



Fast Food Restaurants: Valuing To Go





Objectives

- Discuss the economic factors that shaped the industry
- Highlight differences between sit-down restaurants & fast food restaurants
- Review how to list the buildings
- Discuss common miscellaneous improvements
- Summary



Brief History of the Business

- Pioneers
 - 1919 – A&W: “Frosty Mugs” root beer & floats
 - 1921 – White Castle: standardized food production
- 1940 McDonalds Brothers BBQ
 - San Bernardino, California
 - Closed for 3 months & re-opened as McDonalds in 1948
 - “Speedee Service System” - production line style
 - Franchised in 1955 & sold in 1961
 - 100 million burgers sold by 1958



Brief History of the Business

- Insta-Burger King – 1953
 - Jacksonville, FL
 - Insta-broiler
 - sold in 1959 to successful franchisee
 - By 1967, there were over 250 stores in operation
- McDonalds & Burger King continued to refine their processes and are established as the two largest burger companies in the US



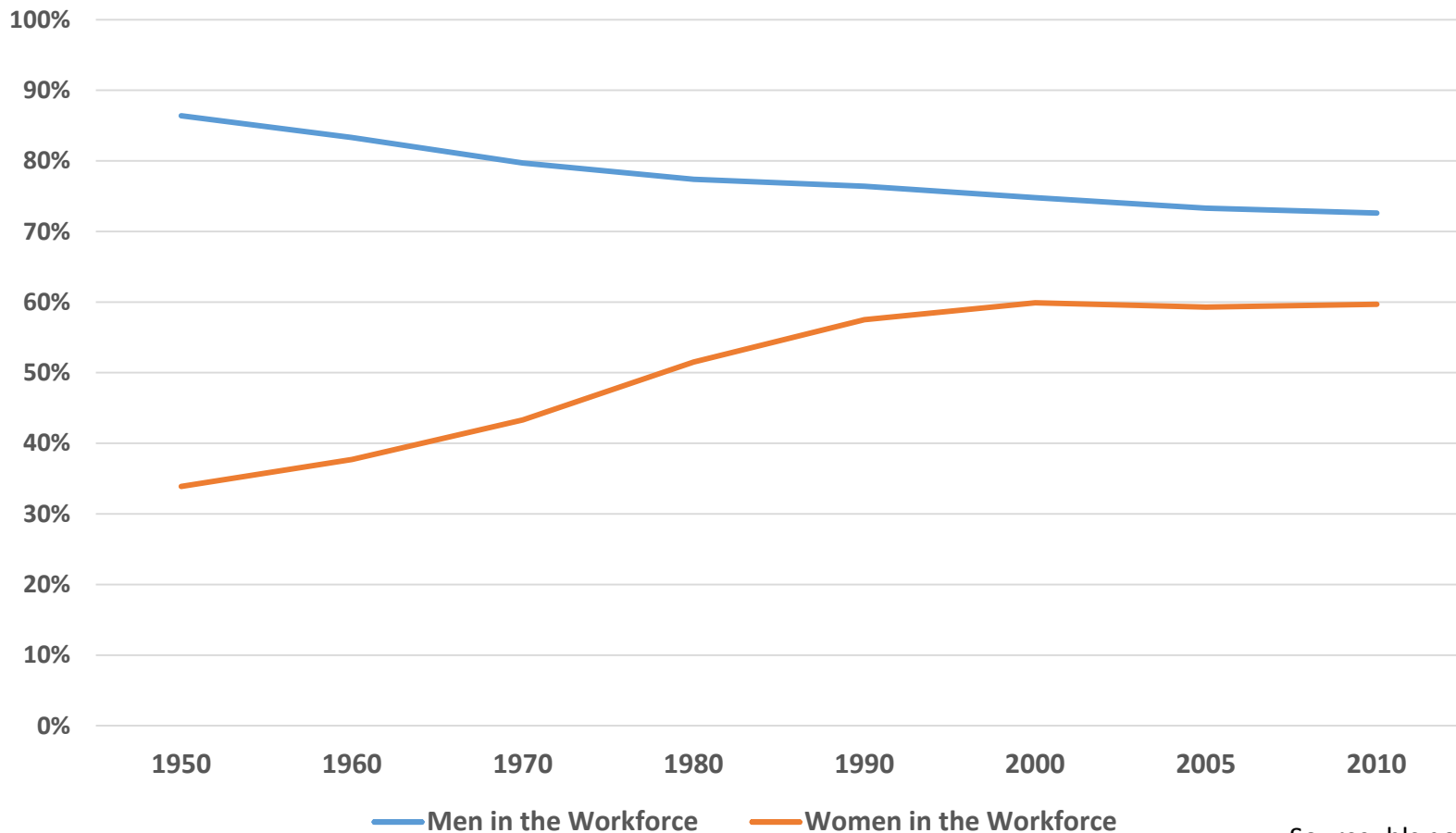
Economic Forces That Shaped the Market

- Women in the workforce
- Dual income households have increased dramatically
 - Convenience is a high priority
- Disposable income has grown exponentially



