

Commercial Revalue

2014 Assessment Roll

**QUICK SERVICE- FAST
CASUAL AND CASUAL
DINING 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 2014 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 2014 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.

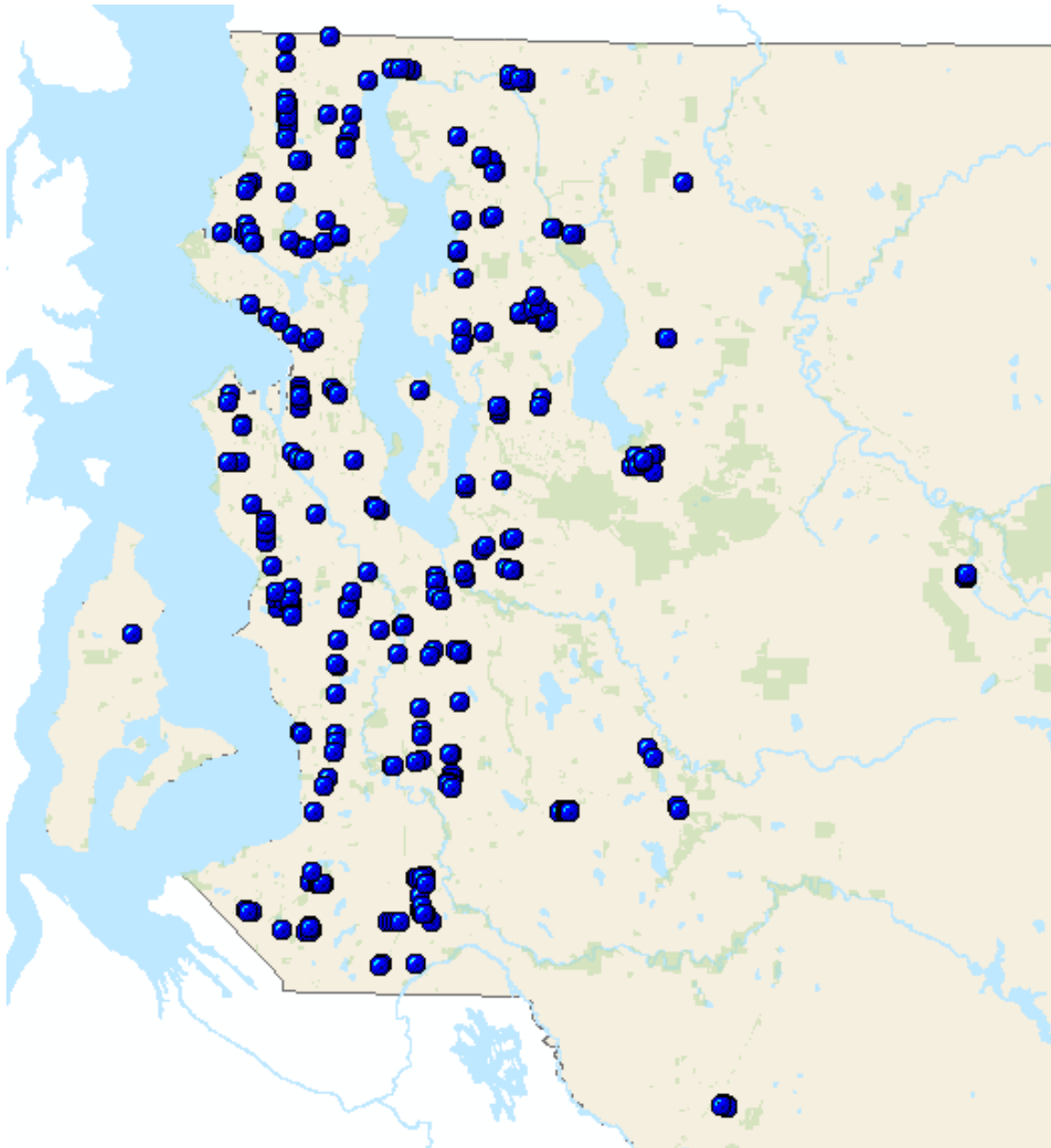
Fair and uniform assessments set the foundation for effective government and I am pleased that we are able to make continuous and ongoing improvements to serve you.

