

Kitsap County Assessor

Narrative for Retail-Small Model

Appraisal Date 1/1/2011, Tax Year 2012

Updated 09/27/11 by CM20

Valuation Summary

Approach Used – The income approach is used for this occupancy and was calibrated to the few sales available to test the model.

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

The cost approach is unreliable for this property type. 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 final analysis.

A market or sales approach uses sale prices of comparable properties. Kitsap County lacked sufficient, recent sales to develop a cost per square foot market approach.

The income approach is the best method for valuing these properties. The income model was developed with local market rents, vacancy, and expenses collected from our mail survey, site visits, and local sales, in addition to national publications.

Property Type Overview

Population – Revaluation Area 1 contains approximately 200 retail property taxable accounts. These are divided into four categories: retail which is a single or multi-tenanted structure (Retail-Small), retail greater than 20,000 square feet for a single tenant (Retail-Large), retail greater than 100,000 square feet for a single tenant (Big Box) and retail associated with Community Shopping Centers. Analysis showed that rents charged for strip retail that is part of Community Shopping Centers acted the same as smaller commercial developments or standalone strip retail.

Economic Conditions - The current market conditions are not favorable, as reflected in the limited number of sales over the past few years.

Rating System – Five income classes were recognized based on location, traffic, zoning, synergy from surrounding commercial properties, age, and condition.

Model Calibration

Preliminary Ratio Analysis – Four sales occurred between 2007 and 2010. A fifth sale occurred in June 2011. One listing was found. The five sales have a median ratio of 83% with a coefficient of dispersion (COD) 17.13. Including the one listing the median ratio is 75% with a COD of 21.70.

Market Sales Approach Data and Analysis

Sales – Only four sales occurred between 2007 and 2010, one sale occurred in June 2011, and one listing was available for review. With the limited amount of sales data, a market sales approach based on size of building was not feasible. No recurring sales of properties occurred so an accurate trend rate was not developed from this property type. The overall trend of -4% calculated from all commercial property in Area 1 was adopted to adjust the sales.

Income Approach Data and Analysis

Income surveys were mailed to property owners of Area 1. Additional income information was obtained from appeals to the Kitsap County Board of Equalization. Current lease listings were also reviewed. Income, vacancy, and expense information was documented on 28 projects.

Narrative for Retail-Small (continued)

Rent Data – Over 100 individual storefront rents were documented.

Vacancy Data – Over 50 vacancy percentages were reported or noted during physical inspections. Vacancies from Area 1 ranged between 7% and 41% with a median vacancy of 10%. Additional information was available from regional and national publications. Marcus & Millichap had national vacancies between 10% and 10.20% while Seattle ranged between 5.90% and 6.40%. Realty Rates listed anchored vacancy at 9.30% and unanchored vacancy at 9.10%. Real Estate Research Corporation quoted 10.90% vacancies. Urban Land Institute had neighborhood and community shopping centers at 11%.

Expense Data – Expense data was documented on income questionnaires and appeals to the Kitsap County Board of Equalization; lease listings were also reviewed. Local expenses ranged from 5% to 48% with a median of 24%.

Capitalization (cap) Data – Only three cap rates were documented from the five sales used to test the model. All were under 7%. Regional and national publications indicated higher cap rates were warranted. Marcus & Millichap quoted rates of 7.50% for single tenant, 8.25% for anchored, 10.00% for unanchored, 8.40% for general retail, and 8.75% for Seattle retail projects. Realty Rates quoted 8.00% for anchored, 8.20% for unanchored, 9.19% for an overall rate, 9.54% for retail, and 9.57% from their surveys. Real Estate Research Corporation reviewed retail in 2010 for a twelve month average at 8.40% with a 12 month median of 7.80%, 3rd quarter 2010 had an average and median of 7.80% while the west had an average of 8.60% and median of 7.70%. Urban Land Institute quoted 7.70% for neighborhood and community shopping centers. PricewaterhouseCooper listed 4th quarter 2010 national strip cap of 7.63%, and 1st quarter 2011 national strip cap of 7.40%.

Current Lease Listings – Several lease listings – ranging from \$12 to \$28 per square foot with a variety of lease terms – were reviewed.