A Changing Workforce

Gender Composition of the Workforce



Source: bls.gov



Dual Income Households

The Rise in Dual Income Households

% of married couples with children under 18



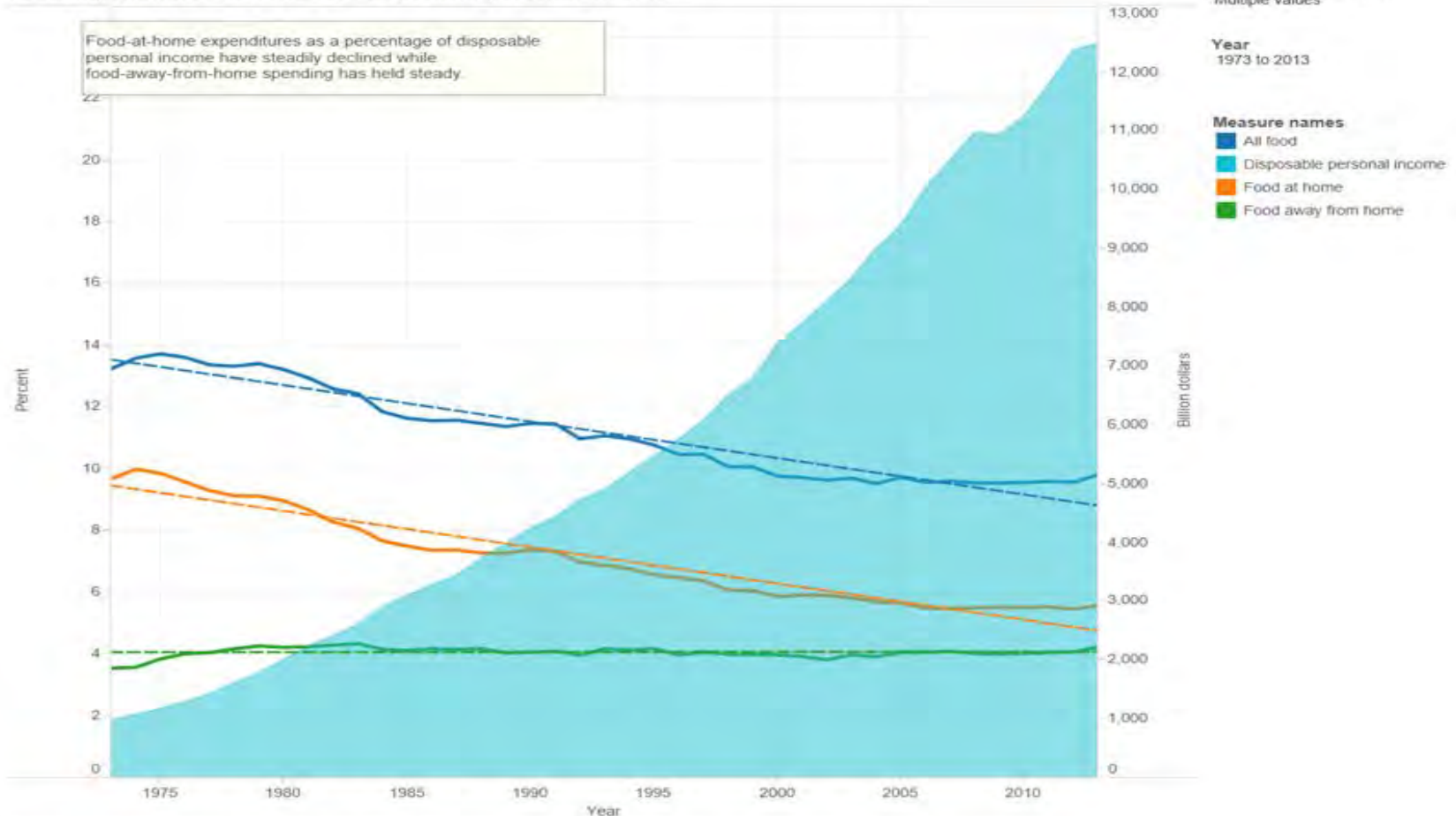
Source: Pew Research Center analysis of the Decennial Census and American Community Surveys (ACS) Integrated Public Use Microdata Sample (IPUMS) files

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Disposable Income & Food Expenditure %

