

Kitsap County Assessor
Narrative for Big Box Retail Valuation
Appraisal Date 1/1/2011, Tax Year 2012
Updated 10/06/11 by CM20

Valuation Summary

Approach Used – We selected the income approach as the best indication of value for this property type.

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, Kitsap County Board of Equalization appeals, site visits, and local sales, in addition to national publications.

Property Type Overview

Population – Kitsap County has a small population of Big Box Retail. Big Box Retail is categorized as single tenant occupancy in a store greater than 100,000 square feet. Currently Kitsap County has twelve such properties. The population year built range is 1987 to 2008, and the square foot range is 98,000 to 220,351.

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 – One local sale in June of 2008 had a ratio of 0.93 untrended and 1.03 when trended -4% annually.

Market Sales Approach Data and Analysis

Regional Sales - Range of Sales Dates - 01/01/08 – 12/31/2010

One local sale in June of 2008 is the Lowe's in Silverdale (Parcel No. 162501-1-052-2003). Out of area sales found were all outside the sales date range.

Current Sale Listings – Six out of area sales listings were found and had market rates of \$57.03 - \$104.82 per square foot. Bellis Fair in Bellingham, Target in Federal Way, Renton Motorcycles & Harley, former Costco in Union Gap, and a former Walmart in Oregon.

Big Box Retail Narrative (continued)

Market Sales Rates – Not developed due to lack of current local sales.

Income Approach Data and Analysis

Rent Data – Dollars and Cents of Shopping Centers/The Score 2008 (pgs. 216, 217, 238,239). CoStar lists \$12.00 NNN, Colliers has a range of \$10.00-\$15.97 NNN, the Bellis Fair sales listing quotes \$6.00 NNN. A Lakewood Town Center lease listing has \$10.00 NNN and a new building proposed in Arlington has \$17.04 full service. One local rent was documented.

Vacancy Data – One vacancy which calculates to 8.33% for this property type. CoStar August 2010 quoted Big Box vacancies at 11%.

Expense Data – Dollars and Cents of Shopping Centers/The Score 2008 (pgs. 216, 217, 238,239) indicated 17% - 19%.

Cap Data – Marcus & Millichap listed Big Box caps at 8.50% with 10.00% for suburban locations. Calkain Research 2010 4th Qtr listed Big Box caps at 8.50%. Rates on smaller retail were Marcus & Millichap at 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 – Only two located, Lakewood Town Center and a new building in Arlington.

Model Validation

Final Ratio Analysis – One local sale computed a ratio of 0.98 when trended -4% annually.

Sources

Internet

Kitsap County Commercial Sales at: http://www.kitsapgov.com/assr/com1/com_main.htm,
www.cbre.com

Publications

Dollars and Cents of Shopping Centers/The Score 2008
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
Calkain Research 2010 4th Qtr
CoStar August 2010
Colliers International Summer 2010
Colliers - April 2011

BIG BOX MODEL DEFINITION

Class	Description
A	New stand-alone concrete shell buildings with good to excellent quality materials and workmanship. The buildings have minimal partitioning for office and storage areas. Ceilings, walls, and floors have average or fair quality finish and the building has a prominent entrance
B	Stand-alone concrete shell buildings with new or better quality materials and workmanship. The buildings have minimal partitioning for office and storage areas. Ceilings, walls, and floors have average or fair quality finish and the building has a prominent entrance. (<i>Fred Meyer, Target, Walmart</i>)
C	Newer stand-alone concrete shell buildings with fair to average quality materials and workmanship. The buildings have minimal partitioning for office and storage areas. Ceilings, walls, and floors have average or fair quality finish and the building has a prominent entrance. (<i>Home Depot, Lowe's, Costco</i>)
D	Older stand-alone concrete shell buildings with fair to average quality materials and workmanship. Standard entrance design, partitioning, and interior finish.
E	Stand-alone concrete shell buildings with fair quality materials and workmanship. Minimal entrance design, partitioning, and interior finish, may need significant remodel and/or have functional obsolescence.

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		