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

AREA 413 MAP



Executive Summary Report

Appraisal Date 1/01/2014 – 2014 Assessment Year

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

Sales - Improved Summary:

Number of Sales: 6

Range of Sale Dates: 1/13/2011 – 11/7/2013

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
2013 Value	\$289,100,500	\$110,662,300	\$399,762,800
2014 Value	\$300,829,100	\$108,746,000	\$409,575,100
Amount Change	+\$11,728,600	-\$1,916,300	+\$9,812,300
Percent Change	+4.06%	-(1.73%)	+2.45 %

Number of Parcels in the Population: **321**

Conclusion and Recommendation:

With limited market sales data less consideration is given to the Sales Comparison Approach in the 2014 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 2014 assessment year.

Analysis Process

Effective Date of Appraisal: January 1, 2014

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), AKA Fast Food Restaurants, Fast Casual Restaurants, and Casual Dining Restaurants. Specialty Area 413 encompasses all QSR restaurants, Fast Casual Restaurants and Casual Dining Restaurants.

According to the National Restaurant Association (NRA), restaurants are divided into four types: Type One (quick service); Type Two (fast casual); Type Three (casual dining) and Type Four (fine dining). McDonalds, Wendy's, Burger King, Taco Bell, KFC, etc. are examples of QSR type restaurants. Examples of Type Two restaurants, fast casual; include Pizza Hut, Chipotle, Five Guy Burgers, Panera Bread, etc. Type Three, casual dining, examples include; Denny's, IHOP, Applebee's, Red Robin, Olive Garden, etc. Type Four, fine dining, are not valued in this report as they are valued by the King County Assessor's area appraiser.

QSR, fast casual dining and casual dining restaurants are special-purpose properties often specifically designed and tailored for major brand recognition. Area 413 includes those restaurants that have National recognition and are listed in the top 50 restaurant chains in each category by the NRA.

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 is 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 14,150 restaurants in the USA of which approximately 12,600 (89%) 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. Burger King has 97% of their restaurants franchised. On the other end of the relationship, i.e. franchisor/franchisee, is Subway with 25,500 outlets of which none are 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, fast casual and casual dining restaurant specialty properties were revalued this year.

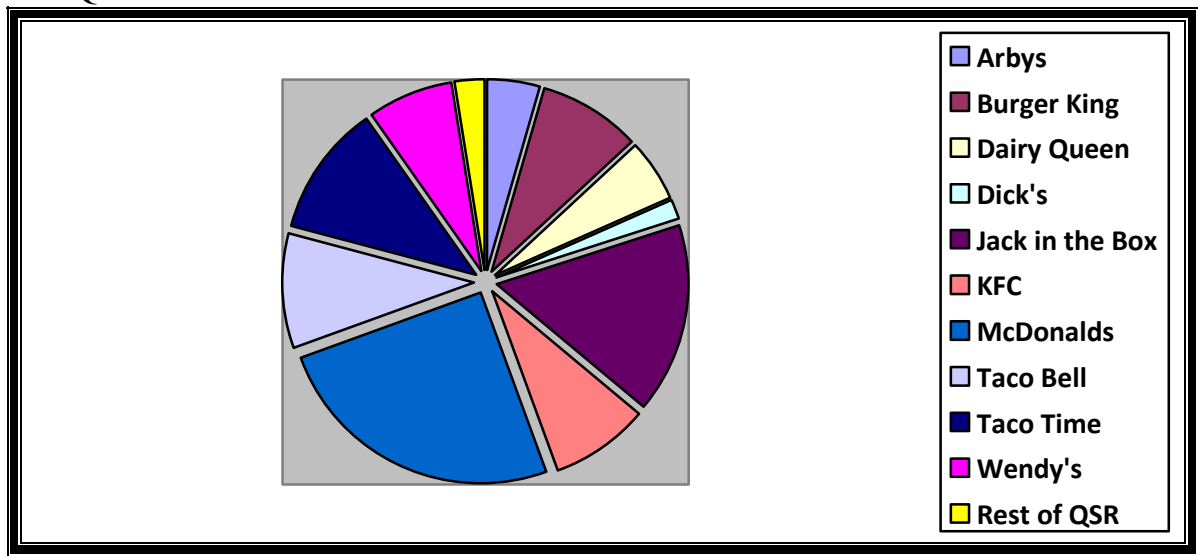
A brief description of the neighborhoods follows.

