

# Kitsap County Assessor

## Narrative for Community Shopping Center- Center, Discount, Supermarket

Appraisal Date 1/1/2011, Tax Year 2012

Updated 09/28/11 by CM27

### Valuation Summary

**Approach Used** – Income approach.

**Analysis and Conclusion Summary** – The cost approach is difficult to correlate due to age of the buildings, and a lack of sufficient sales. Depreciation is difficult to calculate due to varied obsolescence such as mechanical or power supply, changing demands, or other unaccounted for items.

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

The Income approach was selected to value these properties. The prior income model was developed with local market rents, vacancy, and national publications. The current model was calibrated with data collected, and the publications. We updated the rates used for "center" space and the CAP rate based on the new data.

No sales occurred during the 2009 year and limited market data was collected during our market survey. Rates for larger square foot units remain unchanged, 'center' rates were updated with Dollars and Cents of Shopping Centers 2008. CAP rates changed to reflect Korpacz rate.

### Property Type Overview

**Population** – The revaluation neighborhood consists of seven community shopping centers. Land to building ratios were reviewed based on zoning and needed parking.

**Economic Conditions** – The current market conditions are unstable. Real estate interest rates remain low as the Federal Reserve System adjusts the money supply. Kitsap County's commercial sales volume has declined from 2007 to 2010.

Local conditions in Kitsap County continue to change. Smaller retail shops generally for local business owners continue to have a higher than typical vacancy and turnover. Owners are offering incentives to tenants in other shops in hopes the tenant will be willing to fill the vacancy in their centers. Tenants are renegotiating leases to obtain lower rates.

**Rating System** – The commercial team worked together to validate the classification criteria developed for retail uses. The model definition is attached.

### Model Calibration

**Preliminary Ratio Analysis** – Ratio analysis was reviewed. It contained limited market data and one sale of a stand alone former grocery out of area during 2008.

### Market Sales Approach Data and Analysis

**Sales** – Range of Sales Dates – 01/01/2008 – 01/01/2011. Expanded search area to whole county.

**Current Sale Listings** – SAARS grocery with small retail strip in Port Orchard.

**Market Rates** – Not developed.

## **Income Approach Data and Analysis**

**Rent Data** – Responses to the rent survey letters were received from 100 units in the retail classification, and more than 10 lease listings. The Dollars and Cents of Shopping Centers/The Score 2008 publication was also consulted. Rent responses indicated a range of \$6.24 to \$40.61 per square foot.

**Vacancy Data** – Vacancy data was supplied on the survey letter responses, and noted during physical inspections. Range of 6.8% to 41% vacancy.

**Expense Data** – Expense data was also supplied on survey letter, and Dollars and Cents of Shopping Centers/The Score 2008. Range of 5% to 47% expenses reported.

**Capitalization (cap) Data** – 2011 Emerging Trends in Real Estate - Urban Land Institute cap rate of 7.7%, 2011 National Retail Report - Marcus & Millichap cap rate of 8.75%, 2011 Real Estate Investment Outlook - Marcus & Millichap cap rate of 7.75%, 2011 Single Tenant Outlook - Marcus & Millichap cap rate of 8.0%.

**Current Lease Listings** – More than 10 listings, ranging from \$12 to \$28 per square foot with a variety of lease terms.

## **Model Validation**

**Final Ratio Analysis** – Our existing model correlates with income data from the local market. Current market data is limited, prior model calibration is relied on for model validation. National publications are relied on for cap rate selection.

