

Date: September 15, 2006

To: Frank Wash, Planner

From: Kelly Smith, Assessor

RE: Orchard Park – Analysis of assessments and property tax

Mr. Wash –

You have asked many department heads here at the City of Walker to go over the proposed plans for the Orchard Park development, to be located between Walker and Bristol Avenues, north of I-96. My comments are specifically geared towards page 33 of the developer's preliminary site plan package. Page 33 contains the developer's estimate of property value (real and personal) and the associated property taxes that would be collected once the development is totally finished with the project.

Comments on How Developer Estimated Property Values and Taxes:

Let me first start out by commenting on this page 33 – these calculations are very vague. Until it is certain exactly what retail buildings (clothing stores, boutiques, shoe stores, jewelers, pharmacy, toy stores, electronics, etc.) it will be impossible to get a true, accurate picture of values and taxes generated from those values. I checked all the calculations on these pages, using their figures (acres, building square footage, land values, and building values) and they have computed everything properly, with thee **major** exceptions:

1. In the State of Michigan, we assess all property at 50% of market value, and then we apply the millage rates. On page 33, they have applied the millage rates to the entire (100%) market value, which means that the property taxes are inflated by 50%. The estimated property tax revenue of \$11,763,909 would actually be in the neighborhood of \$5,881,954. This is the biggest error that I found.
2. In the tax calculation, they did not mention the Administration Fee of 1% that is applied to all property tax bills issued in Walker. This administration fee is allowed to cover the cost of assessing, collecting, and distributing the tax dollars to the taxing entity. 1% of the more precise total taxes of \$5,881,954 would be \$58,819, which would be retained by the City of Walker.

3. The developer calculated the property taxes using 2005 millage rates. Don't get me wrong, these rates are the most accurate that they can use for their projections at this time. However, we are all aware that millage rates can change from year to year, and while Walker's have been pretty steady over the past five years, there is talk of additional millage rates coming down the pike. So these projections may be off from that standpoint as well.

Comments on Land Values

Next, I am going to discuss the land values that they have utilized. On most of the retail areas, office areas and hotels they are using \$8.00 per square foot for land value. In the residential areas they are using \$6.00 per square foot. In the Out parcel/Restaurant areas they are using \$15.00 per square foot. At first glance, these values seem reasonable – except, why are they using \$8.00 per square foot for the Anchor store in the Town Center area and then they are using only \$5.00 per square foot for the Anchor store in the Regional area? This does not add up to me. Currently in our assessing system, my most expensively valued commercial property is in the Alpine/Greenridge area (Alpine and Center Dr – Green Orchard Mall, Alpine Summit, etc), which we have valued at \$8.24 per square foot. This amount falls in line with the \$8.00 per square foot that they are using for most of their calculations. When I look at all of our commercial property in Walker, it is becoming more difficult to find vacant sales – most of it has been built on. However, in the Standale area in front of the new Meijer's store there have been some recent vacant commercial properties that have sold. Both parcels are roughly 1.40 acres and sold for \$16.23 per square foot and \$19.82 per square foot. These two sales make me believe that the amounts that the developer is using for land value may be too small. Until the market is determined in the Orchard Park area (until parcels start selling), it will be anybody's guess to the land value. Whether Cabela's comes or not will affect the land values as well.

Comments on Improvement Values (building only)

Now I wanted to talk about the improvement values that the developer used. I utilized the Marshall Swift Valuation Service manual to look up individual types of commercial buildings to see if the dollar per square foot values that appear on page 33 fall in line with actual costs. It is my understanding that all the buildings to be erected in the Orchard Park development will be of very high quality – that it will be a high-end development. Therefore when I looked in the manual, I picked good to excellent quality for each of the types of buildings, resulting in a range of values per type. The following page has a break down per type of building:

- Anchor – the developer used \$55.00 per square foot. In the manual the range for Mall Anchor (Department/Big Box) – good quality is \$83.61 to \$97.84 per square foot - a big difference.
- Retail – they are using \$110.00 and \$120.00 per square foot. This type is vague and I found two types in the manual that are similar: 1) Retail Stores, good to excellent in quality are \$99.96 to \$136.54 per square foot; 2) Department Stores, good to excellent in quality are \$125.55 to \$159.01 per square foot. Closer in value, but theirs may still be a little low.
- Office – the developer had \$85.00 per square foot. In the manual the range for Office Buildings, good quality runs between \$116.93 and \$156.38 – a big difference again.
- Restaurant – they are using \$110.00 per square foot. The manual has good to very good restaurants between \$124.06 and \$159.37 per square foot – they are a little low.
- Hotel – the developer uses \$90.00 per square foot. In the manual, good to excellent hotels run between \$90.66 and \$121.99 per square foot – pretty close.
- Residential – they use \$80.00 per square foot. The manual that we have is only for commercial and industrial buildings – no residential. I have been told that the residential portion of Orchard Park will be a combination of Brownstones/Townhouses and Apartments. \$80.00 seems low for a high-end Brownstone. Apartments are in the manual – good quality runs between \$107.42 and \$111.66 per square foot. Again, a low estimated dollar per square foot on the developer's part.

