

Commercial Revalue

2013 Assessment roll

**QUICK SERVICE
RESTAURANTS
AREA 413**

**King County, Department of Assessments
Seattle, Washington**

Lloyd Hara, Assessor



King County

Department of Assessments

Accounting Division

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Lloyd Hara
Assessor

Dear Property Owners:

Property assessments for the 2013 assessment year are being completed by my staff throughout the year and change of value notices are being mailed as neighborhoods are completed. We value property at fee simple, reflecting property at its highest and best use and following the requirement of RCW 84.40.030 to appraise property at true and fair value.

We have worked hard to implement your suggestions to place more information in an e-Environment to meet your needs for timely and accurate information. The following report summarizes the results of the 2013 assessment for this area. (See map within report). It is meant to provide you with helpful background information about the process used and basis for property assessments in your area.

Fair and uniform assessments set the foundation for effective government and I am pleased that we are able to make continuous and ongoing improvements to serve you.

Please feel welcome to call my staff if you have questions about the property assessment process and how it relates to your property.

Sincerely,

Lloyd Hara
Assessor

Executive Summary Report

Appraisal Date 1/01/2013 – 2013 Assessment Year

Specialty Name: Quick Service/Fast Casual & Casual Dining Restaurants

Sales - Improved Summary:

Number of Sales: 5

Range of Sale Dates: 11/23/2010 – 11/15/2012

Sales – Ratio Study Summary:

Sales used in Analysis: All improved sales that were verified as fair market transactions were included in the analysis. A ratio study was not included in this report due to the small number of sales relative to the size of the specialty population. The Parcel Summary Data does not reflect any statistical measure associated with IAAO guidelines.

Population - Parcel Summary Data:

	Land	Improvements	Total
2012 Value	\$278,379,000	\$94,406,300	\$372,785,300
2013 Value	\$282,395,300	\$110,324,800	\$392,720,100
Amount Change	+\$4,016,300	+\$15,918,500	+\$19,934,800
Percent Change	+1.44%	+16.86%	+5.35 %

Number of Parcels in the Population: 313

Conclusion and Recommendation:

With limited market sales data less consideration is given to the Sales Comparison Approach in the 2013 revalue. The Income Approach is used in the final reconciliation of value because it allows greater equalization and uniformity of values for the various stratifications of quick service restaurants in the different submarkets. In addition, sufficient market income data is available for the analysis.

Since the values recommended in this report improve uniformity and equity, we recommend posting them for the 2013 assessment year.

Analysis Process

Effective Date of Appraisal: January 1, 2013

Date of Appraisal Report: June 12, 2013

Highest and Best Use Analysis

As if vacant: Market analysis of this area, together with current zoning and current anticipated use patterns, indicate the highest and best use of the majority of the appraised parcels as commercial use. Any opinion not consistent with this is specifically noted in our records and considered in the valuation of the specific parcel.

As if improved: Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. We find that the current improvements do add value to the property, in most cases, and are therefore the highest and best use of the property as improved. In those properties where the property is not at its highest and best use, a nominal value of \$1,000.00 is assigned to the improvements.

Standards and Measurement of Data Accuracy: Each sale was verified with the buyer, seller, real estate agent, or tenant when possible. Current data was verified and corrected when necessary via field inspection.

Special Assumptions and Limiting Conditions

All three approaches to value were considered in this appraisal.

- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

Identification of the Area

Name or Designation: Area 413

This report contains data pertinent to the revalue of Quick Service Restaurants (QSR) and Fast Casual Restaurants, formally known as Fast Food Restaurants. Area 413 also includes Casual Dining Restaurants, formally known as Institutional Restaurants.

Specialty Area 413 encompasses all QSR restaurants, McDonalds, Wendy's, Burger King, Taco Bell, KFC, etc. Fast Casual Restaurants include Pizza Hut, Chipotle, Five

Guy Burgers, Panera Bread, etc. Casual Dining Restaurants include but are not limited to Denny's, IHOP, Applebee's, Red Robin, Olive Garden, etc. These are special-purpose properties often specifically designed and tailored for major brand recognition. According to the National Restaurant Association (NRA); restaurants are divided into four types: (1) quick service restaurants; (2) fast casual restaurants; (3) casual dining and (4) fine dining. Area 413 includes those restaurants that have National recognition and are listed in the top 50 restaurants in each category except for (4) fine dining restaurants, which are valued by the King County Area appraiser.

The majority of the restaurants are "stand alone" structures with both land and building included in the property description. Restaurants that are not included in Area 413 such as Subway and Starbucks are because they are, in most cases, located in retail centers in which they lease the space as part of a larger complex and are not stand alone facilities.

Ownership of QSR facilities includes both corporate owned restaurants and franchise owned restaurants. The majority of the restaurants are owned by franchisees. Most of the restaurants are leased, with typical lease terms of twenty years with options for additional five year terms, with the exception of McDonalds. McDonalds has approximately 34,500 restaurants worldwide of which approximately 27,900 are franchisee owned and the balance are corporate owned stores, however McDonalds owns the land and buildings of all of their stores and charges rent for the franchisee owned stores. The majority of the restaurants in the 413 Specialty are franchisee owned and operated stores. Jack-in-the-Box has approximately 75% of their restaurants franchised and plans to increase that percentage to 85%. On the other end of the relationship, i.e. franchisor/franchisee is Subway with only 7.3% franchisee owned.

