to 5200 B.C.
- 1950's - pinsetters



36

Bowling Alleys - Modern

- More than just bowling.
- Expansive restaurants/bars
 - Projection screens for events
- Escape Rooms
- Laser tag
- Arcades
- Mini-golf
- Go Karts



37

Skating Rinks - Historical

- Very Popular – 50's thru 80's.
 - 1970's – Roller disco boom
- In-Line skates (roller blades)



38

Skating Rinks- Modern

- Very Rare
- Iowa City, IA, San Diego



39

Ice Rinks

- Typically, privately owned rinks are not financially feasible outside of large metro areas
- Municipal are common in metro areas
- Operating costs are extensive
- May have contributed to the decline of traditional skating rinks



40

Banks- Historical

- Emphasis on ornamental design and prestigious finishes
- Sign of wealth
- Client confidence/trust
- Offices with teller lines, lobby, vault



41

Banks- Modern

- Quality is determined by market
- Vaults becoming rare
- Drive-thru's are essential
 - Lack = Obsolescence



42

Banks- Vaults



43

Banks- ITM (Interactive Teller Machine)

- ITM
 - Live Teller Assistance
 - Extended hours (possible)
 - Needs ID (debit card not needed)
 - Check cashing w/ exact change
 - Open accounts, loan payments
- ATM
 - No Live Teller Assistance
 - 24/7
 - Debit/ATM card needed
 - Standard withdrawals and deposits



44

Credit Unions

- Are they Banks?
- Or are they Offices?
- Depends on the amenities



45

Theaters - Historical

- Downtown buildings
- Connected to other buildings
- Live shows only originally
- Picture shows came to Chicago in 1905
- Didn't spread much into the smaller Midwest communities until the 1910's and mostly 1920's.



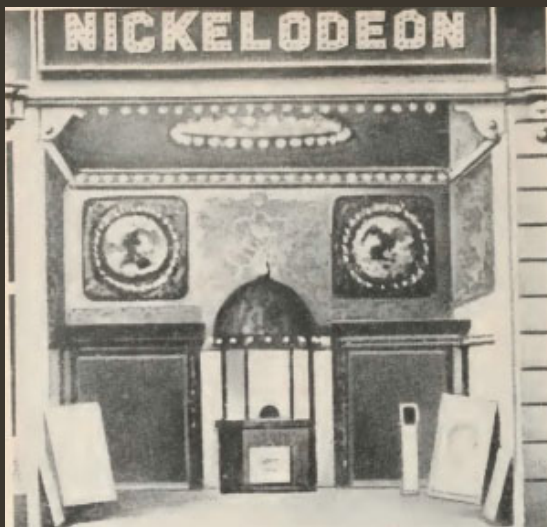
46

Theaters - Historical

- Original shows cost 5 cents and were viewed in makeshift or converted storefronts.
- Some say these were the birthplace of modern cinema.
- Eventually gave way to “movie palaces” in the 1920’s
- What is the name for this type of theater?

47

Theaters - Historical



48

Theaters - Historical

- What is the oldest continually run theater in North Dakota?

49

Scenic Theater – Lisbon, ND

- Opened in 1911



50

Theaters - Modern

- Not always a dedicated theater
- Competition from online movie/tv subscription platforms
- Entertainment Centers
 - Bars, Restaurants, Arcades



51

Theaters - Modern

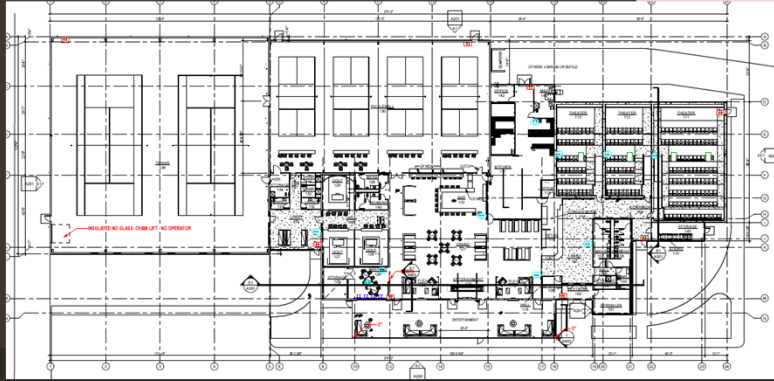
- Technology upgrades
 - IMAX
 - 3D
 - XD / 4K
- Power reclining seats
- Food delivery (app supported)
- Immersive audio systems
- 4DX
 - Panoramic screens
 - 270 degree views



52

Theaters - Modern

- Tennis and Pickleball
- Restaurant/Bar



53

Theaters

- Which likely suffers from functional obsolescence?