## **Sources**

**Internet** – Various Real Estate MLS Listings.

### **Publications –**

2011 Emerging Trends in Real Estate - Urban Land Institute

2011 National Retail Report - Marcus & Millichap

2011 Real Estate Investment Outlook - Marcus & Millichap

4th Qtr 2010 Market Commentary - Realty Rates

## Shopping Centers - Community Model Definition

Class	Location	Exterior	Interior	Age/Condition	Unit size/Mix
A	Excellent visibility. The best location would be at the intersection of two major thoroughfares. Units would be oriented to maximize those facing the street. Easy in and out access. Ample parking located between stores and street, parking once and visiting multiple stores is typical. Service and delivery at back of stores, some employee parking may be available as well. Anchors generally at either end or oriented to created traffic flow to small spaces within center. Reasonable distance to public transportation.	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.	New or all items in need of replacement or maintenance (consider roof, paint, any heating system, technology needs such as adequate electrical and cabling for cash registers.) 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.	>1500 sf per unit and three or more anchors
B	Good visibility. Located at the intersection of a major thoroughfare, and a well traveled thoroughfare. Units would be oriented to maximize those facing the street. Easy in and out access. Sufficient parking located between stores and street; parking once and visiting multiple stores is typical. Service and delivery at back of stores, some employee parking may be available as well. Anchors generally at either end or oriented to created traffic flow to small spaces within center. Reasonable distance to public transportation.	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/quantity 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.	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.	Two or less anchors, mixture of space sizes easily reconfigured
C	Average visibility, not the newest locations, may be of poor design so that some tenants may not be visible from the main road. Reasonable distance from public transportation. Visible on a well travelled main road. Generally an easy in and out location, that may be difficult during especially high travel times. Sufficient parking available, however some spaces may not have adequate storefront parking.	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 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.	One anchor generally a grocery. Mixture of space sizes easily reconfigured generally >3000sf
D	Location not as desirable due to limited visibility and transition from current use. May have tenants who do not compliment each other. Not near public transportation or employee parking may be difficult. Little or no synergy from surroundings, or oversupply of competition.	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.	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.	Strip retail sizes not adequate for intended uses, not easily reconfigured.
E	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. Side street or not visible, low traffic flow, negative synergy. Limited parking, or parking some distance from site. Possible that people have gravitated away from this area to newer sites, or perhaps there is an oversupply of this type of property.	Prefabricated, low cost materials, dated appearance, deferred maintenance. Parking lots are not being kept up.	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.	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.	Strip retail sizes not adequate for intended uses, not easily reconfigured.

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.
- \* 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: End spaces with high visibility may lease for higher than center space with no visibility.
- \* For those projects less than the median land to building ratio, an adjustment to the income approach will be applied at the appraisers discretion. The adjustment will use the median ratio as the starting point for the reduction. For example if the median land to building ratio were 5:1 and the subject land to building ratio is 2:1 the subject would receive an adjustment for the lack of sufficient land.

# Income Model Rates

Neighborhood 8401101

Model Serial # 302011

Property Type Shop Ctr, Community

## Rent Class A

	Center	>15KAncho	SupMkt			
RENT	31.00	22.00				
VAC	8.00	9.00				
EXPEN	22.00	22.00				
CAP	7.63	7.63				
MKT	0.01	0.01				

## Rent Class B

	Center	>15KAncho	SupMkt			
RENT	22.00	19.75	12.00			
VAC	9.00	10.00	7.00			
EXPEN	22.00	23.00	20.00			
CAP	7.63	7.63	7.63			
MKT	0.01	0.01	0.01			

## Rent Class C

	Center	>15KAncho	SupMkt			
RENT	19.75	14.50	9.00			
VAC	10.00	11.00	7.00			
EXPEN	23.00	24.00	20.00			
CAP	7.63	7.63	7.63			
MKT	0.01	0.01	0.01			

## Rent Class D

	Center	>15KAncho	SupMkt			
RENT	14.50	12.25	5.25			
VAC	11.00	12.00	12.00			
EXPEN	24.00	25.00	25.00			
CAP	8.00	8.00	8.00			
MKT	0.01	0.01	0.01			

## Rent Class E

	Center	>15KAncho	SupMkt			
RENT	12.25					
VAC	12.00					
EXPEN	25.00					
CAP	8.50					
MKT	0.01					

## 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