

Kitsap County Assessor

Narrative for Eating & Drinking - Restaurant Valuation

Appraisal Date 1/1/2011, Tax Year 2012

Updated 10/11/11 by CM43

Valuation Summary

Approach Used - The income approach was used. The exception was properties where land value exceeded the income value; in this case the cost approach was applied. Properties in this class are freestanding structures (not part of a strip type development with multiple uses).

Analysis and Conclusion Summary - Limited sales and income data was available. Three rent questionnaires from restaurants and three from bar properties were received in Area 1. No lease listings were documented. One sale was documented in Area 1. One sale listing of a property with both a restaurant and bar component countywide was discovered.

Property Type Overview

Population - Twelve properties were identified in the Area 1 neighborhoods. 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. Insufficient land adjustments were considered if the land to building ratio fell below one-third of the median.

Economic Conditions - One recurring reported bar rent did not indicate a negative trend. However, there is some evidence that the restaurant property type has been affected by the continued downturn in the economy. Sales and listing numbers have declined from prior years.

Rating System - Five income classes were developed in Area 6 and were adopted for Area 1. 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.)

Model Calibration

Preliminary Ratio Analysis - One bar sale had a ratio of 64%.

Market Sales Approach Data and Analysis

Regional Sales - Range of Sales Dates - 01/01/08 - 03/31/11 - One valid sale from the range of sale dates. See sale document attached.

Current Sale Listings - No listings were discovered from Area 1.

Market Sales Rates - Limited market data, sales were insufficient to develop a market approach.

Income Approach Data and Analysis

Rent Data - Three rent questionnaires for restaurants were received. One A, one B, and one D class rent was reported. Three bar property rents were also received. Class C and E rates were interpolated from other classes and the bar rates. The model was calibrated using the six available sales from the prior year and the one sale from Area 1.

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.

Expense Data - Expenses ranged from under 3% to 22% with a median of 2.5% and average of 8.79%. Expenses were calibrated using sales from Area 6 and adopted for Area 1.

Cap Data - 4.57% and 6.57% from two 2008 sales countywide. PricewaterhouseCooper listed 4th quarter 2010 national net lease at 8.69%, Pacific Northwest average at 7.85%, and average band of investment at 9.19%. Realty Rates 4th quarter 2010 listed national restaurant rates at 11.84%. Two 2011 listings indicated cap rates of 8.47% and 8.40%. Model cap rates are stratified and range from 8.25% to 11.50%. Cap rates were calibrated using sales from Area 6 and Area 1.

Narrative for Eating & Drinking - Restaurant Valuation (continued)

Current Lease Listings - No lease listings were documented in Area 1.

Model Validation

Final Ratio Analysis - Application of the newly adopted model resulted in a ratio of 88% for the one sale (not including the subsequent new construction).

Sources

Internet

<http://cba.epropertydata.com/pub/index.cfm>

<http://www.windermerecommercial.com/>

<http://www.erc.com>

Publications

Marshall & Swift Valuation Service

PricewaterhouseCooper - 4th Quarter 2010 Survey

Other - None

Eating & Drinking - Restaurant - Model Definition

Class	Location	Construction	Exterior Finish	Interior Finish	Age/Condition	Unit size	Wall Height	Parking
A	Waterfront, view amenity, and/or superior location with high traffic flow, good visibility, corner location, and usually has synergy from surroundings	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	Ample off street paved parking
B	Good visibility on or near a main highway or major road with good traffic flow, may have synergy from surroundings	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 basics	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	Ample off street paved parking
C	Visible, average traffic flow, may have some synergy from surroundings	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	Sufficient off street paved parking
D	Limited visibility, near a main road, little to no synergy from surroundings	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 off street parking
E	Side street or not visible, low traffic flow, negative synergy	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	Limited to no off street parking, may be gravel

NOTE: Properties usually have extensive food service, are are freestanding structures, and may have a separate drinking lounge area
 Some lounge areas may need to be valued using bar
 Lack of cooking facilities, wiring, plumbing - consider retail for highest and best use
 If property is a retail strip use retail

NOTE: Average freestanding restaurant size is approximately 4,000 square feet.
 Median freestanding restaurant size is approximately 3,050 square feet.

Tax Year 2012
Eating & Drinking - Bar - Restaurant - Club
Sales from 01/01/08 to 03/31/11

No.	Neighborhood - Vicinity	Property Class	Account Number	Project Name	Units	Excise	Validity Code Description	Sale Date	Sale Price	Trended Sale Price	Assessed Value	Ratio/Sale Price	Ratio/Trended Sale Price
1	8401104 - Central Kitsap	582 - Tavern	052401-3-068-2005	Ninteeth Hole Tavern	3,110	08EX01355	R - Imps added	03/07/08	\$655,000	\$581,066	\$512,110	0.78	0.88

Not Used

2	8401104 - Central Kitsap	580 - Restaurants	052401-3-032-2008	Seabeck Pizza-Chico Way	716	11EX00877	M - Other	02/24/11	\$250,000				
---	--------------------------	-------------------	-------------------	-------------------------	-----	-----------	-----------	----------	-----------	--	--	--	--

10 Eating & Drinking		Bar	Rest	Not Used	Club		
A	RENT	20.00	30.00		20.00		
A	VAC	5.00	7.00		5.00		
A	EXPEN	22.00	22.00		22.00		
A	CAP	8.10	8.25		8.10		
A	MKT	0.01	0.01		0.01		
B	RENT	18.00	19.00		18.00		
B	VAC	5.00	7.00		5.00		
B	EXPEN	22.00	22.00		22.00		
B	CAP	8.10	8.25		8.10		
B	MKT	0.01	0.01		0.01		
C	RENT	10.25	14.50		10.25		
C	VAC	5.00	7.00		5.00		
C	EXPEN	28.00	28.00		28.00		
C	CAP	9.00	9.10		9.00		
C	MKT	0.01	0.01		0.01		
D	RENT	8.75	10.25		8.75		
D	VAC	5.00	7.00		5.00		
D	EXPEN	30.00	30.00		30.00		
D	CAP	11.00	11.50		11.00		
D	MKT	0.01	0.01		0.01		
E	RENT	7.25	8.50		7.25		
E	VAC	5.00	7.00		5.00		
E	EXPEN	30.00	30.00		30.00		
E	CAP	11.00	11.50		11.00		
E	MKT	0.01	0.01		0.01		

Local Income Survey

Property Type Eating & Drinkin

Sub Type Bar

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
7/27/2010	\$14.09	0%	\$14.09	24%	\$10.70
10/28/2008	\$13.43	0%	\$13.43	24%	\$10.20
7/27/2010	\$9.54	0%	\$9.54	20%	\$7.67

Local Income Survey

Sub Type Restaurant

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
7/27/2010	\$42.02	0%	\$42.02	2%	\$40.99
7/27/2010	\$28.41	0%	\$28.41	22%	\$22.16
3/7/2011	\$17.35	0%	\$17.35	22%	\$13.55