

Kitsap County Assessor

Narrative for Office – All Sub Types Valuation

Appraisal Date 1/1/2011, Tax Year 2012

Updated 6/22/09 by CM27

Valuation Summary

Approach Used – The income approach is the primary approach used for this occupancy.

Analysis and Conclusion Summary - The three approaches to value were considered.

The cost approach is difficult to calibrate. Components such as replacement cost new and depreciation are difficult to calculate due to rapidly changing costs of labor and materials, a variety of obsolescence items including mechanical or power supply, changing demands, and other unaccounted for items. The cost approach is given little consideration in the appraiser's final analysis.

A market or sales approach uses sales prices of comparable properties. Kitsap County lacks sufficient, recent sales.

The income approach is the best method for valuing these properties. The income model was developed with local market rents, vacancy, and national publications. The current model was calibrated with data collected during our mail survey, site visits, and local sales. Sales of local property were adjusted -4% if improved and 0% if bare land. The time adjustment was developed using resales of property during the 2008-2011 time period.

Property Type Overview

Population - The office property type in area one consists of approximately 147 accounts. There are 27 medical office properties, 13 bank properties, and 107 general office buildings. The typical land to building ratio for office is 3.69 to 1, medical office is 3.14 to 1 and bank is 7.06 to 1.

Economic Conditions - The current market conditions are not favorable. Sales volume declined from 2007 to 2010. Lease negotiations to obtain lower lease rates were reported during the local market survey.

Rating System - A complete set of photos and general guidelines are available. The commercial team worked together to validate the classification criteria developed for the office, bank, and medical office uses. We were also able to apply the model criteria to mixed or multiple use sites with an office component.

Model Calibration

Preliminary Ratio Analysis – Local sales of this property from 2008, 2009, and 2010 were reviewed. Three 2008 sales, one 2009 sale, two 2010 sales and one sale from 2011 were found in the subject area. The median ratio was 69% and the coefficient of dispersion (COD) was 17.42.

Market Sales Approach Data and Analysis

Sales - Approximately 56 sales occurred between 1/1/2008 and 3/1/2011 in the inspection area; six of the sales were in the office income group. We expanded our search area to include similar neighborhoods in the County. We found two medical office and five office sales, for a total of 13 sales.

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The market approach was not considered a reliable method of value due to limited current data in a changing market.

Income Approach Data and Analysis

Rent Data – A letter was sent to local businesses requesting income, vacancy, and expense data. The response to our request was good, 44% of the office properties responded; 75% of the responses were market leases, 25% were owner occupied. Fifty percent of the medical offices surveyed responded. Medical offices responses were 75% owner occupied and 25% leased. We supplemented this data with interviews during our field inspections. Reported rates for medical offices ranged from \$17.76 to \$33.95 per square foot, and general office property rents from \$10.00 to \$27.05 square foot in our revaluation area.

Vacancy Data – Vacancy data was supplied on the survey letter responses, and noted during physical inspections. Vacancy ranged from 0% to 100%. The better class buildings had significantly lower vacancy near 5% and the below average buildings were near 20%.

Expense Data – Expense data was also supplied on survey letters. Thirty-two projects reported expense data. Lease types range from triple net to gross each was reviewed prior to inclusion in our analysis.

Capitalization (cap) Data – Local sales; Korpacz 1st Quarter 2010 average cap rates 6.75% to 12%; Korpacz 4th Quarter 2010, average cap rate – 6.0% to 11.5%; and Korpacz 1st Quarter 2011, average cap rate - 5.8% - 11.5%.

Current Lease Listings – Over 50 lease listings – ranging from \$10 to \$35 per square foot with a variety of lease terms.

Model Validation

Final Ratio Analysis – Seven office sales from the subject area were used to test the model. The statistical test for the subject area resulted in a median ratio of 93% and a coefficient of dispersion (COD) of 8.54.