King County is home to many corporations with national and international impact. The QSR, fast casual and casual dining restaurant industry is highly competitive. The following QSR 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*	52	16.20%
20	77	23.99%
30	55	17.13%
40	86	26.79%
50	51	15.89%
Total	321	100.0%

*Inspected Area for 2014

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. This neighborhood is the inspection neighborhood for Assessment Year 2014 and all Quick Service Restaurants and Fast Casual Dining Restaurants in this Neighborhood 10 were physically inspected; see Report for Tax Parcels inspected. There have not been any new 413 specialty market sales in this area in the past year. Approximately 16.2% of the restaurants are located in this neighborhood. Dick's Drive-

In restaurants celebrated their 60th year anniversary having opened their first restaurant in 1954 located near the University of Washington, see recent photo following:



Dick's Drive-In Restaurant, Seattle, WA

The following table shows that the major portion of the total value for Neighborhood 10 lies in the land value, which is assessed by the Area Appraiser. The land value has increased 7.58% over prior year supporting a decrease in improvement value as the total property value increased 5.88% over prior assessment year.

Year	Land Value	Imp. Value	Total Value	% Change
2013	\$66,673,300	\$5,923,500	\$72,596,800	
2014	\$71,729,400	\$5,133,100	\$76,862,500	
Difference	+\$5,056,100	- (\$790,400)	+\$4,265,700	+5.88%

Specialty Area 413-20 includes South Seattle, Burien, Tukwila, Des Moines, SeaTac, and Federal Way. Approximately 24% of the fast food specialty population is located here and it is the second largest submarket neighborhood. One sale took place in this neighborhood, Taco Bell/KFC, which sold for \$1.6M or \$480/square foot. See photo following of the sale property. Land value increases, similar to Neighborhood 10, assessed by Area Appraiser, resulted in a total property value increase of a modest 1.37%.



Taco Bell/KFC Tax Parcel No. 766620-5160

Year	Land Value	Imp. Value	Total Value	% Change
2013	\$62,664,200	\$24,292,600	\$86,956,800	
2014	\$64,040,900	\$24,110,800	\$88,151,700	
Difference	+\$1,376,700	-\$181,800)	+\$1,194,900	+1.37%

Specialty Area 413-30 includes the East side of King County; Redmond, Kirkland, Woodinville, Bellevue, Sammamish and Issaquah. Approximately 17.13% of the restaurants are located within this neighborhood. One sale has taken place in this neighborhood over the past three years, 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 \$535. 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 3.26% similar to Neighborhoods 10 & 20. Also resulting in a decrease in improvement values and a total property value increase of a modest 2.15%. Taco Time purchased a site in Issaquah and is constructing a new restaurant on the property. The quick service restaurant will be completed June 2014, see photo of new building following.



Year	Land Value	Imp. Value	Total Value	% Change
2013	\$65,317,000	\$11,466,400	\$76,783,400	
2014	\$67,448,700	\$10,985,500	\$78,434,200	
Difference	+\$2,131,700	-\$480,900)	+\$1,650,800	+2.15%

Specialty Area 413-40 includes rural King County. The areas are Auburn, Newcastle, Renton, Kent, Covington, Enumclaw, Maple Valley, and North Bend. There are 86 parcels in this sub area representing approximately 26.79% the largest Neighborhood in Area 413. Two transactions have taken place in the Neighborhood over the past year; the Starbucks located in Renton sold June 11, 2013 for \$1.2M or approximately \$429/sf. Also, the Burger King in North Bend sold November 2013 for \$2,235,000 or approximately \$643/sf. New construction includes the building of a Popeye's and

Starbucks in Kent, WA. This property is offered for sale with an asking price of \$2,925,000. See photo below.



New Popeye's & Starbucks, Kent, WA

The land values for this neighborhood have increased 4.38% and the total property values have also increased by a modest 2.13%.