Comments on Overall Property Values (land and building)

On to the total real property values - land and building combined. To check these values, I looked for recent sales in Walker, just to see if they are in the ballpark for current market conditions with our existing properties. The following are recent sales that I have laid out by building type:

Restaurants: 7/25/01 Steak & Shake on Alpine sold for \$291.67/Sq Ft
 5/10/01 Buffalo Wild Wings on Alpine sold for \$155.35/Sq Ft
 9/4/03 The Clock on Alpine sold for \$229.94/Sq Ft
 9/2/05 Perkins on Alpine sold for \$393.16/Sq Ft
 6/1/04 Shamrock on Wilson sold for \$165.45/Sq Ft
 The range on these sales is \$155.35 to \$393.16/Sq Ft
 The average sale price for these sales is \$247.11/Sq Ft

The developer has \$239.44 and \$283.32 on the restaurants – these amounts fall within the range of the recent sales, however, this development is supposed to be of higher quality than what we have, so I would guess that the total property values on these restaurants would be higher.

Office Buildings: All of these four sales are located on 3 Mile Rd:
4/3/06 - 555 3 Mile Rd NW sold for \$95.42/Sq Ft
2/14/03 – 976 3 Mile Rd NW sold for \$88.75/Sq Ft
11/9/01 – 956 3 Mile Rd NW sold for \$97.50/Sq Ft
4/30/03 – 600 3 Mile Rd NW sold for \$157.55/Sq Ft
The range on these sales is \$88.75 to \$157.55/Sq Ft
The average sale price for these sales is \$109.81/Sq Ft
The developer has \$98.94 and \$101.03 on the Office Buildings. These sales are of older office buildings. Again, Orchard Park is going to be nicer, higher quality than these other Office Buildings on 3 Mile Rd, so I would think the dollar per square foot would be higher.

Hotels: 9/2/05 Hampton Inn on Center Dr sold for \$103.34/Sq Ft
9/2/05 Marriott on Center Dr sold for \$95.39/Sq Ft
2/10/06 Amerihost Inn on Walker sold for \$79.18/Sq Ft
The range on these sales is \$79.18 to \$103.34/Sq Ft
The average sale price for these sales is \$92.63/Sq Ft
The developer has \$103.38 and \$106.73 on the Hotels, which is actually higher than the sales, but considering the quality of the development, it may still be a little low.

Overall, I feel that the developer has under estimated the land and building (improvement) values, which in turn has the total property values under estimated. Plus, they have neglected to add Land Improvements, which would add a lot of value to all of these properties. Land Improvements are items like parking lots, lighting in the parking lots, truck wells, truck docks, etc. The plans for the Orchard Park development shows an abundant amount of parking lot area, but without having a square footage of that area, I cannot give you an idea of how much value will be added for that improvement.

Comments of Personal Property Values:

This is really where it becomes difficult to estimate the values to use. Without knowing the exact types of stores, restaurants, and offices to go into this development, it is next to impossible to either support the figures that they used or to tear them apart. They used \$20.00 per square foot on the anchors, offices and one of the hotels. Then they used \$25.00 per square foot on the retail stores, \$90.00 on the restaurants, and \$15.00 on the other hotel. Are these figures accurate? I just do not know. Tax Management Associates, a personal property auditing firm, has put together dollar per square foot figures for personal

property based on occupancy, very specific occupancy. Bellow is some of those specific occupancies and their estimated values:

Clothing, Family - \$20.00/Sq Ft
Clothing, Women's - \$22.00/Sq Ft
Department Store - \$20.00/Sq Ft
Discount Store - \$13.00/Sq Ft
Electronics Product Store - \$21.00/Sq Ft
Florist - \$32.00/Sq Ft
Greeting Card Store - \$35.00/Sq Ft
Hotel - \$16,200/Room
Jewelry Store - \$30.00 to \$40.00/Sq Ft
Office - \$30.00 to \$36.00/Sq Ft
Pharmacy - \$64.00/sq Ft
Restaurant - \$110.00 to \$115.00/Sq Ft
Shoe Store, Women's - \$28.00/Sq Ft
Shoe Store, Athletic - \$31.00/Sq Ft
Sporting Goods - \$17.00/Sq Ft
Toy Store - \$27.00/Sq Ft

So you can see that some of their estimates may be right on, while others may be off. But until occupancy is determined, these estimates are just that... estimates.

2006 Values for the Cabela's in Dundee, Michigan

Out of curiosity, I called the assessing office in Dundee to get information on the existing Cabela's store in their township. The following are the statistics that I obtained:

- It was built in 2000 (6 years old)
- The 2006 AV for the real property (land and building) is 15,319,400 – which means that it is valued at a true cash or market value of 30,638,800
- The building has 180,080 square feet
- The 2006 AV for the personal property is 2,717,276 – which means that it is valued at a true cash or market value of 5,434,552

What this information equates to is that Dundee has the real property valued at \$85.07/Sq Ft – the developer has used \$72.54/Sq Ft in their projections. The personal property for the Dundee location is at \$30.18/Sq Ft – the developer has used \$20.00/Sq Ft. Keep in mind that the Dundee location is

6 years old and the developer's projections are as if the facility was new. These figures further prove that the developer has under-estimated the values on the Orchard Park development.

Summary

While I found a few mistakes in the developer's calculations on page 33, the method that they utilized was sound. However, the one big mistake of over-estimating the property taxes by 50% was huge. I feel that overall, they have generally under estimated the land, building, and therefore the total property values. If I compare what they have utilized on page 33 with the current market here in Walker, these estimates are already low. Then when you add into the picture that this development is going to be high-end quality and that Cabela's may or may not be a factor, this really makes me feel that they have under shot their values and therefore the property taxes.

I add this disclaimer: This document is just my opinion and not the opinion of the City of Walker. I back my opinion with 13 years of experience in property valuation in the City of Walker. I also have supplied many sales and costs from reputable valuation manuals to support my opinions.

If there is any further information or analyses that I can help with, please feel free to contact me.

Kelly Smith, CMAE IV
Assessor, City of Walker