Sources

Internet –

www.gvakm.com
www.cbre.com

Publications –

Korpacz 4th Quarter 2009
Korpacz 4th Quarter 2010
Korpacz 1st Quarter 2011

Model Definition Office - Office and Medical

Class	Exterior	Interior	Effective Age	Location / Parking
A	Roof and foundation are new or in good repair. Exterior finish is a good mixture of stone, wood, brick, tile, metal, ect. Style is modern, and may have ornamentation. Higher quality framing such as steel or masonry.	Plush interior. Better quality wall, floor, trim finishes. Better quality and more windows. Higher than typical or vaulted ceilings. Architectural extras. The newest electrical, mechanical, plumbing, and heating/air handling systems. Designed to accommodate the current technology needs of businesses that will occupy the building. New or updated fire protection, locks and security, and elevators.	New or all items in need of replacement or maintenance (consider roof, paint, any heating system, technology needs such as computer access in medical rooms, security) are in like new condition. Also interior effective age is like new. The actual age may be older. Effective age generally below 7-9 years. Better construction grades typically have a longer life expectancy.	Excellent visibility, with similar use or companion uses nearby. Reasonable distance to public transportation, ample paved parking, and easy in/out access.
B	Roof and foundation are new or in good repair. A pleasing mix of two exterior coverings (could be more or less depending on the cost/quality of materials) stone, wood, brick, tile, metal, ect. Style is modern, and may have ornamentation. Similar framing quality as the A class.	Basic quality wall, floor, trim finishes, may have better finish in one or two categories i.e.: tile rather than vinyl flooring. Better quality windows. Higher than typical or vaulted ceilings. Simple or no architectural extras. New or updated electrical, plumbing, mechanical and heating/air handling system. May have any or all of the following; fire protection, security, updated locks. Has an elevator.	All items well maintained, functional and usable. Most items needing repair or replacement are corrected in a timely manner. Little to no physical obsolescence or inadequacies exist. Effective age less than 15-19 years. Better quality construction grades would age slower.	Good visibility, with similar use or companion uses nearby. Reasonable distance to public transportation and sufficient paved parking.
C	Roof and foundation typical for age of structure. No apparent deferred maintenance. The exterior may be similar in appearance to B. Generally, the exterior covering would be of one type. The style may not be current and lacks the embellishments of a B or A class. Frame is of standard cost for structure type.	Basic quality wall, floor, trim finishes. Standard quality and quantity of windows. May have higher than typical wall heights (over 10 feet). Generally maintained. Adequate electrical, plumbing, mechanical, heating and air handling systems. May have fire protection and elevators, has limited or no security.	All major items maintained, and showing some small signs of wear. All short lived items are functional. While some replacement or remodel may be needed in the near future, current level of maintenance is typical for this property. Generally less than 25 year effective age.	Average visibility, not the newest locations. Reasonable distance from public transportation, less parking available.
D	Lower cost roof or may need some maintenance. Foundation typical for construction. Exterior of low cost materials. Some older buildings may match the Average quality description however dated appearance and deferred maintenance may lower the classification.	Low quality finish. Limited modern features. Wall height varied. Generally, no modernization of mechanical or electrical has occurred. Typical appearance is worn, or out of date. Electrical, mechanical, plumbing, or heating may need updated or replaced in the near future. Elevators are unlikely.	Many repair or replacement items have not been completed, effectively shortening the expected life of the building. Remodel or repair would still be more cost effective than replacement. General appearance is worn. Effective age would be higher than actual age.	Location not as desirable due to limited visibility and transition from current use. Not near public transportation or employee parking may be difficult.
E	Prefabricated, low cost materials, dated appearance, deferred maintenance.	Deferred maintenance evident overall. Mechanical, electrical, heating, or plumbing may not meet the needs of tenant. The heating system is likely in need of replacement, along with locks. No elevators.	Many repair or replacement items need immediate attention, overall deferred maintenance costs may exceed the cost to replace building. Likely this building is no longer suitable for the intended use. Physical and economic obsolescence obvious. Nearing end of effective life.	Limited or no supporting services such as companion uses or public transportation. Low visibility or Low or extremely high traffic flow impacting safe access or exit from site.

General -

- * The guidelines here are designed to assist in the uniform classification of properties. Appraiser judgment is an integral part of the process and should be given considerable weight.
- * Below Class E- Consider warehouse rate. The subject would typically have excessive deferred maintenance, limited value in use or be approaching abandonment. Further, it would need major reconstruction, rehabilitation, or improvement removal in the very near future.
- * Below Class E- AND vacant over five years use Aux Storage.
- * Year of construction and effective age should be considered. In cases of remodel or modernization the actual age and effective age can be significantly different.
- * Consider space in classification. Example if upper floor can only be accessed via lower level this may be a lower classification than a building with two distinct spaces.
- * A lower class may be used for buildings in excess of 5,000 square feet or a higher class may be used for buildings less than 1,500 square feet.