Year	Land Value	Imp. Value	Total Value	% Change
2013	\$45,542,100	\$48,549,300	\$94,091,400	
2014	\$47,537,300	\$48,559,300	\$96,096,600	
Difference	+\$1,995,200	+\$10,000	+\$2,005,200	+2.13%

Specialty Area 413-50 includes casual dining restaurants countywide. This neighborhood has approximately 15.89% of the specialty population. 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 has been one market sale in Neighborhood 50. The sale of a Pizza Hut closed in May 2011 for \$415K or \$230/sf located in Auburn with a land to building ratio of 6:1. The economic climate has slowed the pace of new construction and sales activity with these stand-alone restaurants. 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
2013	\$48,903,900	\$20,430,500	\$69,334,400	
2014	\$50,072,800	\$19,957,300	\$70,030,100	
Difference	+\$1,168,900	-(\$473,200)	+ \$695,700	+ 0.10%

National QSR and Casual Dining Restaurant Economic Conditions.

The QSR, fast casual and casual dining industry has seen an increase in total sales during 2013 over 2012 in spite of the economy still recovering slower than predicted. Again the QSR market exceeded the \$600B sales figure for the fourth year in a row and is projected

to top \$683.4B in 2014, up 3.6% over 2013, according to National Restaurant Association's 2014 Restaurant Industry Forecast. Nationwide the QSR industry added 4,037 units from fall 2011 to fall 2012, according to The NPD Group. Subway led the way with 956 units added from 2011 to 2012, followed by Starbucks with 341, and Dunkin Donuts with 291. Fast casual dining restaurant additions during the same time period leaders included Chipotle with 180 units, Pizza Hut with 156 new restaurants and Panera Bread with 111. McDonalds, with a total of 14,157 restaurants, added only 59 new units. QSR restaurants that reduced the number of outlets included KFC - minus 162, Quiznos - minus 150, Arby's - minus 83, Wendy's minus - 34 and Dairy Queen - minus 23. Although not approaching the total number of QSR restaurants, the fastest growing segment of the restaurant industry is the fast casual section with Panera Bread, Chipotle and Pizza Hut leading the way. Conversely, the QSR segment has been static over the same time period.

Trends for the restaurant industry in 2014, according to National Restaurant Association, will include the following:

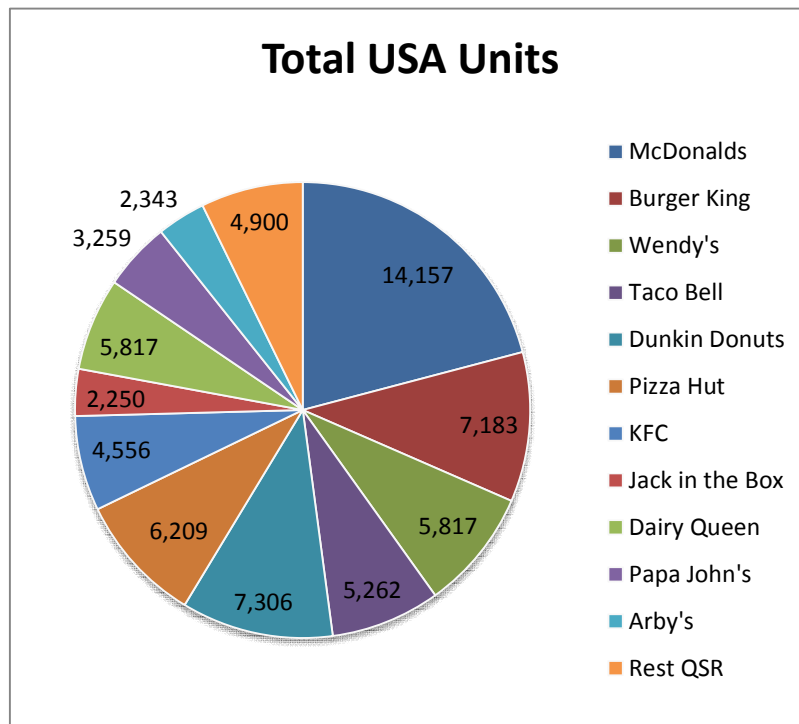
- Quality ingredients and more transparency—"customers are more interested in what they're eating and where it comes from".
- Bold flavors-the trend is for new, exciting, and bold flavors, including Asian, Latin and both *nuevo* Mexican and regional Mexican.
- Stabilized food costs-estimates are that food costs will rise 2 percent this year, a slight reduction from 2013.
- Tea as a Drink and Ingredient-some experts believe tea is on the cusp of being the next great drink and flavoring additive.
- Mobile technology as new norm-mobile technology, both for customers and for operators, will continue to open new doors in the quick-service industry.
- Better-for-you-foods go mainstream- many quick-service restaurants already serve at least some healthy menu items and will continue adding more.
- Flexibility in food and hours-snacks were big last year, and that should continue in 2014, but there is an even bigger trend now into which snacks fit: flexibility. Some restaurants are serving burgers all day.
- Sour and tart tastes-just as Americans' taste for hot and spicy items continues to get hotter and spicier, their taste for sour and tart foods will continue along the same path.