Boundaries:

The properties are located within King County.

Maps:

Assessor's maps are located on the 7th floor of the King County Administration Building.

Area Description:

The QSR and casual dining restaurants in King County have been segmented into five neighborhood regions. These regions are described by their geographic location and restaurant style. Significant concentrations, approximately 50%, are located in the South End (Kent, Auburn, Federal Way, Renton, & Tukwila) of the county. All QSR and casual dining restaurant specialty properties were revalued this year.

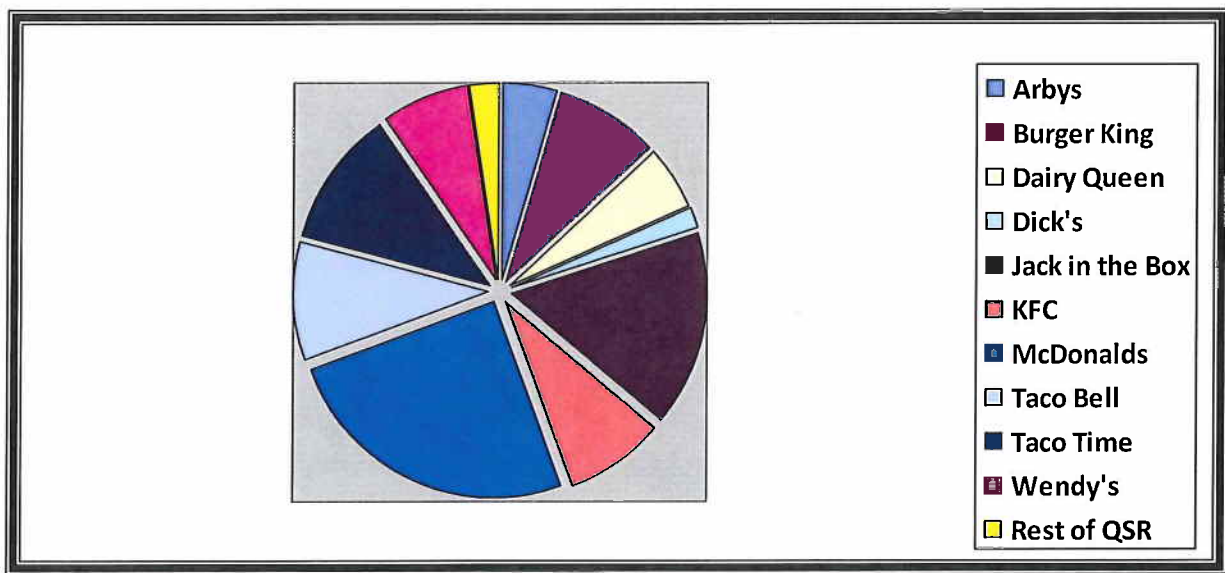
A brief description of the neighborhoods follows.

King County is home to many corporations with national and international impact. The QSR and casual dining restaurant business is highly competitive. The following restaurant chains located in King County are listed in the top twenty nationally. McDonalds, KFC, Pizza Hut, Burger King, Wendy's, Taco Bell, Jack in the Box, Arby's, Dunkin Donuts, Pizza Hut and Dairy Queen. The following table shows the number of parcels in Area 413 and the neighborhoods.

Neighborhood	## of Parcels	%% of Total
10	48	15.34%
20	77	24.60%
30	54	17.25%
40	83	26.52%
50*	51	16.29%
Total	313	100.0%

*Inspected Area for 2013

The pie chart shown below shows the QSR distribution found in King County and includes most of the national chains with the addition of Dick's and Taco Time which are local QSRs also valued in Area 413.



Graph of King County QSR Distribution

Specialty Area 413-10 includes the Seattle area, Kenmore, Lake Forest Park and Shoreline. There have not been any new 413 specialty market sales in this area in the past year. Three QSRs have been remodeled or additions added including McDonalds (remodel), KFC (remodel) and Dick's (addition). Approximately 15.34% of the

restaurants are located in this neighborhood. The following table shows that the major portion of the total value lies in the land value which has experienced a modest increase in value from the prior assessment year.

Year	Land Value	Imp. Value	Total Value	% Change
2012	\$60,888,700	\$4,538,900	\$65,427,600	
2013	\$62,318,400	\$5,365,500	\$67,683,900	
Difference	+1,429,700	+ \$826,600	+\$2,256,300	+3.54%

Specialty Area 413-20 includes South Seattle, Burien, Tukwila, Des Moines, SeaTac, and Federal Way. Approximately 25% of the fast food specialty population is located here and it is the largest submarket neighborhood. One sale has taken place in this neighborhood, Taco Bell, which sold for \$1.6M or \$480/square foot. Wendy's has constructed a new store located at 25350 Pacific Highway South. A new Taco Time was completed and opened in 2012 and is located at 15037 International Blvd. The remodeled McDonalds pictured below is located at 2302 S. 320th Street, Federal Way. Land value increases, new construction, and remodeling make up the major part of the increase in total property value for this neighborhood.