Model Validation

Final Ratio Analysis – The four sales from 2007 through 2010 were trended -4%, the sale from June 2011 was not trended. Upon applying the new model these sales calculated an overall median ratio of 93% with a COD of 20.57. Including the listing, untrended, the overall median ratio is 87% with a COD of 20.70

Sources

Internet –

www.gvakm.com
www.cbre.com
www.rerc.com

Publications –

Marcus & Millichap – 2011 Investment Outlook
Marcus & Millichap – 2011 National Retail Report
Marcus & Millichap – 2011 Single Tenant Outlook
Marcus & Millichap – 2011 Real Estate Investment Outlook
Realty Rates – 4th Quarter 2010 Market Commentary
Real Estate Research Corporation – Investments Trends 3rd Quarter 2010
Urban Land Institute – 2011 Emerging Trends in Real Estate
PricewaterhouseCooper – 1st Quarter 2011 Survey
PricewaterhouseCooper – 4th Quarter 2010 Survey

Other -

Kitsap County Board of Equalization appeal documentation

Guidelines for Classification of Office or Retail Income Approach

General The guidelines here are designed to assist in the uniform classification of individual properties. Appraiser judgement is an integral part of the process and should be given considerable weight.

	Overall Conditions- Effective Age* and Highest and Best Use	Location	Services Available to Site	Lease Area Amenities/ Quality
Class A	Building is new, well designed, of quality construction materials, current technology demands for power or web access are supported, and modern architecture considering the adjacent building design was used. New or All normal repair or refinish items (i.e. short lived items) have recently been replaced. (Roof, paint, furnace, and power/internet wiring)	Demand exceeds supply. Parking readily available. Similar use property intermixed with companion uses. An area that may act as a destination. Overall feel of neighborhood is new/ or refreshed.	Overall neighborhood has excellent visibility and consumer draw, limited noise, standard traffic flow, employment opportunity, access to basic services such as gas station, grocery, drug store, crime is well below median rate for area. Reasonable distance from Public Transportation and employee parking.	Interior conditions- level floors, interior and exterior walls, roof in good repair; good lighting and natural light available. Updated electricity, plumbing and has network cabling available. Fire protection, updated locks, and may have security. Heating/ air handling system meets needs of the business, and most likely has cooling available as well.
Class B	Building design is somewhat modern and well suited for current use. Building materials are of good quality, design, and style. Architecture blends well with adjacent properties. All items well maintained with no obvious signs of maintenance required. Not everything short-lived is new, simply well cared for. Overall the building is above standards.	Small amounts of vacancy. Supply slightly less or equal to demand. Similar use property grouped together. Parking and ease of access acceptable. Neighborhood conditions static or some what improving.	Overall neighborhood has good visibility limited noise, standard traffic flow, employment opportunity, access to basic services such as gas station, grocery, drug store, crime is below median rate for area. Reasonable distance from Public Transportation and employee parking.	Interior conditions- level floors, walls in good repair, adequate supply of or updated electricity. Minimal fire protection. Updated locks, may have limited security. Heating/ air handling system meets needs of the business, and may have cooling available as well.
Class C	Building architecture may be dated; building materials are average quality with limited extras. Small amounts of def maintenance may be visible; a few minor repairs may be needed, along with small amounts of repair, major components still functional. Overall standard for age, use.	Average amount of supply and demand for type of space. General neighborhood condition is stable, and suitable for this type of business/ use.	Overall neighborhood has limited noise, standard traffic flow, employment opportunity, access to basic services such as gas station, grocery, drug store, crime is below median rate for area. Reasonable distance from Public Transportation.	Interior conditions- level floors, walls in good repair, adequate electricity. Minimal fire protection. Updated locks, may have limited security. Heating/ air handling system meets needs of the business.
Class D	Interior conditions- level floors, walls in good repair, adequate electricity. Minimal fire protection. Updated locks, may have limited security. Heating/ air handling system meets needs of the business.	Location not as desirable. Similar use supply/demand not equal. General neighborhood conditions in slight decline. Area transitioning away from current use.	Traffic flow may be sporadic, or extremely high impacting safe access. Crime rates may be higher than average. Public transportation and employee parking may be difficult, or not available.	Interior conditions- floors and walls generally worn but serviceable. Average supply of electricity, but may not have any updated wiring. Limited fire protection, updated locks, limited to no additional security. Heating/ air handling system meets needs of the business, but is older and may be approaching end of life.
Class E	Building no longer meets needs of intended use. Architecture is very dated or plain, building material quality was less than average at time built. Physical deterioration is visible. Repair and overhaul needed on painted surfaces, roofing, plumbing, heating.	Vacancy prevalent. Most structures no longer functional for intended use. Overall building appears tired.	Limited or no public transportation available. Parking lots may suffer from disrepair. Traffic flow below standard, may be a distance from supporting services limiting customer flow.	Interior conditions- Floor and walls need maintenance. Electrical not updated and may not meet full needs of intended tenant. No fire protection, no additional security. Most likely has no heat or air handle system. Existing heating/ air handling system needs repair or replacement.