Model Definition Office - Bank

Class	Exterior	Interior	Effective Age	Location / Parking
A	Roof and foundation are new or in good repair. Exterior finish is a good mixture of stone, wood, brick, tile, metal, ect. Style is modern, and may have ornamentation. Higher quality framing such as steel or masonry.	Plush interior. Better quality wall, floor, trim finishes. Better quality and more windows. Higher than typical or vaulted ceilings. Architectural extras. The newest electrical, mechanical, plumbing, and heating/air handling systems. Designed to accommodate the current technology needs of businesses that will occupy the building. New or updated fire protection, locks and security, and elevators.	New or all items in need of replacement or maintenance (consider roof, paint, any heating system, technology needs such as computer access in medical rooms, security) are in like new condition. Also interior effective age is like new. The actual age may be older. Effective age generally below 7-9 years. Better construction grades typically have a longer life expectancy.	Excellent in and out flow from site, great visibility in a highly visited commercial area. Drive-up service available. Ample parking available for customers and employees.
B	Roof and foundation are new or in good repair. A pleasing mix of two exterior coverings (could be more or less depending on the cost/quality of materials) stone, wood, brick, tile, metal, ect. Style is modern, and may have ornamentation. Similar framing quality as the A class.	Basic quality wall, floor, trim finishes, may have better finish in one or two categories i.e.: tile rather than vinyl flooring. Better quality windows. Higher than typical or vaulted ceilings. Simple or no architectural extras. New or updated electrical, plumbing, mechanical and heating/air handling system. May have any or all of the following; fire protection, security, updated locks. Has an elevator.	All items well maintained, functional and usable. Most items needing repair or replacement are corrected in a timely manner. Little to no physical obsolescence or inadequacies exist. Effective age less than 15-19 years. Better quality construction grades would age slower.	Good visibility and in and out flow from site. Located in a convenient location near commercial services. Drive-up service available. Sufficient parking available for customers and employees.
C	Roof and foundation typical for age of structure. No apparent deferred maintenance. The exterior may be similar in appearance to B. Generally, the exterior covering would be of one type. The style may not be current and lacks the embellishments of a B or A class. Frame is of standard cost for structure type.	Basic quality wall, floor, trim finishes. Standard quality and quantity of windows. May have higher than typical wall heights (over 10 feet). Generally maintained. Adequate electrical, plumbing, mechanical, heating and air handling systems. May have fire protection and elevators, has limited or no security.	All major items maintained, and showing some small signs of wear. All short lived items are functional. While some replacement or remodel may be needed in the near future, current level of maintenance is typical for this property. Generally less than 25 year effective age.	Average in and out flow from site. Drive-up service available. Established location in an area near older commercial uses. Sufficient parking is available for customers, employee parking may be on site or nearby.
D	Lower cost roof or may need some maintenance. Foundation typical for construction. Exterior of low cost materials. Some older buildings may match the Average quality description however dated appearance and deferred maintenance may lower the	Low quality finish. Limited modern features. Wall height varied. Generally, no modernization of mechanical or electrical has occurred. Typical appearance is worn, or out of date. Electrical, mechanical, plumbing, or heating may need updated or replaced in the near future. Elevators are unlikely.	Many repair or replacement items have not been completed, effectively shortening the expected life of the building. Remodel or repair would still be more cost effective than replacement. General appearance is worn. Effective age would be higher than actual age.	Older development area. Limited traffic location. Drive-up service available. Parking for customers and employees may be on site or nearby.
E	Prefabricated, low cost materials, dated appearance, deferred maintenance.	Deferred maintenance evident overall. Mechanical, electrical, heating, or plumbing may not meet the needs of tenant. The heating system is likely in need of replacement, along with locks. No elevators.	Many repair or replacement items need immediate attention, overall deferred maintenance costs may exceed the cost to replace building. Likely this building is no longer suitable for the intended use. Physical and economic obsolescence obvious. Nearing end of effective life.	Blighted location, outside of general commercial areas, in a higher crime area. Possible drive-up service available. Parking for customers and employees may be on site or nearby.

** Bank drive-through area is not included in income approach units. It is included in the cost approach commensurate with quality and construction.

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- * Below Class E- AND vacant over five years use Aux Storage.
- * Year of construction and effective age should be considered. In cases of remodel or modernization the actual age and effective age can be significantly different.
- * Consider space in classification. Example if upper floor can only be accessed via lower level this may be a lower classification than a building with two distinct spaces.
- * A lower class may be used for buildings in excess of 5,000 square feet or a higher class may be used for buildings less than 1,500 square feet.
- * Banks having both office and bank occupancy should be valued as used. If bank size is unknown use average bank size of 4,000 square feet.
- * Note: Banks with office over the drive up area should be drawn as commercial canopy outbuilding (including space under upper level) and upper office area over the canopy as upper level.