Food expenditures as a share of disposable personal income



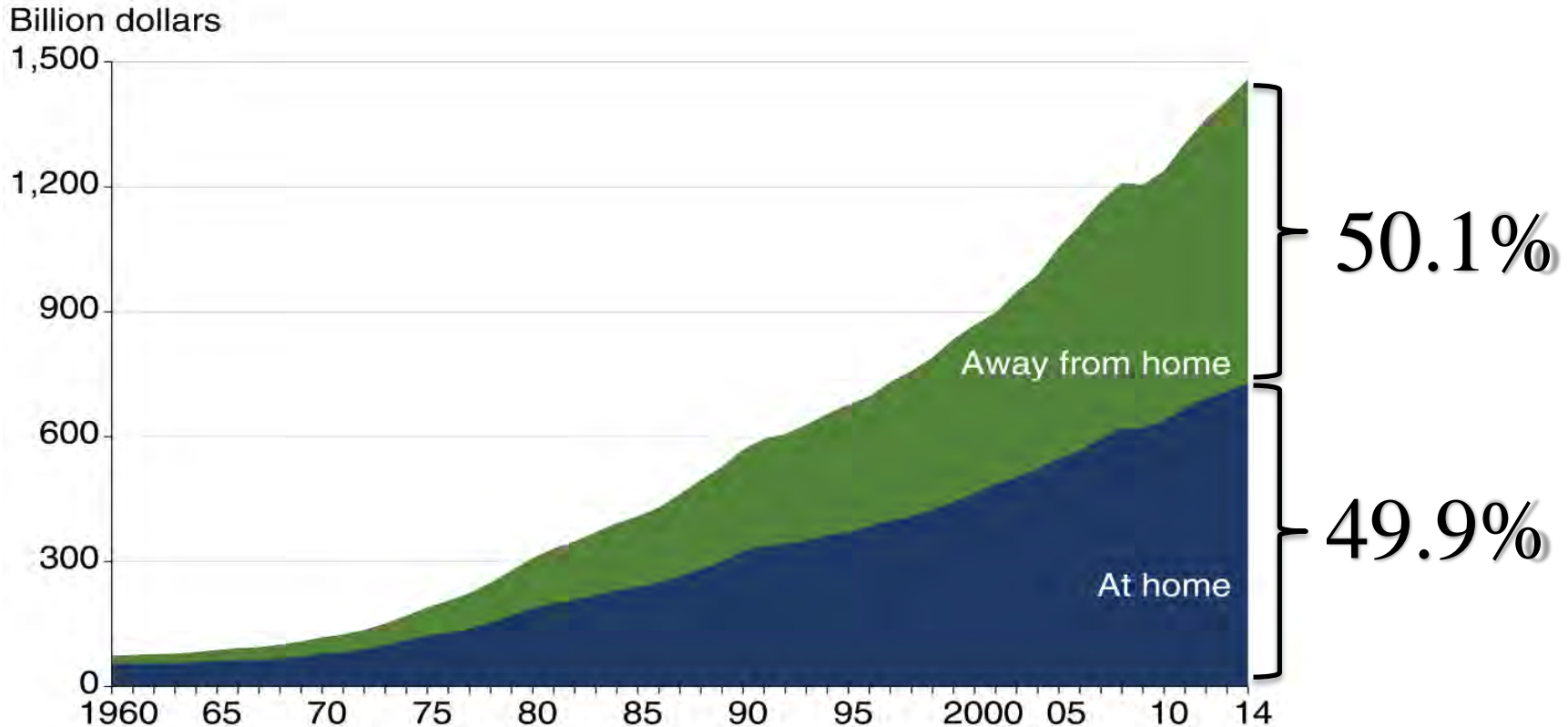
Source: Food Expenditures data product, Economic Research Service, USDA and Bureau of Economic Analysis, Dept. of Commerce.

All data are in current dollars.



Food Expenditures: At Home vs. Away

Food-at-home and away-from-home expenditures in the United States, 1960-2014



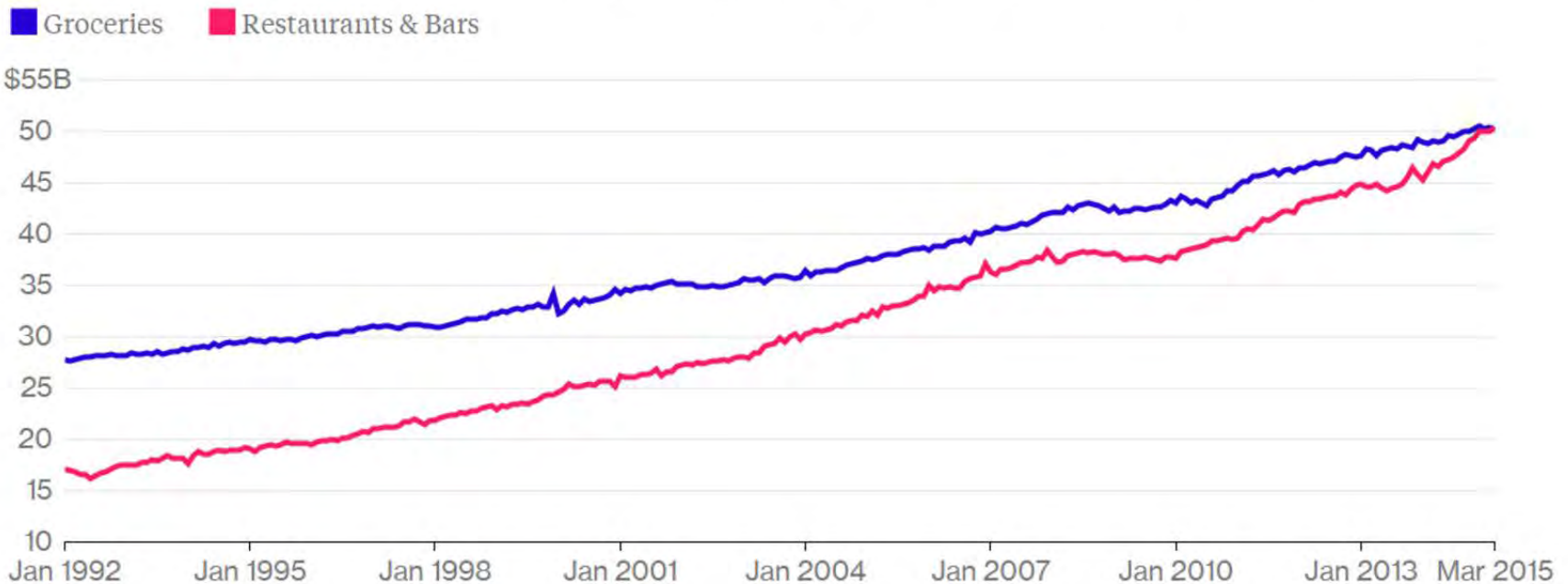
Source: USDA, Economic Research Service, Food Expenditure Series.