Below Class E-consider warehouse rate. Would typically have excessive deferred maintenance, limited value-in-use, or be approaching abandonment. Needs major reconstruction, rehabilitation or improvement removal. Effective age is near end of scale.

*Year of construction- considered but determined to be insignificant in relation to rating. Effective age of buildings can be substantially different from actual age, which presents an inconsistent unit of measure.

RETAIL SALES

-4%

#	Nbhd	Class	Project Name	Parcel Number	SqFt	Excise	VC	Sale Date	Price	Trended Price	Model Value	Ratio
1	8401101	590	Magnolia Hi Fi	162501-2-077-2002	15,387	07EX06621	V	31-Aug-07	\$3,915,000	\$3,391,570	\$4,416,680	1.30
2	8401101	590	Former Board Shop	162501-3-122-2005	3,375	07EX07307	R	28-Sep-07	\$1,200,000	\$1,043,244	\$680,030	0.65
3	8401101	590	Silverdale Rental Center	162501-3-007-2005	5,520	10EX06329	R	06-Dec-10	\$637,000	\$635,115	\$656,230	1.03
4	8401102	690	Mixed Use Bldg/Kuresman Ins	202501-1-072-2003	2,100	09EX03871	V	23-Jul-09	\$310,000	\$292,062	\$271,260	0.93
5	8401102	590	Former Bogards	202501-1-009-2001	4,481	11EX03381	V	30-Jun-11	\$750,000	\$750,000	\$546,380	0.73
6	8401104	543	Lone Rock	152501-3-034-1005	1,720	LISTING		LISTING	\$350,000	\$350,000	\$282,270	0.81

Property Class	
543	Convenience store without gas
590	Other retail trade
690	Misc. services

Sales Validation Codes	
R	Remodeled after sale
V	Valid sale

Nbhd-Neighborhood	
8401101	Silverdale
8401102	Old Silverdale
8401104	Central Kitsap

Sales & Listing	Median	0.87
	Mean	0.91
	AAD	0.18
	COD	20.70

Sales Only	Median	0.93
	Mean	0.93
	AAD	0.19
	COD	20.57

Income Model Rates

Neighborhood All Area One

Model Serial # 302011

Property Type Retail

Rent Class A

	Rtl ST20K	Retail-Sml	Rtl >100K	C-Store	Condo Rtl
RENT	22.00	31.00	15.75		
VAC	9.00	8.00	8.00		
EXPEN	22.00	22.00	25.00		
CAP	7.75	7.75	9.00		
MKT	201.49	287.04	120.75		

Rent Class B

	Rtl ST20K	Retail-Sml	Rtl >100K	C-Store	Condo Rtl
RENT	19.75	22.00	13.75		
VAC	10.00	9.00	8.00		
EXPEN	23.00	22.00	25.00		
CAP	8.00	7.75	9.25		
MKT	171.08	201.49	102.57		

Rent Class C

	Rtl ST20K	Retail-Sml	Rtl >100K	C-Store	Condo Rtl
RENT	14.50	19.75	12.25		
VAC	11.00	10.00	9.00		
EXPEN	24.00	23.00	30.00		
CAP	8.25	8.00	9.50		
MKT	118.88	171.08	82.14		

Rent Class D

	Rtl ST20K	Retail-Sml	Rtl >100K	C-Store	Condo Rtl
RENT	12.25	14.50	11.00		
VAC	12.00	11.00	10.00		
EXPEN	25.00	24.00	30.00		
CAP	8.50	8.25	9.50		
MKT	95.12	118.88	72.95		

Rent Class E

	Rtl ST20K	Retail-Sml	Rtl >100K	C-Store	Condo Rtl
RENT		12.25	10.00		
VAC		12.00	20.00		
EXPEN		25.00	35.00		
CAP		8.50	10.00		
MKT		95.12	52.00		

Local Income Survey

Property Type Retail
Sub Type Retail-Lg

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
3/8/2011	\$18.41	0%	\$18.41	20%	\$14.73
1/1/2011	\$16.48	0%	\$16.48	20%	\$13.18
12/31/2010	\$15.92	0%	\$15.91	41%	\$9.39
3/8/2011	\$10.45	0%	\$10.45	41%	\$6.16
12/31/2010	\$9.58	0%	\$9.58	41%	\$5.65
12/31/2010	\$8.50	0%	\$8.50	0%	\$8.50
3/8/2011	\$7.53	0%	\$7.53	3%	\$7.34