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 2.45%.

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 [\$35.6B], 2) Wendy's [\$8.6B], 3) Burger King [\$8.6B], 4) Taco Bell [\$7.5B], 5) Dunkin Donuts [\$6.3B], 6) Pizza Hut [\$5.6B], 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 \$10.6B and Subway with \$12.1 in sales are not listed as QSR restaurants as explained previously. Subway surpasses McDonald in total stores with 25,449 in the USA, while McDonalds has 14,157. Starbucks is third with 11,128. McDonalds still leads in total gross sales with \$35.6B in 2013, while Subway had \$12.1B in gross sales and Starbucks had \$10.6B.

Burger King has sold all but about 50 restaurants to their franchisees over the recent past and during 2013 has remodeled 600 restaurants or approximately 30% with plans to reach 40% by end of 2015. This refranchising has allowed for Burger King to add 670 restaurants worldwide bring its total to 13,667. McDonalds continues to remodel its restaurants with 1,000 planned for this year along with adding 1,500-1,600 new restaurants worldwide. Wendy's is also planning to sell 425 of its restaurants to franchisees, hoping to boost its profit margin. Twenty four of the restaurants sold were to Cedar Enterprises for \$14M all of which are located in the Seattle Metro market area, giving Cedar Enterprises a total of 47 locations in Washington State.



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 Robbins. During the past year McDonalds added 59 units; Wendy's declined by 34 units; Burger King was also down by 21 units; Taco Bell rose by 25 units; Dunkin Donuts increased by 291 units; Pizza Hut's total units rose by 156; KFC declined by 162 units.

At the national level, with respect to casual dining restaurants, American Realty Capital Properties, Inc. (ARCP) has announced the acquisition of Red Lobster restaurants in a \$1.5B sale/leaseback transaction acquiring approximately 500 restaurants from Darden Restaurants, Inc. Other local restaurants owned by Darden include the Olive Garden, Bahama Breeze, Yard House and The Capital Grill.

Physical Inspection Identification:

The physically inspected neighborhood was the King County Assessor's neighborhood 413-10 for assessment year 2014 as required by WAC 458-07-015 4 (a). Neighborhood 10 includes all QSR and fast casual dining restaurant such as McDonalds, KFC/Taco Bell, Dairy Queen, Taco Time, Pizza Hut, and Dick's Drive-In. 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 2011 thru 2013 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. Graph of Area 413 Land Values for 2013 and 2014 shown following.

Land Assessed Values Area 413				
Neighborhood	Value 2013	Value 2014	\$ Change	% Change
10	\$66,673,300	\$71,729,400	\$5,056,100	7.58%
20	\$62,664,200	\$64,040,900	\$1,376,700	2.20%
30	\$65,317,000	\$67,448,700	\$2,131,700	3.26%
40	\$45,542,100	\$47,537,300	\$1,995,200	4.38%
50	\$48,903,900	\$50,072,800	\$1,168,900	2.39%
Totals	\$289,100,500	\$300,829,100	\$11,728,600	4.06%