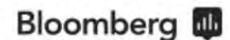
Food Expenditures: Groceries vs. Restaurants

Pass the Menu, Please

Spending on dining out has overtaken grocery store purchases for the first time ever



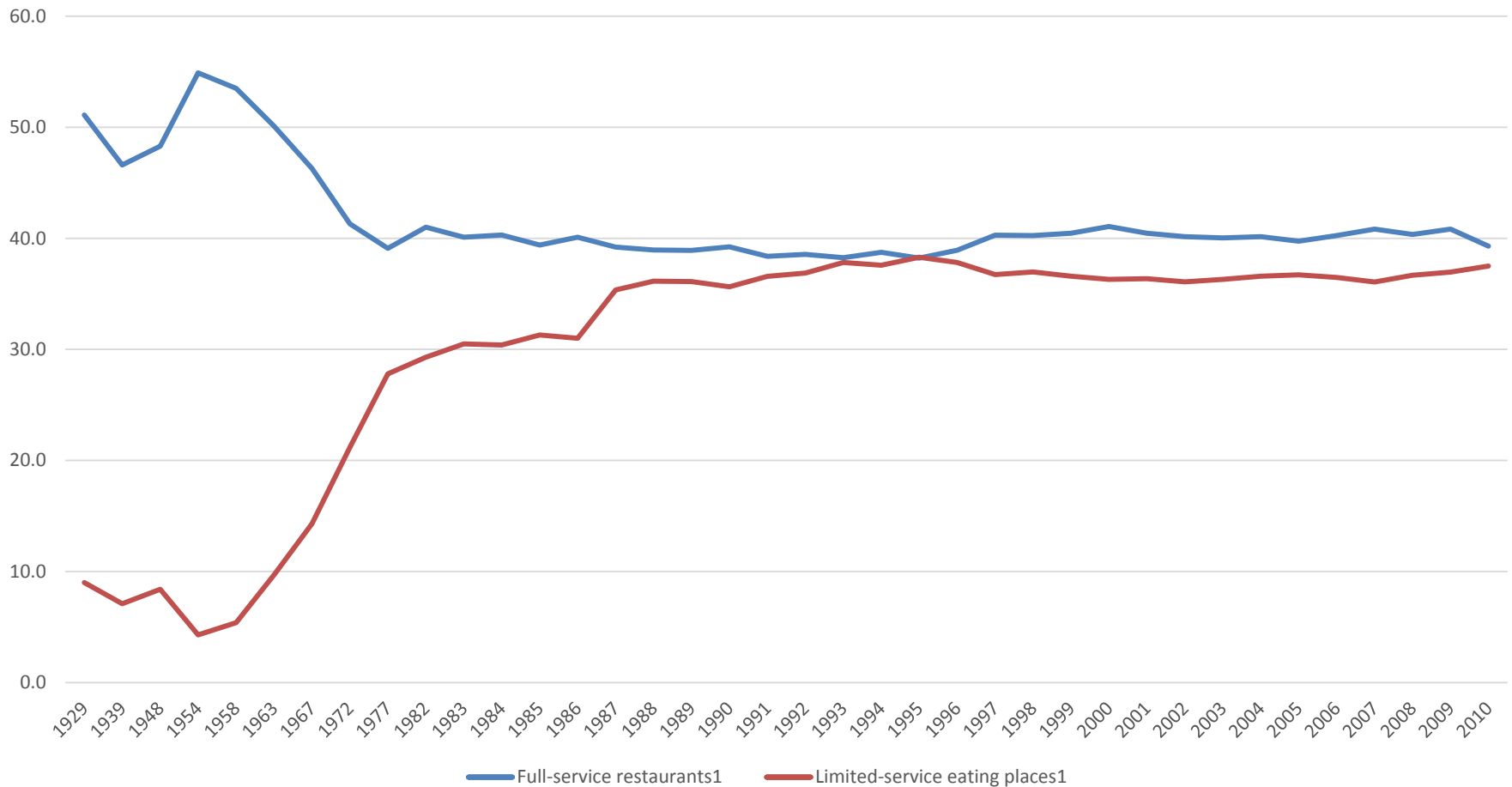
Source: Commerce Department





Market Share: Full Svc. Vs. Limited Svc.