Property Type Retail
Sub Type Retail-Sml

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
1/1/2011	\$40.61	0%	\$40.61	16%	\$34.02
12/31/2010	\$36.82	0%	\$36.82	62%	\$13.99
1/1/2011	\$35.00	0%	\$35.00	20%	\$28.12
1/1/2011	\$34.92	0%	\$34.92	23%	\$27.06
1/1/2011	\$33.91	0%	\$33.91	17%	\$28.00
12/22/2010	\$33.00	0%	\$33.00	32%	\$22.56
1/1/2011	\$32.56	0%	\$32.56	22%	\$25.46
1/1/2011	\$32.23	0%	\$32.23	21%	\$25.35
1/1/2011	\$29.66	0%	\$29.66	26%	\$22.00
12/20/2010	\$27.88	10%	\$25.10	0%	\$25.09
12/20/2010	\$27.16	10%	\$24.45	0%	\$24.45
12/20/2010	\$25.79	10%	\$23.21	0%	\$23.21
12/28/2010	\$25.55	0%	\$25.54	22%	\$19.99
3/28/2011	\$25.52	0%	\$25.52	18%	\$20.91
5/2/2011	\$25.08	0%	\$25.08	0%	\$25.08
1/1/2011	\$24.88	0%	\$24.88	0%	\$24.87
12/20/2010	\$24.48	0%	\$24.48	20%	\$19.58
12/20/2010	\$24.00	0%	\$24.00	48%	\$12.55
12/20/2010	\$23.92	10%	\$21.53	0%	\$21.53
12/20/2010	\$23.77	10%	\$21.39	0%	\$21.39
1/2/2011	\$23.55	0%	\$23.55	21%	\$18.69
3/3/2011	\$23.35	0%	\$23.35	21%	\$18.50
12/20/2010	\$23.33	0%	\$23.33	48%	\$12.20
12/20/2010	\$23.22	10%	\$20.89	0%	\$20.89
12/20/2010	\$23.10	10%	\$20.79	0%	\$20.79
12/20/2010	\$23.00	10%	\$20.70	0%	\$20.70
12/20/2010	\$22.95	10%	\$20.65	0%	\$20.65
12/20/2010	\$22.82	10%	\$20.54	0%	\$20.54

Property Type Retail
Sub Type Retail-Sml

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
12/20/2010	\$22.76	10%	\$20.48	0%	\$20.48
5/2/2011	\$22.62	0%	\$22.62	0%	\$22.61
1/1/2011	\$22.04	0%	\$22.04	23%	\$17.02
1/2/2011	\$21.68	0%	\$21.68	22%	\$16.83
12/28/2010	\$21.50	0%	\$21.50	26%	\$16.00
12/28/2010	\$21.50	0%	\$21.50	26%	\$15.99
1/2/2011	\$21.17	0%	\$21.17	23%	\$16.32
12/20/2010	\$21.00	10%	\$18.90	0%	\$18.90
12/20/2010	\$20.95	0%	\$20.95	20%	\$16.76
12/20/2010	\$20.83	10%	\$18.75	0%	\$18.75
12/20/2010	\$20.45	10%	\$18.40	0%	\$18.40
1/2/2011	\$20.15	0%	\$20.15	0%	\$20.10
12/20/2010	\$20.12	10%	\$18.10	0%	\$18.10
1/6/2011	\$20.07	0%	\$20.07	25%	\$15.07
5/2/2011	\$20.00	0%	\$20.00	0%	\$20.00
3/3/2011	\$20.00	0%	\$20.00	5%	\$19.00
12/20/2010	\$19.98	10%	\$17.98	0%	\$17.98
12/20/2010	\$19.80	0%	\$19.80	48%	\$10.35
12/28/2010	\$19.49	0%	\$19.49	28%	\$14.00
12/28/2010	\$19.26	0%	\$19.26	27%	\$14.00
3/3/2011	\$19.13	0%	\$19.13	25%	\$14.28
3/1/2011	\$18.97	7%	\$17.68	0%	\$17.68
1/5/2011	\$18.84	0%	\$18.84	25%	\$14.20
1/6/2011	\$18.40	0%	\$18.40	25%	\$13.79
1/6/2011	\$18.20	0%	\$18.19	23%	\$14.04
1/6/2011	\$18.14	0%	\$18.14	32%	\$12.35
3/1/2011	\$17.87	7%	\$16.65	0%	\$16.65
3/10/2007	\$17.40	0%	\$17.40	21%	\$13.67
12/28/2010	\$17.34	30%	\$12.14	25%	\$9.11
3/3/2011	\$17.00	0%	\$17.00	5%	\$16.15
5/23/2011	\$16.61	15%	\$14.12	29%	\$10.00
1/12/2011	\$16.54	10%	\$14.96	41%	\$8.78
3/1/2011	\$16.49	7%	\$15.37	0%	\$15.37
12/15/2010	\$16.16	0%	\$16.16	0%	\$16.16
3/1/2011	\$15.80	7%	\$14.73	0%	\$14.73
3/1/2011	\$15.79	7%	\$14.72	0%	\$14.71
3/28/2011	\$15.77	15%	\$13.40	29%	\$9.49
1/6/2011	\$15.63	0%	\$15.63	30%	\$10.92
12/13/2010	\$15.51	0%	\$15.50	14%	\$13.28
3/1/2011	\$15.39	7%	\$14.34	0%	\$14.34
12/20/2010	\$15.00	10%	\$13.50	0%	\$13.50
3/28/2011	\$15.00	15%	\$12.75	29%	\$9.03
3/28/2011	\$14.99	15%	\$12.74	29%	\$9.03