Year	Land Value	Imp. Value	Total Value	% Change
2012	\$63,062,800	\$22,232,200	\$85,296,000	
2013	\$62,767,500	\$24,993,400	\$87,760,900	
Difference	-\$295,300)	+\$2,761,200	+\$2,464,900	+2.89%

The photos below show the McDonalds located in Federal Way before/after remodeling which included new drive-thru. The McDonalds remodeled below is typical of the McDonalds being updated (re-imaged)* worldwide.

**(nearly 60% of our restaurant interiors around the world have been re-imaged, and we expect to reach 50% with our exteriors by 2015 (source 2012 McDonalds Annual Report)*



Specialty Area 413-30 includes the East side of King County; Redmond, Kirkland, Woodinville, Bellevue, Sammamish and Issaquah. Approximately 17.25% of the restaurants are located within this neighborhood. One sale has taken place in this neighborhood which was a Taco Time located at 3920 Factoria Blvd SE in Bellevue that sold for \$1,500,000 on January 13, 2011 and it supported a CAP rate of 7.0%. The price per square foot for the sale was \$557. The Taco Bell/Pizza Hut located at 1960 148th Ave. NE has been upgraded with new exterior and interior finishing. The McDonalds located at 1401 156th Ave. NE was razed to make way for a new McDonalds constructed on the same footprint. Land values increased modestly in this neighborhood and improvement values increased based upon upgrading of existing restaurants and new construction for an overall increase in total property values.

Year	Land Value	Imp. Value	Total Value	% Change
2012	\$62,951,400	\$9,041,700	\$71,993,100	
2013	\$64,242,800	\$11,065,300	\$75,308,100	
Difference	+\$1,291,400	+\$2,023,600	+\$3,315,000	+4.60%

Specialty Area 413-40 includes rural King County. The areas are Auburn, Newcastle, Renton, Kent, Covington, Enumclaw, Maple Valley, and North Bend. There are 83 parcels in this sub area representing approximately 26.5%. Six quick service restaurants were either remodeled or razed and rebuilt in this neighborhood during 2012 including a remodeled Dairy Queen and McDonalds in Maple Valley, McDonalds located in Auburn (remodeled), McDonalds located in Kent (remodeled), McDonalds located in Tukwila also remodeled and a McDonalds located in Renton that was razed and rebuild. The Arby's restaurant in Kent was closed and subsequently sold for \$554K or \$219/sf and is not considered reflective of QSR values for this report. The sale that was considered is the sale of a Jack in the Box located at 16757 SE 272nd Street, Covington, that sold for \$2,077,586 on 11/23/2010 for \$792 per square foot. According to the purchaser the CAP rate was 6.9%. The land values for this neighborhood have remained stable while the improvement values have increased due to the remodeling and rebuilding of the six QSRs noted previously.

Year	Land Value	Imp. Value	Total Value	% Change
2012	\$43,392,600	\$39,544,000	\$82,936,600	
2013	\$44,162,700	\$48,128,600	\$92,291,300	
Difference	+\$770,100	+\$8,584,600	+\$9,354,800	+11.28%%

Specialty Area 413-50 includes casual dining restaurants countywide. This neighborhood has approximately 16.3% of the specialty population and is the neighborhood inspected for assessment year 2014. It includes Denny's, IHOP, Black Angus, Shari's, Applebee's, Pizza Hut and Red Robin as well as other local and national chain restaurants. There have been two market sales in neighborhood 50 and both were Pizza Hut sales. One sale closed in May 2011 for \$415K or \$230/sf located in Auburn with a land to building ratio of 6:1 and the other sale is located in Bellevue and closed in April 2012 selling for \$1.166M or \$440/sf with a land to building ratio of 7.7:1. The economic climate has

slowed the pace of new construction and sales activity with these stand-alone restaurants. Two Black Angus restaurants were sold during the sales period, one sold to an adjoining property owner and the other was converted to three restaurants and neither was considered a fair market sale. The increase in total value was caused primarily by the transfer of a number of casual dining restaurants from the Area Appraisers to Specialty Area 413-50.

Year	Land Value	Imp. Value	Total Value	% Change
2012	\$48,083,500	\$19,048,500	\$67,132,000	
2013	\$48,903,900	\$20,772,000	\$69,675,900	
Difference	+\$820,400	+\$1,723,500	+\$2,543,900	+ 3.79%

National QSR and Casual Dining Restaurant Economic Conditions.

The QSR, fast casual and casual dining industry has seen an increase in total sales during 2012 over 2011 in spite of the economy still recovering slower than predicted. Again the QSR market exceeded the \$600B sales figure for the third year in a row and set a new record at \$660B and the industry is expected to grow by 4.9% in 2013, according to National Restaurant Association's 2013 Restaurant Industry Forecast. Nationwide the QSR industry added 4,037 units from Fall 2011 to Fall 2012, according to The NPD Group.