54

Funeral Homes - Historical

- Started in residences
- Shifted to funeral “parlors” in 1920’s



55

Funeral Homes - Modern

- Modern facilities have preparation rooms
- Can have Crematorium
 - Incinerator itself is usually personal property
- 50,000 SF new facility
 - Located outside town of 713 population
- Garage has its own wash bay



56

Hotel/Motel- Historical

- Date back to Roman Empire
2000's BC
- 705 AD – Oldest
continuously run hotel –
Japan
- Wild Wild West:
 - Inns, Taverns, Hotels,
Roadhouses



57

Hotel/Motel- Historical

- 1950's – Drive inn style
- Exterior entrances
- Outdoor pools



58

Hotel vs Motel (Merriam-Webster)

- Hotel:
 - Multi-story
 - Interior corridors
 - Central lobby
 - Wide range of amenities
 - Pools, room service, etc.
- Motel:
 - Low-rise
 - Room doors open directly to parking lot
 - Budget friendly
 - Minimal amenities

59

Hotel/Motel- Modern

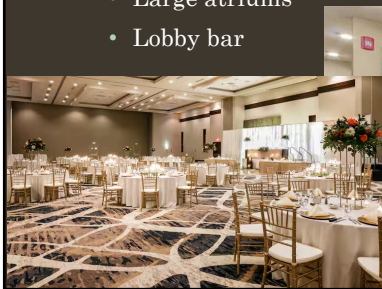
- Resorts
- Conference Centers
- Extended Stay



60

Hotel/Motel

- Modern Amenities:
 - Indoor pools / waterparks
 - Elevators
 - Commercial grade kitchens for breakfast
 - Mini-fridge/microwave
 - Covered Parking
 - Large atriums
 - Lobby bar



61

Hotel/Motel- Obsolescence

- Westchestertonfieldville, IA
 - Movie???
- Has a 50's exterior entrance only motel
- Has a Super 8
- Large, new conference center w/ indoor pool is built
- Previous hotel/motel would likely suffer a loss of income due to this.
- What kind of obsolescence would this be an example of?

62

Hotel/Motel- Obsolescence (Market Extraction)

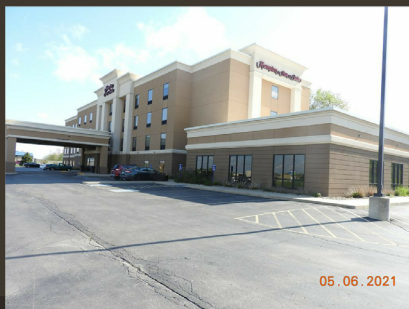
- 2022 sale - \$7,100,000
 - No FF&E
 - \$2,000,000 remod post-sale
- 2009 - (3 grade / D Good)
- 80 rooms (\$88,750 / room)
- Large pool, hot tub, one conference room, multiple elevators
- 2021 sale - \$2,080,000 +/-
 - 'Claimed' \$800,000 FF&E
- 1997 - (4 grade / D Avg)
- 49 rooms (\$24,490 / room)
- Small indoor pool
- 2021 sale - \$500,000
 - \$100,000 FF&E
- 1958 - (5 grade / D Low)
- 30 rooms (\$13,333 / room)
- Small indoor pool



63

Hotel/Motel- Obsolescence (Market Extraction)

- 2022 sale - \$7,100,000
- 2009 - (3 grade / D Good)
- Marshall:
 - \$174.00/SF x 55,992
 - 45 yr life = 12% phys depr
 - \$8,573,495 (121% ratio)
- 2021 sale - \$1,800,000 +/-
- 1997 - (4 grade / D Avg)
- Marshall:
 - \$137.00/SF x 24,826
 - 40 yr life = 40% phys depr
 - \$2,040,697 (113% ratio)
- 2021 sale - \$400,000
- 1958 - (5 grade / D Low)
- Marshall:
 - \$114.00/SF x 7,793
 - 40 yr life = 80% phys depr
 - \$177,680 (44% ratio)



64

Hotel/Motel- Obsolescence (Market Extraction)

