

Kitsap County Assessor
Narrative for Eating & Drinking - Club Valuation
Appraisal Date 1/1/2010, Tax Year 2011
Updated 8/4/10 by CM43

Valuation Summary

Approach Used - Income approach. The bar model was adopted. If land value exceeds the income value a cost approach was applied. The cost approach was also used on properties with residential zoned land and exempt properties.

Analysis and Conclusion Summary - Limited sales and income data was available. No rent questionnaires were received. No lease listings were documented. Five restaurant and one club sale was documented. Three restaurant properties listed for sale were discovered. Two of the restaurant sales had a bar component and two of the listings had a bar component. The median land to building ratio for this property type was 5.15:1 countywide with an average absolute deviation of 3.40. Additional land value was added to the income stream on properties that exceeded an 8.55:1 ratio.

Property Type Overview

Population – Thirteen properties were identified in the Area 6 neighborhoods.

Economic Conditions – Three restaurant properties that sold in 2006 and 2007 are currently listed for sale. The asking prices are 14%, 17%, and 42% less than the previous sale price. The property listed for 42% less than the previous selling price is bank owned. From this data it appears this property type has been affected by the recent downturn in the economy.

Rating System - Five income classes were developed for the bar model. Property characteristics that were considered in choosing an income class were type of construction, finish and fenestration, effective age/condition, unit size, wall height, parking, and location (waterfront/view, main arterials.) Two C and two D class bar rents were reported. Class A, B and E bar rates were interpolated from other classes and restaurant rates. The model was calibrated using the six available sales.

Model Calibration

Preliminary Ratio Analysis – Five restaurant and one club sale had ratios ranging from .53 to 1.22, median of .70, and a C.O.D. of 35.35.

Market Sales Approach Data and Analysis

Regional Sales - Range of Sales Dates – 09/20/06 – 12/23/08 – Five valid restaurant and one club sale from 2006 through 2009. No sales were documented for 2009 in Area 6. Limited market data, sales were insufficient to develop a complete market approach, used income approach correlated to available market data and adjusted for current market conditions.

Current Sale Listings – Three restaurant listings in Area 6 were documented.

Market Sales Rates - Rates were developed for the five bar classes as described above ranging from \$183.00 to \$44.00.

Income Approach Data and Analysis

Rent Data – No rent data from clubs was documented. Four bar rent questionnaires were received.

Vacancy Data – Historically low vacancy is noted. No vacancy was listed on income questionnaires received. Little vacancy noted during physical inspections. Vacancy rate was calibrated using sales. Bar rates were adopted.

Expense Data – No expense data from clubs was documented. Four bar expenses ranged from 7.28% to 13.87% with a median and average of 10% rounded. Expenses were calibrated using sales. Bar rates were adopted.

Cap Data – 4.43% from a 2008 restaurant sale and 6.37% from a 2007 restaurant sale, Korpacz 4th Quarter 2009 net lease market cap rate – 8.94%, median of three rates is 6.37%, average of three rates is 6.58%. Cap rates were calibrated using sales. Bar rates were adopted.

Current Lease Listings – No club lease listings were documented. One lease listing for a restaurant was documented for \$13.44 per square foot.

Income Rates – Adopted bar rates. Five bar classes were developed ranging from \$19.50 to \$6.00 per square foot. The rates were calibrated using sales.

Model Validation

Final Ratio Analysis - With application of the newly adopted model the sales ratios went from a range of .53 – 1.22 to .55 – 1.08. The median changed from .70 to .89. The COD went from 35.35 to 14.36.

Sources

Internet – <http://cba.epropertydata.com/pub/index.cfm>
<http://www.windermerecommercial.com/>
<http://www.bradleyscottinc.com/>

Publications – Marshall & Swift Valuation Service
Korpacz Real Estate Investor Survey Fourth Quarter 2009