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 01/13/2011 to 11/07/2013 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 six closed market sales in this specialty in 2011 thru 2013. 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
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
20	766620	5160	2577649	11/15/2012	\$1,600,000	3,333 sf	6.88:1	\$480.05
50	202406	9096	2610398	05/30/2013	\$1,505,000	4,944 sf	9.34:1	\$304.41
40	516970	0092	2611357	06/11/2013	\$1,200,000	2,796 sf	10.15:1	\$429.18
40	789390	0041	2640112	11/07/2013	\$2,235,000	3,473 sf	13.17:1	\$643.54

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	2012	2013	% Change	Change Basis Points*	Remarks
QSR	7.24%	6.50%	-10.22%	-(74)	Restaurant Research-Marcus & Millichap (QSR 2013Q3)
QSR	7.20%	6.60%	-8.33%	-(60)	Calkain Research Cap Rate Reports, End 2013.
QSR	7.25%	6.85%	-5.52%	-(40)	The Boulder Group, Single Tenant Net Lease
QSR	6.93%	6.30%	-9.09%	-(63)	Net Lease Advisor, Average CAP rates for following sale properties: McDonalds, Arby's, Wendy's, Burger King, Taco Bell, KFC, Jack-in-the-Box
QSR	5.58%	5.35%	-4.12%	-(23)	Fall 2013Cassidy/Turley West Region CAP rates for Jack-in-the-Box, Burger King, KFC, Taco Bell, Arby's and McDonalds sales.
Restaurant	7.25%	7.17%	-1.1%	-(8)	Calkain Research Cap Rate Reports
Restaurant	6.96%	6.56%	-5.75%	-(40)	National Average Cap Rates, Restaurant Q4, 2013 Cap Rates

*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.

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. Nationally, Marcus & Millichap, RetailResearch, Net-Leased Outlook reported that average cap rates were in the mid-6 percent range in the last year, though first year returns vary depending on tenant. McDonald's trades in the low-4 percent range, while corporate-backed Burger King trade in the mid-5 percent area.

2013 Year End Metrics			
	QSR	Fast Casual	Casual Dining
Vacancy	↔ (stable)	↔ (stable)	↔ (stable)
Rental Rate	↗ (slight increase)	↗ (slight increase)	↘ (slight decrease)
Capitalization Rate	↘ (slight decrease)	↘ (slight decrease)	↔ (stable)
Improved Property Values	↗ (slight increase)	↗ (slight increase)	↔ (stable)
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 \$38.00	3% to 7%	10%	6.75% to 8.00%
Casual Dining	\$18.00 to \$26.00	5% to 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 Ruth Peterson, 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 2013 assessment year for Area 413 was \$399,762,800. The total recommended assessed value for the 2014 assessment year is \$409,575,100.

Both land values and improvement value increased over prior year. Land values increased a 4.06% while improvement values decreased slightly at a minus 1.73% mainly due to the increase in land value resulting in existing improvements having a nominal value of \$1,000. The application of these recommended values for the 2014 assessment year results in a total change from the 2013 assessments of a modest plus 2.45% increase.

	Land	Improvements	Total
2013 Value	\$289,100,500	\$110,662,300	\$399,762,800
2014 Value	\$300,829,100	\$108,746,000	\$409,575,100
Amount Change	+\$11,728,600	-\$1,916,300	+\$9,812,300
Percent Change	+4.06%	-(1.73%)	+2.45 %

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:

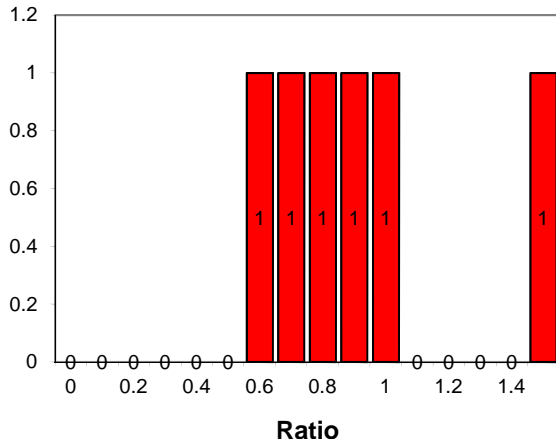
- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no 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