- | | | |
|----------------------------|-------------------------------|---------------------------|
| • 2022 sale - \$7,100,000 | • 2021 sale - \$1,800,000 +/- | • 2021 sale - \$400,000 |
| • 2009- (3 grade / D Good) | • 1997- (4 grade / D Avg) | • 1958- (5 grade / D Low) |
| • VCS: | • VCS: | • VCS: |
| • \$169.15/SF x 55,992 | • \$137.06/SF x 24,826 | • \$114.70/SF x 7,793 |
| • 23% phys depr | • 38% phys depr | • 45% phys depr |
| • \$7,292,706 (103% ratio) | • \$2,109,644 (117% ratio) | • \$491,621 (123% ratio) |



65

Casinos - Historical

- 1638 – Venice, Italy
- 1832 - First in US – Un Monte (California)
- 1895 – First mechanical slot machine
- 1960's – electric slots
- 1970's – video slot machines
- 2010's – facial recognition
- 2020's – Emergence of online sports apps
 - Tied to sports books in casinos



66

Casinos - Historical

- 1931 – Las Vegas legalizes gambling
- 1941 – El Rancho built
- 1966 – Caesar's Palace
- 1976 – Atlantic City legalizes gambling
- 1989 – Mirage
- 2006 – Macau overtakes Las Vegas
 - Revenue



67

Casinos - Modern

- Very typical to see them built on the border of a state who has stricter gambling laws.
- Also built near the edge of city
 - Attracts in town and out of town patrons
- Casinos will typically do better if they have a hotel attached.
 - More amenities increases the attraction
 - Golf courses
 - Better restaurants



68

Apartments - Historical

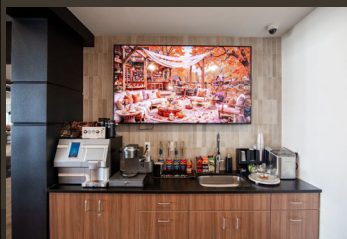
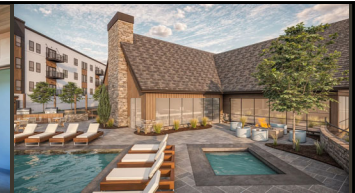
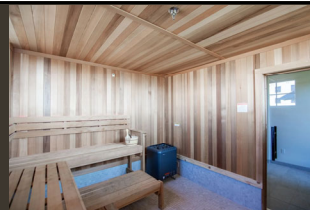
- 1800's – immigration tenements NYC
- 1880's-1920's – Invention of elevators and steel frame construction allowed for high-rise
- 1950's-70's – Garden apartments become common in Midwest. 4-unit, 8-unit
 - 1st flr often ½ submerged
- Coin-op laundry
- Window A/C
- Central Boiler



69

Apartments - Modern

- Larger, multi-bldg complexes
- Amenities:
 - Community Center
 - Pools
 - Fitness Center
 - Café/coffee shop
- Units now have their own laundry machines
- Multiple bathrooms
- FHA, A/C



70

Apartments – Assisted Living

- Relatively newer concept
- More common area elements
- Large, commercial grade kitchen prep
- Large dining hall
- Game rooms
- On site staff

71

Auto Sales/Service - Historical

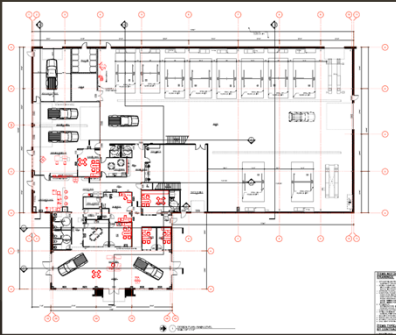
- 1965 – Auto Malls were created
 - One stop shopping – multiple dealers
- Low ceiling heights
- Small doors



72

Auto Sales/Service - Modern

- Franchise Requirements
- Taller Eaves
- Exhaust Systems
- Larger Doors



73

Auto Sales/Service - Modern

- Exhaust Systems



74

Car Washes - Modern

- Pet Washes
- Lobbies to watch car being washed
- Car mat washers
- May not impact value of older car washes. They can offer lower prices.