Trends for the restaurant industry in 2013, according to NRA will include the following:

- Going Local-utilizing locally grown or sourced ingredients
- Healthy kids' meals-meals are getting more innovative with kids becoming more comfortable with healthier foods.
- Economic struggles-opinions vary from an annual growth projection of 3.8% for all restaurants and 4.9% for QSR, but are concerned about food inflation (increase in chicken and beef prices).
- Snacks as a meal-snacking has generally been described as eating between meals and QSRs are developing more bite-size items for more customization.
- More fruits and veggies-customers will expect more fruit and vegetable variety on menus.
- Gluten-free options-the demand for gluten-free food is growing, nearly 30 percent of all adults claim they are cutting down on or avoiding gluten completely.
- Trickle-up trends-fast casual restaurants are setting the pace for rest of the restaurant industry, specifically Chipotle, Panera Bread and Five Guys Burgers.
- Ethnic foods-All kinds of ethnic foods have found their way to limited service, and that should continue to expand this year.

- Innovative beverages-fruit and vegetable juices are showing strength, due in part to limited-service restaurants serving smoothies and the growing prevalence of juice bars.
- Evolving around Health Care-The Patient Protection and Affordable Care Act will affect the restaurant industry more than almost any other industry when fully implemented in 2014. Some chains, like McDonald's have already put calorie counts on menu-boards. So far, the U.S. Food and Drug Administration has not issued final regulations for nutrition posting and has no estimated date for it.

The QSR and Casual Dining restaurant market has seen a leveling off of new construction with an upward trend in gross sales over the past year and is adjusting to the recovery faster than similar commercial properties in King County and Washington State. The lowering of the CAP rate with income remaining the same will trend the values upward, supporting the Assessors increase in total property values of 5.35%.

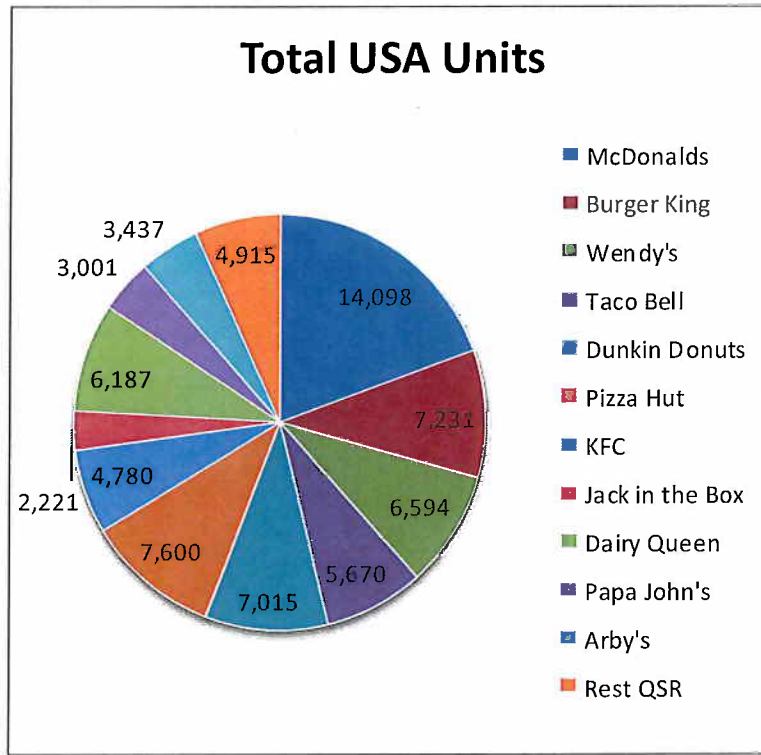
Two new fast casual restaurants in Area 413 include The Wings Stop, which has one store in the Bellevue, with more planned in the near future, and MOD Pizza, which has eight stores in the King County area and the newest addition planned for the Ridge Plaza Highlands in Issaquah.

The top eleven QSR restaurant units in the nation based upon gross sales are listed as follows: 1) McDonald's [\$34B], 2) Wendy's [\$8.5B], 3) Burger King [\$8.4B], 4) Taco Bell [\$7B], 5) Dunkin Donuts [\$6.5B], 6) Pizza Hut [\$5.5B], 7) KFC [\$4.5B], 8) Chick-fil-A [4.05B], 9) Sonic Drive-In [\$3.7B] 10) Arby's [\$3.02B], 11) Jack in the Box [\$2.9B]. Starbucks with \$9.75B and Subway with \$11.4B in sales are not listed as QSR restaurants as explained previously. However, Subway surpasses McDonald in total stores with 24,722 in the USA, while McDonalds has 14,098. Starbucks is third with 10,821. McDonalds still leads in total gross sales with \$34B in 2012, while Subway had \$11.4B in gross sales and Starbucks had \$9.75B.

Wendy's has passed Burger King and has become the second largest hamburger chain with \$8.5 billion in sales in 2011, Burger King came at \$8.4 billion; McDonald's remains in first place with a total sales of \$34.2 billion for 2011.*

*Technomic's Estimates, Assoc. Press March, 19, 2012

QSR report dated August 2012



The distribution ratio shown above is highly similar to the number of QSR outlets found in King County, see prior King County Chart. The rest of the QSRs includes Long John Silver, Papa Murphy's and Baskin Robin.

Physical Inspection Identification:

The physically inspected neighborhood was the King County Casual Dining Restaurants neighborhood 413-50 for assessment year 2013 as required by WAC 458-07-015 4 (a). These types of restaurants include but are not limited to Denny's, Shari's, Pizza Hut, and IHOP, etc. An exterior observation of the properties was made to verify the accuracy and completeness of property characteristic data that affect value.