Area 413 - Quick Service Restaurants
2014 Assessment Year

<i>Parcel Number</i>	<i>Assessed Value</i>	<i>Sale Price</i>	<i>Sale Date</i>	<i>Ratio</i>	<i>Diff: Median</i>
092405-9204	1,188,600	1,500,000	1/13/2011	0.7924	0.0455
869560-0060	594,400	415,000	5/19/2011	1.4323	0.5944
766620-5160	1,413,300	1,600,000	11/15/2012	0.8833	0.0455
202406-9096	1,434,600	1,505,000	5/30/2013	0.9532	0.1154
516970-0092	774,700	1,200,000	6/11/2013	0.6456	0.1923
789390-0041	1,338,200	2,235,000	11/7/2013	0.5987	0.2391

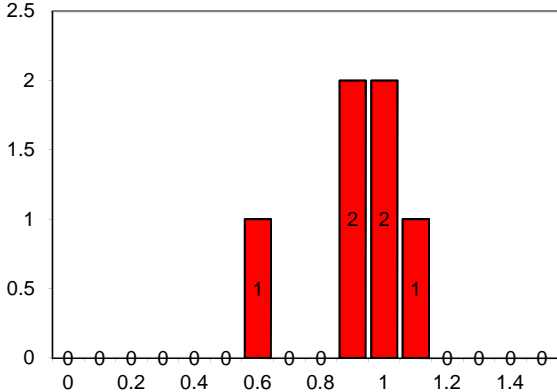
Area 413 - Quick Service Restaurants
2014 Assessment Year

Quadrant/Crew:	Appr date :	Date:	Sales Dates:
North Crew	1/1/2013	6/3/2014	1/1/11 - 05/31/14
Area	Appr ID:	Prop Type:	Trend used?: Y / N
413	RBUT	Improvement	N
SAMPLE STATISTICS			
Sample size (n)	6	<div>Ratio Frequency</div> 	
Mean Assessed Value	1,124,000		
Mean Sales Price	1,409,200		
Standard Deviation AV	355,727		
Standard Deviation SP	594,638		
ASSESSMENT LEVEL			
Arithmetic mean ratio	0.884		
Median Ratio	0.838		
Weighted Mean Ratio	0.798		
UNIFORMITY			
Lowest ratio	0.5987		
Highest ratio:	1.4323		
Coefficient of Dispersion	24.51%		
Standard Deviation	0.3007		
Coefficient of Variation	34.00%		
Price-related Differential	1.11		
RELIABILITY			
95% Confidence: Median		<div>These figures reflect measurements before posting new values.</div>	
Lower limit	0.599		
Upper limit	1.432		
95% Confidence: Mean			
Lower limit	0.644		
Upper limit	1.125		
SAMPLE SIZE EVALUATION			
N (population size)	296		
B (acceptable error - in decimal)	0.05		
S (estimated from this sample)	0.3007		
Recommended minimum:	97		
Actual sample size:	6		
Conclusion:	Uh-oh		
NORMALITY			
Binomial Test			
# ratios below mean:	4		
# ratios above mean:	2		
z:	0.40824829		
Conclusion:	Normal*		
*i.e., no evidence of non-normality			

Area 413 - Quick Service Restaurants
2014 Assessment Year

<i>Parcel Number</i>	<i>Assessed Value</i>	<i>Sale Price</i>	<i>Sale Date</i>	<i>Ratio</i>	<i>Diff: Median</i>
092405-9204	1,305,100	1,500,000	1/13/2011	0.8701	0.0387
869560-0060	451,400	415,000	5/19/2011	1.0877	0.1789
766620-5160	1,413,300	1,600,000	11/15/2012	0.8833	0.0255
202406-9096	1,434,600	1,505,000	5/30/2013	0.9532	0.0444
516970-0092	1,121,100	1,200,000	6/11/2013	0.9343	0.0255
789390-0041	1,338,200	2,235,000	11/7/2013	0.5987	0.3100