Percent of Total Market: Full Service Restaurants vs. Limited Service Restaurants





Restaurant Industry Categories

- Three tiers of restaurants:
 - Fine Dining
 - Casual Dining
 - Quick Service (fast food)





Restaurant vs. Fast Food Restaurant





Characteristics of a Restaurant

- Full service
- Skilled chef / cooks
- Takeout may be available, but wait times usually prohibit a drive-up window
- Focus is on customer experience
- Buildings are typically comprised of roughly 30% kitchen space & 70% dining space



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Restaurant – Imp. Code 580





Restaurant – Imp. Code 580





Restaurant – Imp. Code 580





Listing the Restaurant

- Things to look for
 - Assign the correct building code (580)
 - Height adjustments
 - Fire suppression (sprinklers)
 - Three compartment restaurant sinks
 - Heating & Cooling
 - Walk-in coolers
 - modular are personal property



Modular Walk-In Cooler



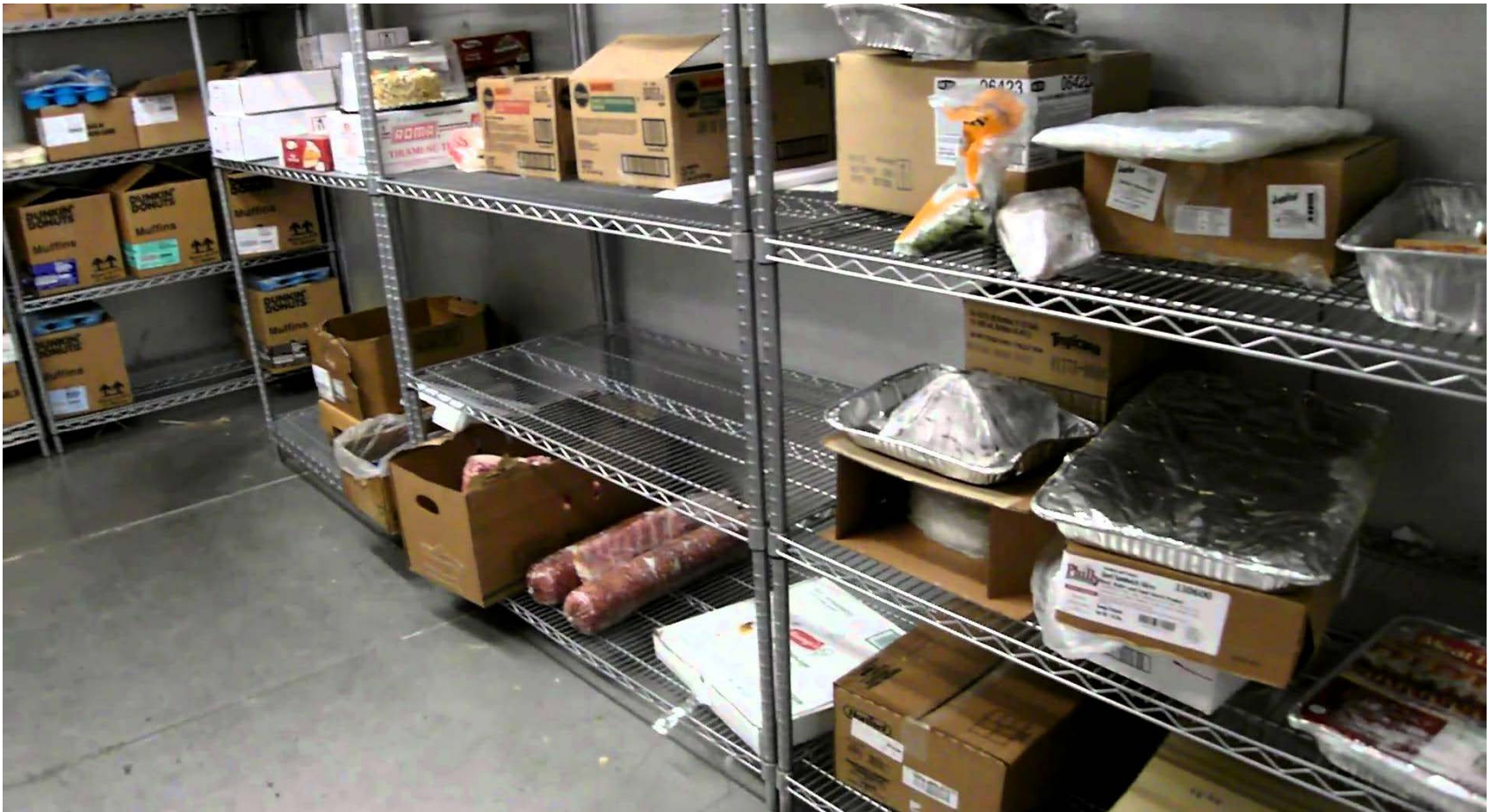


Modular Walk-In Cooler





Modular Walk-In Cooler





Modular Walk-In Cooler





Fast Food Restaurants: Valuing To Go

Modular Walk-In Cooler





Characteristics of a Fast Food Restaurant

- Limited service
- Bulk of sales are takeout – roughly 70%*
- Drive-up window is lifeblood
- Focus is on quick customer turnaround
 - Loitering patrons traditionally shunned
- High ratio of kitchen to dining area (60% / 40%), (55% / 45%)
- Built for function over form