Preliminary Ratio Analysis

There were insufficient sales in 2010 thru 2012 to include before and after ratio studies.

Scope of Data

Land Value

Land Sales, Analysis, Conclusions

The geographic appraiser in the area in which the specialty fast food or institutional restaurant property is located is responsible for the land value used by the specialty appraiser. See appropriate area reports for land valuation discussion.

Improved Parcel Total Values:

Sales Comparison Approach model description

Improved sales for Area 413 were verified by the specialty appraiser and entered into the Real Property Sales application. The sales used range in date from 11/01/2010 to 11/15/2012 and are shown in the following chart. Due to the credit crisis and economic downturn, there were fewer market sales than past years. Verification consisted of contact with Buyer, Seller or Broker if possible or information from the COMPS InfoSystem, Inc., real estate sales verification service. At the time of sale, information on vacancy and market absorption rates, current and anticipated rents, capitalization rates and the competitive position of the property were also gathered when available. The data was used in the income approach. Because of the limited number of comparable sales, the sales comparison approach was not used exclusively.

There were five closed market sales in this specialty in 2010 thru 2012. There are fewer distressed or forced sales in the quick service restaurant and casual dining restaurant sector than in the commercial real estate market. Sales are shown in the following table.

Nbdh	Major	Minor	E Tax #	Sale Date	Sale Price	Size NRA	Land to Building Ratio	Price Per NRA
40	362205	9029	2467767	11/23/1010	\$2,077,586	2,621 sf	9.80:1	\$792.67
30	092405	9204	2478339	01/13/2011	\$1,500,000	2,803 sf	7.23:1	\$535.14
50	869560	0060	2498597	05/19/2011	\$415,000	1,800 sf	6.23:1	\$230.56
50	220150	1409	2538065	04/06/2012	\$1,666,666	2,648 sf	7.70:1	\$440.58
20	766620	5160	2577649	11/15/2012	\$1,600,000	3,333 sf	6.88:1	\$480.05

Sales comparison calibration

Calibration of the coefficients utilized in the models applied via the sales comparison approach was established by an analysis of sales within each neighborhood, if possible. Individual prices were applied based on various characteristics deemed appropriate by each market. Specific variables and prices for each neighborhood are discussed in more detail above. The sales comparison approach was given some weight, but the income

approach was used in the final reconciliation of value to provide greater equalization and uniformity of values.

Cost Approach model description

Cost estimates are automatically calculated via the Marshall & Swift Valuation modeling system. Depreciation was based on studies done by Marshall & Swift Valuation Service. The cost was adjusted to the western region and the Seattle area. The Marshall & Swift cost calculations are automatically calibrated to the data in the Real Property Application. Because of the difficulty in accurately determining the depreciation of older properties, this approach to value was given the least weight in the final reconciliation of values. Cost estimates were relied upon for valuing on going new construction where comparable sales data and/or sufficient income and expense information is not available.

Cost calibration

The Marshall & Swift Valuation modeling system which is built in the Real Property Application is calibrated to the region and the Seattle area.

Income Capitalization Approach model description

The income approach is considered the most reliable approach to valuation in area 413 where relevant income and expense data is available to ascertain market rates. During the sales verification process, an attempt is made to obtain income and expense data from the parties involved in the transactions through interviews or via mail. The information requested includes current and anticipated future rents, operating expense breakdown and assigned responsibility for the expenses, and estimated capitalization rates associated with a sale. In addition, owners, tenants, and agents of non-sale properties are surveyed to collect similar data. Disclosure of this information is not required by law and therefore is often difficult to obtain. The return rate of mail surveys varies and the data can be incomplete. Telephone interviews are dependent upon obtaining a valid number for a knowledgeable party and the opportunity to contact them. Due to the highly competitive nature of this specialty, information of a confidential nature is very difficult to obtain. As a supplement, lease information is gathered from Costar and other websites.

In order to calibrate a credible income model, it is necessary to consider data from recognized published sources to assist in developing capitalization rates. The following table recaps the capitalization rates as reported by these publications.

National/Regional CAP Rates for QSR/Fast Casual and Casual Dining Restaurants					
Restaurant Type	2011	2012	% Change	Change Basis Points*	Remarks
QSR	7.81%	7.24%	-7.25%	-(57)	Restaurant Research-Marcus & Millichap
QSR	7.47%	7.20%	-3.61%	-(27)	Calkain Research Cap Rate Reports
QSR		6.29%			Net Lease Cap Rates Summer 2012 for QSR restaurants Colliers International
QSR	7.45%	6.93%	-6.98%	-(52)	Net Lease Advisor, Average CAP rates for following sale properties: McDonalds, Arby's, Wendy's, Burger King, Taco Bell
QSR		5.58%			Fall 2012 Cassidy/Turley West Region CAP rates for Jack-in-the-Box, Burger King, KFC, Taco Bell, Arby's and McDonalds sales.
Restaurant	8.11%	7.25%	-15%	-(128)	Calkain Research Cap Rate Reports
Restaurant	7.45%	6.96%	-6.58%	-(49)	National Average Cap Rates, Single Tenant Net Lease Property Report
Restaurant		6.69%			Colliers International Rates Summer 2012 for Casual Dining restaurants (IHOP, Denny's, Applebee's etc.)