75

Mini-Storage

- Climate Controlled options
- Plumbing
- Office
- Retail – sales of boxes, straps, dolly rentals, etc
- Moveable metal partitions
- May not impact older properties



76

Warehouses - Historical

- Multi-story was not uncommon
- Abundance of windows
 - Why?
- Rarely meet today's demands for storage.
 - OHD's, clear spans, fork lift traffic, heat/refrigeration
- Still good buildings
 - Old industrial look is in favor
 - Buildings get converted into other occupancies
 - Breweries/Distilleries
 - Escape Rooms
 - Vintage retailers



77

Warehouses - Modern

- Very high demand
- Single story
- Large OHD's
 - Rapid OHDs - refrigeration
- High eaves (clear span)
- Multi-tenant options
- Good layouts
 - Designed w/ semi traffic in mind
 - Dock Level (Transit and Distribution style)



78

Warehouses – Mechanized

- Mechanized or Automated



79

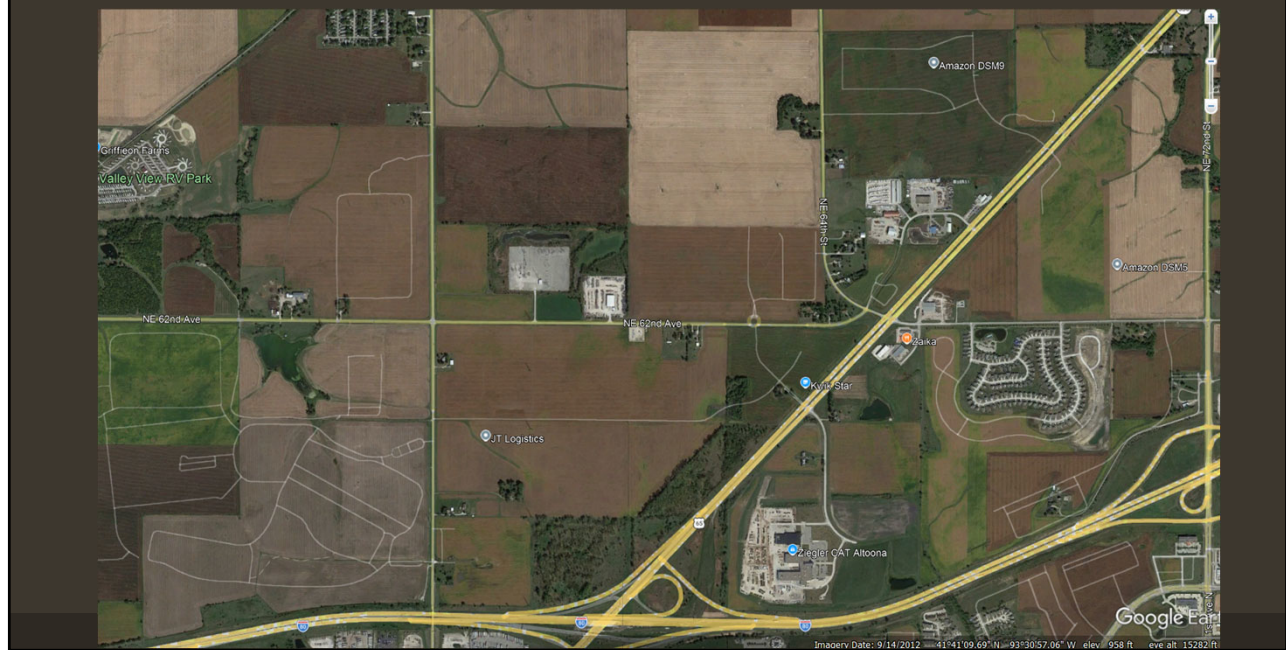
Warehouses – Layout Obsolescence

- Which would likely suffer from layout obsol?



80

Warehouses – 2012



81

Warehouses – 2024



82

Warehouses – Growth

Decade ^{SP}	Population
1900	~297
1970	462
1980	1,283
1990	1,584
2000	1,846
2010	3,860
2020	7,365
2026 (Estimate)	10,117

83

Warehouses - Refrigerated

- Automated Storage and Retrieval System (ASRS)
- Autonomous Mobile Robots (AMR)
- AI Maintenance – cooling equipment
- AI cameras – detect issues



84

Warehouses - Metal

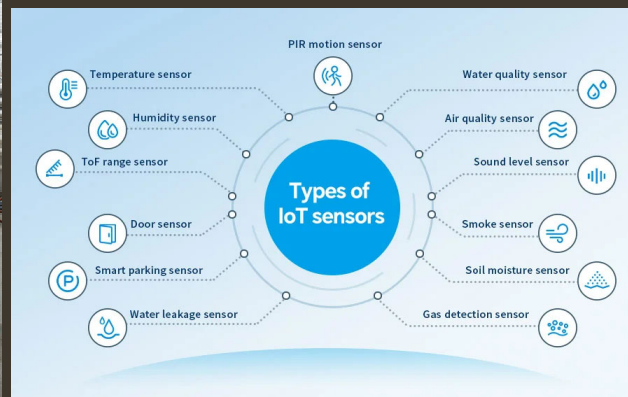
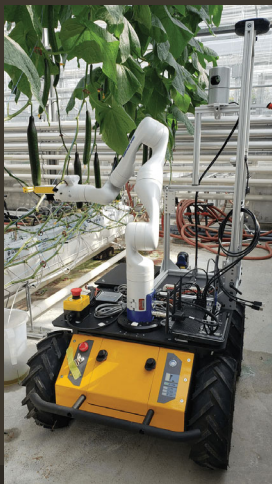
- Popularized in the 1980's
- Smaller scale
- Highly customizable
- Designed for smaller businesses
- More affordable than traditional masonry exterior walls
- Attached offices / retail areas
- May need to use slower depreciation chart