Property Type Retail
Sub Type Retail-Sml

Date	PGI per Unit	Vacancy	EGI per Unit	Expense %	NOI per Unit
1/12/2011	\$14.85	10%	\$13.44	41%	\$7.89
3/1/2011	\$14.70	7%	\$13.70	0%	\$13.70
3/1/2011	\$14.66	7%	\$13.67	0%	\$13.66
3/1/2011	\$14.51	7%	\$13.52	0%	\$13.52
12/22/2010	\$14.47	0%	\$14.47	0%	\$14.46
3/1/2011	\$14.33	7%	\$13.35	0%	\$13.35
1/12/2011	\$14.10	10%	\$12.76	41%	\$7.49
3/3/2011	\$14.00	0%	\$14.00	0%	\$14.00
3/3/2011	\$13.85	0%	\$13.85	35%	\$9.00
1/2/2011	\$13.45	0%	\$13.45	23%	\$10.32
1/4/2011	\$13.33	0%	\$13.33	18%	\$10.95
3/1/2011	\$13.33	7%	\$12.43	0%	\$12.43
12/14/2010	\$13.22	0%	\$13.22	21%	\$10.44
3/28/2011	\$13.16	15%	\$11.19	29%	\$7.92
3/1/2011	\$12.87	7%	\$11.99	0%	\$11.99
5/23/2011	\$12.75	15%	\$10.84	29%	\$7.68
7/28/2010	\$12.38	20%	\$9.90	5%	\$9.41
12/20/2010	\$12.12	10%	\$10.91	0%	\$10.91
5/23/2011	\$12.00	15%	\$10.20	29%	\$7.22
12/14/2010	\$11.49	0%	\$11.49	21%	\$9.08
3/1/2011	\$11.31	7%	\$10.54	0%	\$10.54
3/1/2011	\$11.08	7%	\$10.32	0%	\$10.32
3/1/2011	\$11.03	7%	\$10.28	0%	\$10.28
3/1/2011	\$11.00	7%	\$10.25	0%	\$10.25
3/1/2011	\$11.00	7%	\$10.25	0%	\$10.25
12/22/2010	\$10.67	0%	\$10.67	32%	\$7.29
1/4/2011	\$10.59	0%	\$10.59	18%	\$8.70
3/1/2011	\$10.48	7%	\$9.77	0%	\$9.77
3/1/2011	\$10.24	7%	\$9.54	0%	\$9.54
3/1/2011	\$10.05	7%	\$9.37	0%	\$9.37
3/3/2011	\$10.00	0%	\$10.00	0%	\$10.00
12/13/2010	\$8.57	0%	\$8.57	0%	\$8.57
3/1/2011	\$8.43	7%	\$7.85	0%	\$7.85
3/1/2011	\$8.01	7%	\$7.46	0%	\$7.46
12/9/2010	\$7.93	0%	\$7.93	0%	\$7.93
3/1/2011	\$7.56	0%	\$7.56	0%	\$7.56
5/2/2011	\$6.24	0%	\$6.24	0%	\$6.24
1/1/2011	\$5.69	0%	\$5.69	22%	\$4.45