* Source: QSR Magazine, In or Out?, October, 2015



Characteristics of a Fast Food Restaurant

- Base rates are pulled from the 583 Fast Food Restaurant table
- Increasingly may be under the same roof as a convenience store



Listing the Fast Food Restaurant

- Things to look for
 - Assign the correct building code (583)
 - Height adjustments
 - Fire suppression (sprinklers)
 - Three compartment restaurant sinks
 - Window, Drive-Up
 - Heating & Cooling
 - Walk-in coolers
 - modular are personal property



Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurant – Imp Code 583





Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Imp Code 583





Fast Food Restaurant – Imp Code 583





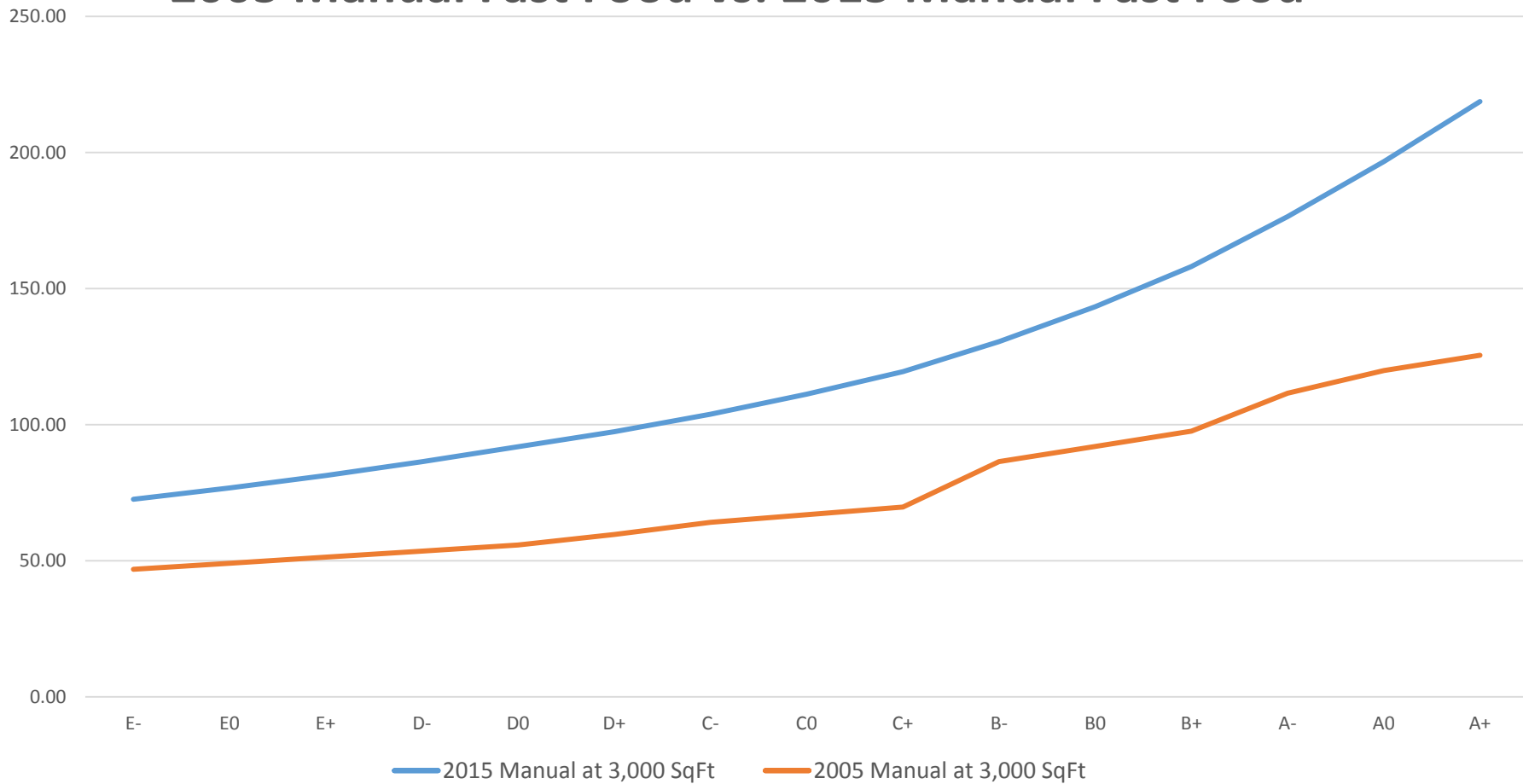
Improvement Classification

- Curve shift
- Proper classification is essential
- For implementation of the 2015 Manual
 - Query
 - Review