The table demonstrates ranges of capitalization rates and trends that are compiled with information that is collected on a national or broad regional scale. This information is reconciled with data specific to the real estate market of QSR properties to develop the income model. The overall quick service restaurants capitalization rates have declined over the past year with older casual dining restaurants capitalization rates remaining the same in King County.

*Note a change in 50 basis points or 0.50% can have a major effect on the total value of a property: For example, if all factors remain the same (vacancy, expenses, rental rate) and the NOI is \$100,000 then a value estimate based upon a CAP rate of 7.50% would be \$1,333,300 and if the CAP rate was lowered to 7.00% the indicated value would be \$1,428,500 for an approximate increase in value of near 7% for the property.

2012 Year End Metrics			
	QSR	Fast Casual	Casual Dining
Vacancy	↔ (stable)	↔ (stable)	↔ (stable)
Rental Rate	↗ (slight increase)	↔ (stable)	↔ (stable)
Capitalization Rate	↘ (decrease)	↘ (decrease)	↘ (decrease)
Improved Property Values	↗ (slight increase)	↗ (slight increase)	↗ (slight increase)
Land Values	↗ (slight increase)	↗ (slight increase)	↗ (slight increase)

Rental rates, vacancy levels and operating expenses are derived by reconciling all of the information collected through the sales verification process, completed surveys, publications, and interviews with tenants, owners, and brokers and the appraiser's independent market research. Quality, effective year, condition, and location are variables considered in the application of the income model to the parcels in the population.

Income approach calibration

The models were calibrated after setting economic base rents, vacancy rates, expenses, and capitalization rates by using adjustments based on size, effective age, and quality of construction as recorded in the Assessor's records. When the value of the property by the income approach was significantly less than the land value, a minimal \$1,000 value was allocated to the improvements. The following table outlines specific income parameters

PROPERTY TYPE	TYPICAL RENT RANGE	VACANCY	EXPENSE RATE	CAP RANGE
Quick Service Restaurant/Fast Casual	\$18.00 to \$36.00	3% to 7%	10%	7.00% to 8.00%
Casual Dining	\$14.00 to \$28.00	5% to 7%	10%	7.00% to 8.00%
Retail	\$12.00 to \$24.00	7%	10%	7.00% to 8.00%
Metrics* *Change from Prior Year	Stable/ Slight Increase	Stable No Increase	Stable No Increase	Slight Decrease

Reconciliation

All parcels were individually reviewed for correctness of the model application before final value selection. All of the factors used to establish value by the model were subject

to adjustment. Under no circumstances were business enterprise or personal property values included in the Assessor's appraisals. Every effort was made, through the use of market rent, to eliminate any possibility of value estimates that included anything but the value of the real estate. The market sales approach is considered the most reliable indicator of value when comparable sales were available, however, the income approach was applied to most parcels in order to better equalize comparable properties. Whenever possible, market rents, expenses, and cap rates were ascertained from sales, and along with data from surveys and publications these parameters were applied to the income model. An administrative review of the selected values was made by Bonnie Christensen, Senior Appraiser for quality purposes.

Model Validation

Total Value Conclusions, Recommendations and Validation:

Appraiser judgment prevails in all decisions regarding individual parcel valuation. A value is selected based on general and specific data pertaining to the parcel, the neighborhood, and the market. The Appraiser determines which available value estimate is appropriate and may adjust for particular characteristics and conditions as they occur in the valuation area.

The income approach to value was considered on all of the Quick Service/Fast Casual Restaurants and the Casual Dining Restaurants and is the most reliable approach for these specialty properties.

The total assessed value for the 2012 assessment year for Area 413 was \$372,785,300. The total recommended assessed value for the 2013 assessment year is \$392,720,100.

Both land values and improvement value increased over prior year. Land values increased a modest 1.44% while improvement values increased by over 16% mainly due to McDonalds remodeling of a number of their restaurants, new construction and the lowering of the overall capitalization rate for QSRs. Also contributing to the increase in improvement values, besides new construction and the remodeling of a number of QSRs, was the transfer of a number of Casual Dining restaurants from area appraisers to Specialty Area 413. The application of these recommended values for the 2013 assessment year results in a total change from the 2012 assessments of a modest plus 5.35% increase.

	Land	Improvements	Total
2012 Value	\$278,379,000	\$94,406,300	\$372,785,300
2013 Value	\$282,395,300	\$110,324,800	\$392,720,100
Amount Change	+\$4,016,300	+\$15,918,500	+\$19,934,800
Percent Change	+1.44%	+16.86%	+5.35 %

Client and Intended Use of the Appraisal:

*This mass appraisal report is intended for use only by the King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a **mass appraisal report** as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessors Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.*

The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The Revaluation Plan is subject to their periodic review.

Definition and date of value estimate:

Market Value

The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65). The true and fair value of a property in money for property tax valuation purposes is its "market value" or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)

Retrospective market values are reported herein because the date of the report is subsequent to the effective date of valuation. The analysis reflects market conditions that existed on the effective date of appraisal.

Highest and Best Use

RCW 84.40.030 *All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.*

An assessment may not be determined by a method that assumes a land usage or highest and best use not permitted, for that property being appraised, under existing zoning or land use planning ordinances or statutes or other government restrictions.

