

# Kitsap County Assessor

## Narrative for Retail-Large 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.

**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.

Area 1 contains only 15 Retail-Large storefronts.

**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** – No sales occurred between 2007 and 2010. No sales listings were reviewed.

### Market Sales Approach Data and Analysis

**Sales** – No sales occurred between 2007 and 2010.

### 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. With lack of information available on this property type, the model for Retail-Small with a reduction in rent grade (i.e. Class B Retail-Large equal Class C Retail-Small) was adopted.

**Rent Data** – Only seven rents and two local lease listings from Area 1 were available for review.

## **Narrative for Retail-Large (continued)**

**Vacancy Data** – Two long term vacancies were noted during physical inspections and a third property was under development to a new tenant. Overall Retail 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. Overall Retail expenses ranged from 5% to 48% with a median of 24%.

**Capitalization (cap) Data** – No sales of this property type occurred. Retail-Small had only three cap rates documented from five sales. 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%, 3<sup>rd</sup> 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 4<sup>th</sup> quarter 2010 national strip cap of 7.63%, and 1<sup>st</sup> quarter 2011 national strip cap of 7.40%.

**Current Lease Listings** – Several lease listings from Kitsap County as well as Pierce County – ranging from \$5.81 to \$12 per square foot with a variety of lease terms – were reviewed.

## **Model Validation**

**Final Ratio Analysis** – No sales occurred so no ratio analysis was performed.

## **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 – 4<sup>th</sup> Quarter 2010 Market Commentary  
Real Estate Research Corporation – Investments Trends 3<sup>rd</sup> Quarter 2010  
Urban Land Institute – 2011 Emerging Trends in Real Estate  
PricewaterhouseCooper – 1<sup>st</sup> Quarter 2011 Survey  
PricewaterhouseCooper – 4<sup>th</sup> 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.

	<b>Overall Conditions- Effective Age* and Highest and Best Use</b>	<b>Location</b>	<b>Services Available to Site</b>	<b>Lease Area Amenities/ Quality</b>
<b>Class A</b>	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.
<b>Class B</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.
<b>Class C</b>	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.
<b>Class D</b>	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.
<b>Class E</b>	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.

# 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