Other – None

Eating & Drinking - Club - Model Definition

| Class | Construction | Exterior Finish | Interior Finish | Age/Condition | Unit size | Wall Height | Location | Parking |
|----------|---|---|---|---|---|--|---|---|
| A | Heavy Frame, Wood, Steel, Concrete, Metal, or Masonry | Individual design, ornamental exterior, good quality finish and fenestration, mix of textured concrete, brick, tile, wood, metal, or stucco | Good quality finish, insulation, floor covering, wall finish, trim, heat system | New or recent complete renovation, in excellent to very good condition, very little to no deferred maintenance or obsolescence evident, all major short-lived items are like new, high curb appeal | Smaller structures tend to have higher SF rents if all else is equal | Tendency toward higher ceilings and vaulted areas | Waterfront or view amenity available, property may have synergy from surroundings | Ample off street paved parking |
| B | Wood, Steel, Concrete, Metal, or Masonry | Better than average design, good quality finish and fenestration, mix of concrete, brick, tile, wood, metal, or stucco | Better quality finish, floor covering, wall finish, trim, heat system | 7 to 15 year effective age, little deferred maintenance evident, but not everything is new, no obsolescence evident, appearance and utility above the standard | Smaller to average structures tend to have higher SF rents if all else is equal | Tendency toward higher than typical ceilings, could have vaulted areas | High visibility on or near a main highway and/or fronting a major road with high traffic flow, may have synergy from surroundings | Ample off street paved parking |
| C | Wood, Steel, or Concrete Frame | Average design, typical finish and fenestration, concrete, wood, stucco, or metal with mix of other exterior | Average quality finish, typical floor covering, wall finish, trim, heat system | 15 to 25 year effective age, some deferred maintenance and/or functional obsolescence evident but major components still function and have utility, not unappealing | Average or typical size | Typical or average ceiling height | Visible on a main road with average traffic flow, may have some synergy from surroundings | Sufficient off street paved parking |
| D | Wood or Concrete Frame | Plain design, less than typical finish and fenestration, sheet, metal, wood, concrete, or stucco | Plain, inexpensive finish, floor covering, wall finish, and heat | 25 - 35 year effective age, deterioration is somewhat worse than normally expected, some obvious deferred maintenance and/or functional obsolescence, appears worn | Average to large size, larger structures tend to have lower rents per SF if all else is equal | Lower than typical ceiling height | Limited visibility, near a main road, little to no synergy from surroundings | Limited off street parking |
| E | Wood or pole frame | Simple very plain design, little fenestration and very plain finish, inexpensive exterior sheet, wood, or metal covering | Minimally or poorly finished, inexpensive floor covering, wall finish, and heat | 35+ years, older or very obvious deferred maintenance and/or functional obsolescence, deterioration much worse than normal, several major components need repair or replacement, substandard utility, unappealing | Larger structures tend to have lower rents per SF if all else is equal | Low ceiling height | Side street or not visible, low traffic flow, negative synergy | Limited to no off street parking, may be gravel |

NOTE: These properties usually have some food service, but not as extensive as a typical freestanding restaurant so the bar model was adopted
Lack of cooking facilities, wiring, plumbing - consider retail for highest and best use
if property is a retail strip use retail

Income Model Rates

MSN

302010

NEIGHBORHOOD 8401606 - 8401607, 8402601 - 8402691

| | 10 Eating & Drinking | Bar | Rest | Not Used | Club | | |
|---|----------------------|--------|--------|----------|--------|--|--|
| A | RENT | 19.50 | 30.00 | | 19.50 | | |
| A | VAC | 5.00 | 5.00 | | 5.00 | | |
| A | EXPEN | 20.00 | 20.00 | | 20.00 | | |
| A | CAP | 8.10 | 8.10 | | 8.10 | | |
| A | MKT | 183.00 | 281.00 | | 183.00 | | |
| B | RENT | 14.50 | 19.50 | | 14.50 | | |
| B | VAC | 5.00 | 5.00 | | 5.00 | | |
| B | EXPEN | 20.00 | 20.00 | | 20.00 | | |
| B | CAP | 8.10 | 8.10 | | 8.10 | | |
| B | MKT | 136.00 | 183.00 | | 136.00 | | |
| C | RENT | 11.00 | 14.50 | | 11.00 | | |
| C | VAC | 5.00 | 5.00 | | 5.00 | | |
| C | EXPEN | 25.00 | 25.00 | | 25.00 | | |
| C | CAP | 8.75 | 8.75 | | 8.75 | | |
| C | MKT | 89.00 | 118.00 | | 89.00 | | |
| D | RENT | 7.50 | 11.00 | | 7.50 | | |
| D | VAC | 5.00 | 5.00 | | 5.00 | | |
| D | EXPEN | 30.00 | 30.00 | | 30.00 | | |
| D | CAP | 9.10 | 9.10 | | 9.10 | | |
| D | MKT | 55.00 | 80.00 | | 55.00 | | |
| E | RENT | 6.00 | 7.50 | | 6.00 | | |
| E | VAC | 5.00 | 5.00 | | 5.00 | | |
| E | EXPEN | 30.00 | 30.00 | | 30.00 | | |
| E | CAP | 9.10 | 9.10 | | 9.10 | | |
| E | MKT | 44.00 | 55.00 | | 44.00 | | |