Area 413 - Quick Service Restaurants
2014 Assessment Year

Quadrant/Crew:	Appr date :	Date:	Sales Dates:
North Crew	1/1/2014	6/3/2014	1/1/11 - 05/31/14
Area	Appr ID:	Prop Type:	Trend used?: Y / N
413	RBUT	Improvement	N
SAMPLE STATISTICS			
Sample size (n)	6	<div>Ratio Frequency</div> 	
Mean Assessed Value	1,177,300		
Mean Sales Price	1,409,200		
Standard Deviation AV	372,615		
Standard Deviation SP	594,638		
ASSESSMENT LEVEL			
Arithmetic mean ratio	0.888		
Median Ratio	0.909		
Weighted Mean Ratio	0.835		
UNIFORMITY			
Lowest ratio	0.5987		
Highest ratio:	1.0877		
Coefficient of Dispersion	11.43%		
Standard Deviation	0.1614		
Coefficient of Variation	18.18%		
Price-related Differential	1.06		
RELIABILITY		<div>These figures reflect measurements after posting new values.</div>	
95% Confidence: Median			
Lower limit	0.599		
Upper limit	1.088		
95% Confidence: Mean			
Lower limit	0.759		
Upper limit	1.017		
SAMPLE SIZE EVALUATION			
N (population size)	296		
B (acceptable error - in decimal)	0.05		
S (estimated from this sample)	0.1614		
Recommended minimum:	37		
Actual sample size:	6		
Conclusion:	Uh-oh		
NORMALITY			
Binomial Test			
# ratios below mean:	3		
# ratios above mean:	3		
z:	-0.40824829		
Conclusion:	Normal*		
*i.e., no evidence of non-normality			

Improvement Sales for Area 413 with Sales Used

06/02/2014

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
413	030	092405	9204	2,803	2478339	\$1,500,000	01/13/11	\$535.14	Taco Time	CB	1	Y	
413	050	869560	0060	1,800	2498597	\$415,000	05/19/11	\$230.56	PIZZA HUT	C1	1	Y	
413	020	766620	5160	3,333	2577649	\$1,600,000	11/15/12	\$480.05	TACO BELL	IG1 U/85	1	Y	
413	050	202406	9096	4,944	2610398	\$1,505,000	05/30/13	\$304.41	IHOP Restaurant	PO	1	Y	
413	040	516970	0092	2,796	2611357	\$1,200,000	06/11/13	\$429.18	STARBUCKS COFFEE RENTON HIC	CA	1	Y	
413	040	789390	0041	3,473	2640112	\$2,235,000	11/07/13	\$643.54	BURGER KING	IC	1	Y	

Improvement Sales for Area 413 with Sales not Used

06/02/2014

Area	Nbhd	Major	Minor	Total NRA	E #	Sale Price	Sale Date	SP / NRA	Property Name	Zone	Par. Ct.	Ver. Code	Remarks
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	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	040	102305	9132	2,818	2538622	\$19,512	03/15/12	\$6.92	TACO TIME	CA	1	31	Exempt from excise tax
413	050	220150	1409	2,648	2538065	\$1,166,666	04/06/12	\$440.58	PIZZA HUT	CB	1	8	Questionable per appraisal
413	040	162206	9148	2,275	2543318	\$750,000	05/07/12	\$329.67	TACO TIME	CB	1	33	Lease or lease-hold
413	010	117500	0984	2,180	2546256	\$250,000	05/30/12	\$114.68	TACO TIME	IB U/45	1	11	Corporate affiliates
413	040	102305	9132	2,818	2546279	\$600,000	05/30/12	\$212.92	TACO TIME	CA	1	11	Corporate affiliates
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	040	000080	0031	3,300	2579555	\$390,000	12/14/12	\$118.18	DAIRY QUEEN RESTAURANT	C3	1	44	Tenant
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	112505	9106	2,660	2584956	\$881,424	12/27/12	\$331.36	WENDY'S HAMBURGERS	OT	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	050	330070	0955	1,876	2651340	\$925,000	01/27/14	\$493.07	PIZZA HUT DELIVERY CTR	NC3P-40	1	8	Questionable per appraisal
413	040	292205	9337	3,580	2663591	\$397,000	04/04/14	\$110.89	KFC - FAST FOOD	CC	1	51	Related party, friend, or neighbor
413	040	312305	9167	2,889	2666953	\$1,192,000	05/07/14	\$412.60	WENDY'S	GC	1		Sold after lien date
413	040	722780	1025	4,860	2669517	\$1,330,000	05/22/14	\$273.66	KFC & PIZZA HUT	CV	1		Sold after lien date