85

Greenhouses

- IoT (Internet of Things) sensors
- LED Grow Lights
- Robotics



86

Golf Courses

- Adding simulators
- Modernizing driving ranges
- Nighttime and winter business



87

Golf

- Standalone driving ranges
- Restaurants/bars
- Several different businesses now



88

Computer Data Center

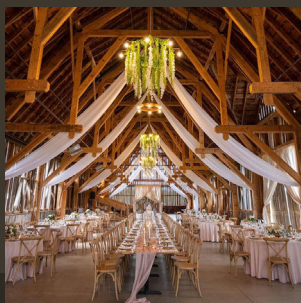
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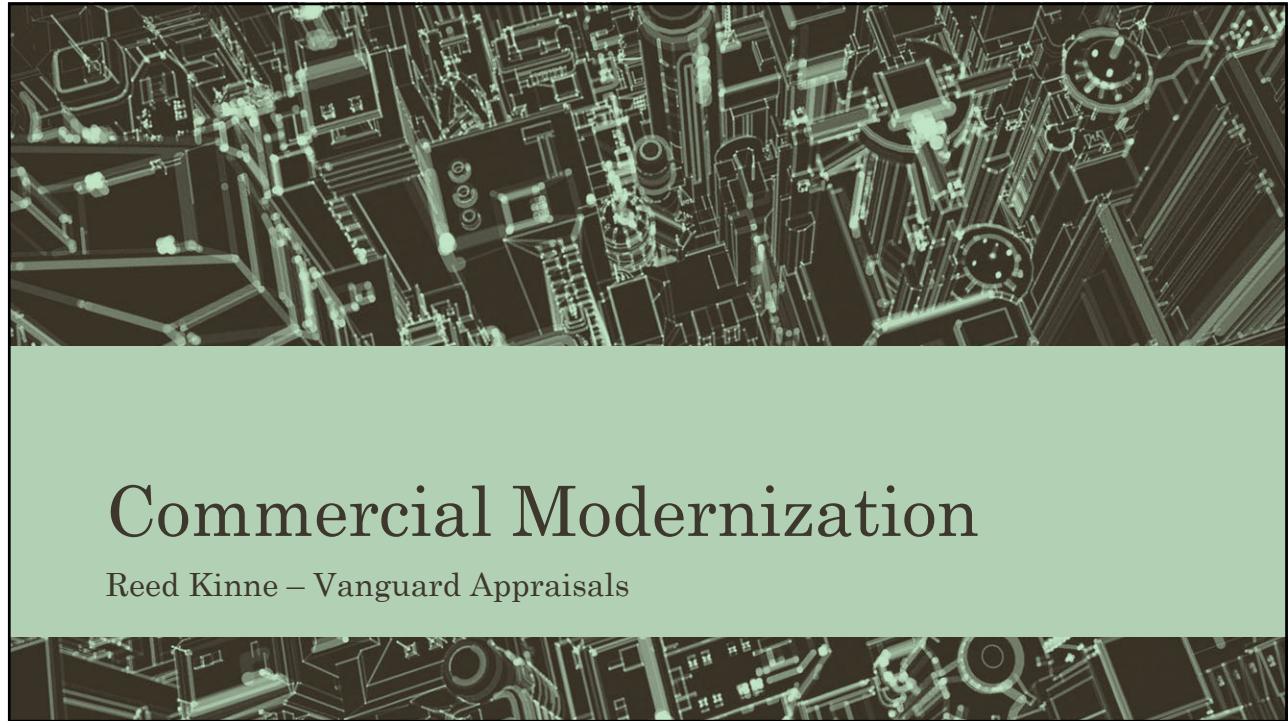
89

Miscellaneous Occupancies

- Rec Centers
 - Used to be only municipal
 - SmashPark, trampoline parks, etc
- Wedding / Events Centers



90



Commercial Modernization

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