Income and Vacancy Summary (Public)

| <i>Eating & Drinking</i> | | <i>Bar</i> | | | | | |
|------------------------------|---------|------------|-----------|----------|---------------|------------|---------------|
| Neighborhood | Quality | Date: | PGI/Unit: | Vacancy: | EGI per Unit: | Expense %: | NOI per Unit: |
| 8402601 | C | 8/3/2010 | \$10.40 | 0.01% | \$10.40 | 13.87% | \$8.96 |
| 8402601 | C | 7/27/2010 | \$9.38 | 0.01% | \$9.37 | 7.29% | \$8.69 |
| 8402601 | D | 7/27/2010 | \$7.50 | 0.01% | \$7.50 | 7.29% | \$6.95 |
| 8402603 | D | 8/3/2010 | \$6.40 | 0.01% | \$6.40 | 12.26% | \$5.62 |

Eating & Drinking Restaurant

| Neighborhood | Quality | Date: | PGI/Unit: | Vacancy: | EGI per Unit: | Expense %: | NOI per Unit: |
|--------------|---------|------------|-----------|----------|---------------|------------|---------------|
| 8402604 | A | 9/28/2009 | \$30.42 | 0.01% | \$30.42 | 0.01% | \$30.42 |
| 8401606 | B | 8/4/2010 | \$18.43 | 0.01% | \$18.43 | 0.01% | \$18.43 |
| 8402604 | C | 11/17/2009 | \$20.11 | 0.01% | \$20.11 | 12.80% | \$17.54 |
| 8402604 | C | 10/1/2009 | \$11.10 | 0.01% | \$11.10 | 0.01% | \$11.10 |

Tax Year 2011
Eating & Drinking - Bar, Restaurant, Club
Sales From 09/20/06 to 10/12/07

| No. | Neighborhood - Vicinity | Property Class | Account Number | Project Name | Excise | Valid Code - Description | Sale Date | Sale Price | Assessed Value | Ratio |
|-----|---------------------------------|-----------------------|-------------------|--------------------------|-----------|--------------------------|-----------|-------------|----------------|-------|
| 1 | 9402690 - Port Orchard - COM | 720 - Public Assembly | 4033-000-004-0009 | Clubhouse- Mitchell Ave. | 08EX07155 | V - Valid | 12/23/09 | \$350,000 | \$319,990 | 0.91 |
| 2 | 8402603 - Rural Port Orchard | 580 - Restaurants | 4689-004-002-0000 | House of Soul-Sitce | 07EX07633 | V - Valid | 10/12/07 | \$950,000 | \$521,450 | 0.55 |
| 3 | 8402604 - SE Port Orchard Coml | 580 - Restaurants | 302402-4-042-2002 | Clubhouse Grill | 07EX04614 | V - Valid | 06/20/07 | \$1,200,000 | \$1,089,000 | 0.91 |
| 4 | 8402601 - Downtown Port Orchard | 580 - Restaurants | 4027-003-001-0004 | Beach Side Bar and Grill | 07EX04382 | V - Valid | 06/12/07 | \$525,000 | \$453,240 | 0.86 |
| 5 | 8402601 - Downtown Port Orchard | 580 - Restaurants | 4650-009-006-0208 | Los Cabos - Bay Street | 07EX04079 | V - Valid | 05/31/07 | \$950,000 | \$693,790 | 0.73 |
| 6 | 8402604 - SE Port Orchard Coml | 580 - Restaurants | 4625-000-008-0009 | Puerto Vallarta | 06EX08546 | V - Valid | 09/20/06 | \$1,954,000 | \$2,116,920 | 1.08 |

| | |
|--------------|-------|
| Count | 6 |
| Lowest | 0.55 |
| Highest | 1.08 |
| Median Ratio | 0.89 |
| Avg Abs Dev | 0.127 |
| COD | 14.36 |

Listings

| No. | Neighborhood - Vicinity | Property Class | Account Number | Project Name | List Price | Assessed Value | Ratio |
|-----|---------------------------------|-------------------|-------------------|--------------------------|------------|----------------|-------|
| 1 | 8402604 - SE Port Orchard Coml | 580 - Restaurants | 302402-4-042-2002 | Clubhouse Grill | \$995,000 | \$1,089,000 | 1.09 |
| 2 | 8402603 - Rural Port Orchard | 580 - Restaurants | 4689-004-002-0000 | House of Soul-Sitce | \$549,000 | \$521,450 | 0.95 |
| 3 | 8402601 - Downtown Port Orchard | 580 - Restaurants | 4027-003-001-0004 | Beach Side Bar and Grill | \$450,000 | \$453,240 | 1.01 |

*Note: Listing number one states asking price is \$300,000 less than full appraisal indicates.

*Note: Sale one and three have lounge/bar areas that are valued using the tavern rate.