Income Model Rates

Neighborhood All Area 1

Model Serial # 302011

Property Type Office

Rent Class A

	Office	Med	Bank	CondoSm	Condo Ofc	Church
RENT	27.00	33.00	31.50		33.00	
VAC	7.00	5.00	5.00		5.00	
EXPEN	26.00	26.00	26.00		26.00	
CAP	7.65	7.65	7.65		7.65	
MKT	0.01	0.01	0.01		0.01	

Rent Class B

	Office	Med	Bank	CondoSm	Condo Ofc	Church
RENT	22.00	30.50	30.50		30.50	
VAC	10.00	7.00	7.00		7.00	
EXPEN	28.00	28.00	28.00		28.00	
CAP	7.95	7.65	7.65		7.65	
MKT	0.01	0.01	0.01		0.01	

Rent Class C

	Office	Med	Bank	CondoSm	Condo Ofc	Church
RENT	18.10	27.00	27.00			
VAC	20.00	7.00	7.00			
EXPEN	30.00	28.00	28.00			
CAP	7.95	7.95	7.95			
MKT	0.01	0.01	0.01			

Rent Class D

	Office	Med	Bank	CondoSm	Condo Ofc	Church
RENT	11.50	20.50	20.50			
VAC	20.00	12.00	12.00			
EXPEN	32.00	30.00	30.00			
CAP	8.25	8.25	8.25			
MKT	0.01	0.01	0.01			

Rent Class E

	Office	Med	Bank	CondoSm	Condo Ofc	Church
RENT	8.50	11.75	11.75			
VAC	20.00	12.00	12.00			
EXPEN	35.00	32.00	32.00			
CAP	8.50	8.50	8.50			
MKT	0.01	0.01	0.01			

Local Income Survey

Property Type Office

Sub Type Med Ofc

Date	PGI/Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
1/18/2011	\$33.95	0%	\$33.94	27%	\$24.81
1/10/2011	\$25.01	0%	\$25.01	3%	\$24.31
12/16/2010	\$24.90	0%	\$24.90	1%	\$24.65
2/1/2011	\$20.45	0%	\$20.45	1%	\$20.24
12/20/2010	\$19.33	0%	\$19.32	25%	\$14.49
2/9/2011	\$18.51	0%	\$18.51	14%	\$15.87
3/7/2011	\$18.00	0%	\$18.00	0%	\$18.00
12/28/2010	\$17.76	30%	\$12.44	5%	\$11.81

Sub Type Office

Date	PGI/Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
1/6/2011	\$27.05	0%	\$27.05	30%	\$19.07
3/28/2011	\$24.39	0%	\$24.38	0%	\$24.38
3/10/2007	\$23.49	5%	\$22.32	15%	\$18.93
11/30/2010	\$23.49	0%	\$23.49	30%	\$16.44
12/15/2010	\$23.33	0%	\$23.33	26%	\$17.26
12/31/2009	\$21.57	11%	\$19.20	41%	\$11.36
1/10/2011	\$21.09	0%	\$21.09	3%	\$20.50
12/8/2010	\$20.76	22%	\$16.28	46%	\$8.72
12/27/2010	\$20.51	100%	\$0.00	0%	\$0.00
3/7/2011	\$20.20	0%	\$20.20	0%	\$20.20
12/31/2010	\$20.05	20%	\$16.04	35%	\$10.43
3/7/2011	\$19.49	17%	\$16.26	23%	\$12.51
1/6/2011	\$19.00	0%	\$19.00	1%	\$18.81
12/20/2011	\$18.64	0%	\$18.64	48%	\$9.60
3/7/2011	\$18.50	0%	\$18.50	0%	\$18.50
1/6/2011	\$18.46	22%	\$14.40	17%	\$11.95
3/7/2011	\$18.00	0%	\$18.00	0%	\$18.00
12/20/2010	\$17.92	37%	\$11.29	43%	\$6.44
12/16/2010	\$17.49	25%	\$13.12	0%	\$13.11
3/10/2007	\$16.81	5%	\$15.97	26%	\$11.82
12/20/2011	\$16.80	0%	\$16.80	0%	\$16.80
12/13/2010	\$16.50	0%	\$16.50	0%	\$16.50
11/30/2010	\$16.22	0%	\$16.22	30%	\$11.35

Property Type Office**Sub Type Office**

12/20/2010	\$15.67	20%	\$12.54	16%	\$10.53
12/22/2010	\$15.06	7%	\$14.00	28%	\$10.12
1/12/2011	\$13.58	10%	\$12.29	46%	\$6.68
12/22/2010	\$13.58	27%	\$9.91	27%	\$7.29
1/4/2011	\$13.33	0%	\$13.33	18%	\$10.95
2/10/2011	\$12.00	20%	\$9.60	35%	\$6.24
12/14/2010	\$11.49	0%	\$11.49	21%	\$9.08
12/8/2010	\$10.88	0%	\$10.88	20%	\$8.71
3/28/2011	\$10.51	0%	\$10.51	33%	\$7.04
1/4/2011	\$10.00	0%	\$10.00	0%	\$10.00
12/22/2010	\$0.00	22%	\$0.00	0%	\$0.00

Property Type Office Special**Sub Type Post Ofc**

Date	PGI/Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
12/24/2011	\$11.36	0%	\$11.36	2%	\$11.18