WAC 458-07-030 (3) True and fair value -- Highest and best use. *Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be*

taken into consideration. Uses that are within the realm of possibility, but not reasonably probable of occurrence, shall not be considered in valuing property at its highest and best use.

If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922)) The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922)) The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))

Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)

Date of Value Estimate

All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law. [1961 c 15 §84.36.005]

The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year. [1989 c 246 § 4]

Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date of valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.

Property rights appraised:

Fee Simple

Wash Constitution Article 7 § 1 Taxation: *All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word "property" as used herein shall mean and include everything, whether tangible or intangible, subject to ownership. All real estate shall constitute one class.*

Trimble v. Seattle, 231 U.S. 683, 689, 58 L. Ed. 435, 34 S. Ct. 218 (1914) *"the entire [fee] estate is to be assessed and taxed as a unit"*

Folsom v. Spokane County, 111 Wn. 2d 256 (1988) *"the ultimate appraisal should endeavor to arrive at the fair market value of the property as if it were an unencumbered fee"*

The definition of fee simple estate as taken from The Third Edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute. "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

Assumptions and Limiting Conditions:

1. *No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.*
2. *No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.*
3. *No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.*
4. *Rental areas herein discussed have been calculated in accord with generally accepted industry standards.*
5. *The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.*
6. *The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.*
7. *The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.*
8. *No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.*
9. *Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.*
10. *The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, easements adversely affecting property value were not considered.*
11. *An attempt to segregate personal property from the real estate in this appraisal has been made.*
12. *Items which are considered to be "typical finish" and generally included in a real property transfer, but are legally considered leasehold improvements are included in the valuation unless otherwise noted.*

13. *The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.*
14. *I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.*
15. *Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.*

Scope of Work Performed:

Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement by law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.

CERTIFICATION:

I certify that, to the best of my knowledge and belief:

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or to the parties involved.*
- *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*
- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the "appraisal team" and provided significant real property appraisal assistance to the person signing this certification.*
- *Any services regarding the subject area performed by me within the prior three years, as an appraiser or in any other capacity is listed below:*

*Physical inspection, revalue, appeal response preparation, appeal hearing appearance,
data collection, sale verification, new construction evaluation*

Commercial Appraiser II

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
413	020	766620	5160	3,333	2577649	\$1,600,000	11/15/12	\$480.05	TACO BELL	IG1 U/8	1	Y	
413	030	092405	9204	2,803	2478339	\$1,500,000	01/13/11	\$535.14	TACO TIME	CB	1	Y	
413	040	362205	9029	2,621	2467767	\$2,077,586	11/23/10	\$792.67	JACK IN THE BOX	MC	1	Y	
413	050	869560	0060	1,800	2498597	\$415,000	05/19/11	\$230.56	PIZZA HUT	C1	1	Y	
413	050	220150	1409	2,648	2538055	\$1,166,666	04/06/12	\$440.58	PIZZA HUT	CB	1	Y	

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
413	010	117500	0984	2,180	2546256	\$250,000	05/30/12	\$114.68	TACO TIME	IB U/45	1	11	Corporate affiliates
413	010	276810	0465	2,946	2505555	\$37,500	08/16/11	\$12.73	BURGER KING	C1-65	1	24	Easement or right-of-way
413	010	344800	1081	2,396	2426266	\$60,000	01/15/10	\$25.04	WENDYS	C1-40	1	18	Quit claim deed
413	020	212204	9201	2,811	2568922	\$1,780,000	10/03/12	\$633.23	WENDY'S RESTAURANT	CM-2	1	59	Bulk portfolio sale
413	020	873217	0060	2,519	2595428	\$2,472	03/12/13	\$0.98	DAIRY QUEEN	BN	1	24	Easement or right-of-way
413	030	112505	9106	2,660	2584956	\$881,424	12/27/12	\$331.36	WENDY'S HAMBURGERS	OT	1	59	Bulk portfolio sale
413	030	222505	9332	3,149	2517368	\$650,000	11/04/11	\$206.41	BURGER KING (SPLIT ACCT)	BR-CR	1	51	Related party, friend, or neighbor
413	030	222505	9332	3,149	2517370	\$45,000	11/04/11	\$14.29	BURGER KING (SPLIT ACCT)	BR-CR	1	24	Easement or right-of-way
413	030	262505	9031	2,576	2433543	\$1,441,172	03/23/10	\$559.46	TACO BELL	RC	1	59	Bulk portfolio sale
413	030	272505	9129	4,020	2582824	\$2,329,460	12/17/12	\$579.47	MCDONALDS	BR-CR	3	51	Related party, friend, or neighbor
413	030	282605	9182	3,210	2444089	\$1,550,000	05/17/10	\$482.87	TACO TIME	TL 6B	2	11	Corporate affiliates
413	040	000080	0031	3,300	2579555	\$390,000	12/14/12	\$118.18	DAIRY QUEEN RESTAURANT	C3	1	44	Tenant
413	040	102305	9132	2,818	2546279	\$600,000	05/30/12	\$212.92	TACO TIME	CA	1	11	Corporate affiliates
413	040	102305	9132	2,818	2538622	\$19,512	03/15/12	\$6.92	TACO TIME	CA	1	31	Exempt from excise tax
413	040	162206	9148	2,275	2543318	\$750,000	05/07/12	\$329.67	TACO TIME	CB	1	33	Lease or lease-hold
413	040	202205	9054	3,393	2455647	\$330,000	08/16/10	\$97.26	DAIRY QUEEN	CC	1	51	Related party, friend, or neighbor
413	040	362205	9040	2,732	2448856	\$742,500	06/29/10	\$271.78	TACO TIME	TC	1	51	Related party, friend, or neighbor