Curve Shift

2005 Manual Fast Food vs. 2015 Manual Fast Food





This Is Not A Class "A" Building



~~CLASS A~~



Fast Food Restaurant – Class D





Fast Food Restaurant – Class D





Fast Food Restaurant – Class D





Fast Food Restaurant – Class D





Fast Food Restaurant – Class D





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Class C





Fast Food Restaurant – Class C





Fast Food Restaurant – Class C





Fast Food Restaurant – Class C





Fast Food Restaurant – Class C





Fast Food Restaurants: Valuing To Go

Fast Food Restaurant – Class C





2005 Manual Listing

DEPRECIATION ADJUSTMENT		Calculated Based on the Alabama Appraisal Manual, 2005 Edition							
EFF. AGE / NORMAL	85%								
OBSERVED PHY.									
FUNCTIONAL									
ECONOMIC									
TOTAL DEPR.	85%								
BUILDING SUMMARY									
STORY HEIGHT	+1								
BASE AREA	4,592								
UPPER FLR. AREA	0								
UPPER FLR. ADJ.	0								
APPENDAGES	73								
TOTAL ADJ. AREA	4,665								
BUILDING CALCULATIONS		APPENDAGES				APPENDAGES			
BLDG. CLASS	B+	SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
CONST. UNITS	126								
BASE RATE	96.01								
ADJ. RATE	120.97								
TAA	4,665								
SUBTOTAL	564,325								
EXT. FEAT.	66,879								
BASE COST	631,204								
INDEX	1.15								
REPL. COST	725,885								
COND. %	85%								
VALUE	617,002								
MKT ADJUSTMENT	1								
FINAL VALUE	617,000	U. 5	0.5	117	59				

Improvement value \$617,000



Fast Food Restaurants: Valuing To Go

2015 Manual Listing

DEPRECIATION ADJUSTMENT		Calculated Based on the Alabama Appraisal Manual, 2015 Edition							
EFF. AGE / NORMAL	85%								
OBSERVED PHY.									
FUNCTIONAL									
ECONOMIC									
TOTAL DEPR.	85%								
BUILDING SUMMARY									
STORY HEIGHT	+1								
BASE AREA	4,592								
UPPER FLR. AREA	0								
UPPER FLR. ADJ.	0								
APPENDAGES	73								
TOTAL ADJ. AREA	4,665								
BUILDING CALCULATIONS									
BLDG. CLASS	C+								
CONST. UNITS	126								
BASE RATE	105.15								
ADJ. RATE	132.49								
TAA	4,665								
SUBTOTAL	618,066								
EXT. FEAT.	86,959								
BASE COST	705,025								
INDEX	1.00								
REPL. COST	705,025								
COND. %	85%								
VALUE	599,271	APPENDAGES				APPENDAGES			
MKTADJUSTMENT	1	SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
FINAL VALUE	599,300	U. 5	0.5	117	59				

Improvement value \$599,300



Value Change is Minimal

2005 Manual	
B+	Class
126	Const. Units
\$96.01	Base Rate
\$120.97	Adj. Rate
4,665	TAA
\$564,325	Subtotal
\$66,879	Ext. Feat.
\$631,204	Base Cost
1.15	Index
\$725,885	RCN
85%	Cond
\$617,000	Final Value

2015 Manual	
C+	Class
126	Const. Units
\$105.15	Base Rate
\$132.49	Adj. Rate
4,665	TAA
\$618,066	Subtotal
\$86,958	Ext. Feat.
\$705,024	Base Cost
1.00	Index
\$705,024	RCN
85%	Cond
\$599,300	Final Value

Class correction results in \$17,700 value decrease from 2005 Manual with a 1.15 index. (\$62,800 increase if a 1.00 index is used in 2005)



What About “Fast Casual”

- New sub-category of casual dining
 - Combines characteristics of a casual restaurant with fast food
 - Order at a counter and seat yourself
 - No drive through
 - Larger seating area than traditional fast food
 - Offers casual sit-down restaurant quality food with walk-up service
 - Price point between fast food and casual dining
 - “Channel blurring” the restaurant industry



Fast Casual Expansion

- The fast casual sector is growing considerably more rapidly than the fast food sector
- Examples:
 - Chipotle
 - Panera Bread
 - Five Guys
 - Newk's
 - Jason's Deli
 - McAlister's Deli



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Fast Casual Exterior





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Fast Casual Interior





Remodeling Pays for Fast Food

- Many chains are remodeling to resemble fast casual
 - Fireplaces
 - Lounge seating
 - Wi-Fi & Flat-screen TVs
 - Digital menu boards
 - Wood laminate floors
- Re-imaged stores typically see sales increase more than 25%*
- New stores are built with more seating area

• *Source: Time.com/business, Fast Food's New Mantra: Remodel and They Will Come (and Spend) July, 2012