	A	B	C	D	E	F
1	Area	neighborhood	Major	Minor	PropName	SitusAddress
2	413	50	030150	0345	IHOP RESTAURANT	1044 SUPERMALL WAY
3	413	50	030150	0360	RED ROBIN RESTAURANT	1002 SUPERMALL WAY
4	413	50	072105	9054	APPLEBEES RESTAURANT	1441 D ST NE
5	413	50	092104	9276	BLACK ANGUS RESTAURANT	2400 S 320TH ST
6	413	50	172305	9132	SHARI'S RESTAURANT	1820 SE RENTON-MAPLE VALLEY RD
7	413	50	173580	0095	GODFATHER'S PIZZA	321 AUBURN WAY N
8	413	50	176060	0240	PIZZA HUT	15050 1ST AVE S
9	413	50	182105	9027	DENNY'S	521 AUBURN WAY S
10	413	50	182305	9258	I HOP RESTAURANT	610 RAINIER AVE S
11	413	50	182305	9273	PIZZA HUT	261 RAINIER AVE S
12	413	50	182604	9452	DENNYS RESTAURANT	904 N 155TH AVE
13	413	50	192304	9342	DENNY'S DINER	14821 1ST AVE S
14	413	50	192305	9103	APPLEBEES RESTAURANT	375 S GRADY WAY
15	413	50	198820	0025	DICKS DRIVE IN	500 QUEEN ANNE AVE N
16	413	50	202205	9080	RED ROBIN RESTAURANT	25207 104TH AVE SE
17	413	50	202205	9203	VACANT-See Minor 9080 RE	No Situs Address
18	413	50	202205	9210	APPLEBEE'S RESTAURANT	25442 104TH AVE SE
19	413	50	202205	9229	IVARS RESTAURANT	25406 104TH AVE SE
20	413	50	202406	9096	IHOP Restaurant	1433 NW SAMMAMISH RD
21	413	50	202505	9225	THE KEG RESTAURANT	10416 NE 38TH PL
22	413	50	212104	9077	DENNY'S RESTAURANT	34726 16TH AVE S
23	413	50	220150	1409	PIZZA HUT	15210 SE 37TH ST
24	413	50	242006	9097	PIZZA HUT	421 ROOSEVELT AVE
25	413	50	242320	0040	DENNY'S RESTAURANT	2200 S 320TH ST
26	413	50	250060	0600	PIZZA HUT	23241 PACIFIC HWY S
27	413	50	252205	9153	APPLEBEES RESTAURANT	17024 SE 272ND ST
28	413	50	252304	9007	BARNABY'S RESTAURANT	16401 WEST VALLEY HWY
29	413	50	262505	9275	RED ROBIN	2390 148TH AVE NE
30	413	50	272505	9230	DENNY'S RESTAURANT	2233 148TH AVE NE
31	413	50	282304	9093	DENNYS RESTAURANT	17206 INTERNATIONAL BLVD
32	413	50	282605	9186	PIZZA HUT	12475 TOTEM LAKE BLVD NE
33	413	50	282605	9187	DENNYS RESTAURANT	12106 NE 124TH ST
34	413	50	282605	9244	DENNY'S RESTAURANT part	No Situs Address
35	413	50	292205	9269	AZTECA MEXICAN FOOD	25633 102ND PL SE
36	413	50	330070	0955	PIZZA HUT DELIVERY CTR	8521 15TH AVE NW
37	413	50	332304	9203	DENNY'S RESTAURANT	18623 PACIFIC HWY S
38	413	50	332605	9064	SHARIS RESTAURANT	12207 NE 116TH ST
39	413	50	334330	1180	DENNY'S RESTAURANT	4750 LAKE WASHINGTON BLVD NE
40	413	50	344500	0131	IHOP	20402 INTERNATIONAL BLVD
41	413	50	355750	0234	Cucina Cucina	1510 11TH AVE NW
42	413	50	355750	0260	Red Robin Restaurant	1085 LAKE DR
43	413	50	415920	0720	IHOP	178 SW CAMPUS DR
44	413	50	537920	0300	SIZZLER STEAK HOUSE	16615 SOUTHCENTER PKWY
45	413	50	644820	0015	Azteca	3040 148TH AVE NE
46	413	50	766620	4275	DENNY'S RESTAURANT	2742 4TH AVE S
47	413	50	775880	0003	DENNY'S	1246 CENTRAL AVE N
48	413	50	789390	0042	LOS CABOS PARKING (SEE	No Situs Address
49	413	50	789390	0043	LOS CABOS RESTAURANT	580 SW MOUNT SI BLVD
50	413	50	869560	0060	PIZZA HUT	1213 AUBURN WAY S

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51	413	50	873217	0050	GODFATHER'S PIZZA	2301 SW 336TH ST
52	413	50	925690	0010	IHOP	950 E MADISON ST

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