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Enhanced Dining Room





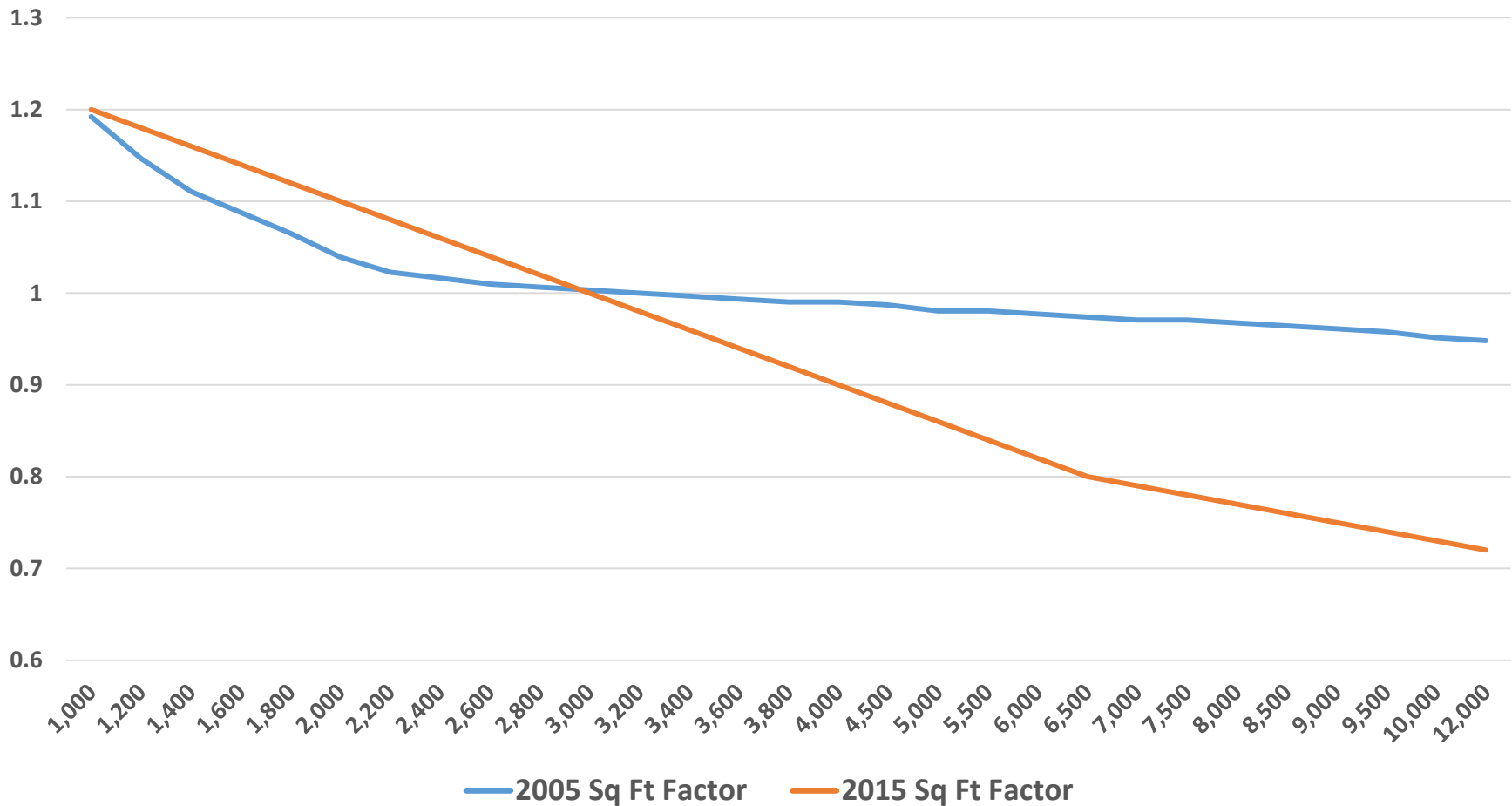
Size Factor Shift

- In addition to the cost curve shift, the size factor was adjusted for fast food restaurants
 - Addresses the more rapidly diminishing cost per Sq. Ft. of constructing larger fast food restaurants
 - Newer stores are larger, with increased seating areas



Size Factor Shift

2005 Size Factor vs. 2015 Size Factor





Dealing with Multi-Use Stores





Listing Multi-Use Convenience Stores

- **Determine the primary use of the building**
- Add stall adjustment if needed
 - Open plan does not require adjustment
 - Partitioned design requires adjustment
- Add extra features of secondary business
- Heating & cooling is calculated from primary use
- ADOR is currently developing an add-on cost for restaurants, fast food, and banks



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590 Building with Stall Adjustment





Fast Food Restaurants: Valuing To Go

590 Building with Stall Adjustment





590 Building with Stall Adjustment





590 Building with Stall Adjustment





Fast Food Restaurants: Valuing To Go

590 Building – No Stall Adjustment





590 Building – No Stall Adjustment





Common Miscellaneous Improvements

- Paving & curbing
- Floodlights on pole
- Dumpster enclosures



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Double C.B. Covered Trash Enclosure





Brick Open Trash Enclosure





Brick Covered Trash Enclosure





Conclusion

- Fast food restaurants need to be reviewed and re-classed prior to implementation of the 2015 Alabama Appraisal Manual
- Result will be class consistency across property types
- Value changes should be fairly minimal
- As fast casual grows and expands into freestanding buildings, care must be taken to properly code the improvements



Presentation Online

www.revenue.alabama.gov

- Hover over “Divisions”
- Click on “Property Tax”
- Click on “Taxes Administered by this Section”
- Click on “Real Property”
- Click on “Presentations”