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

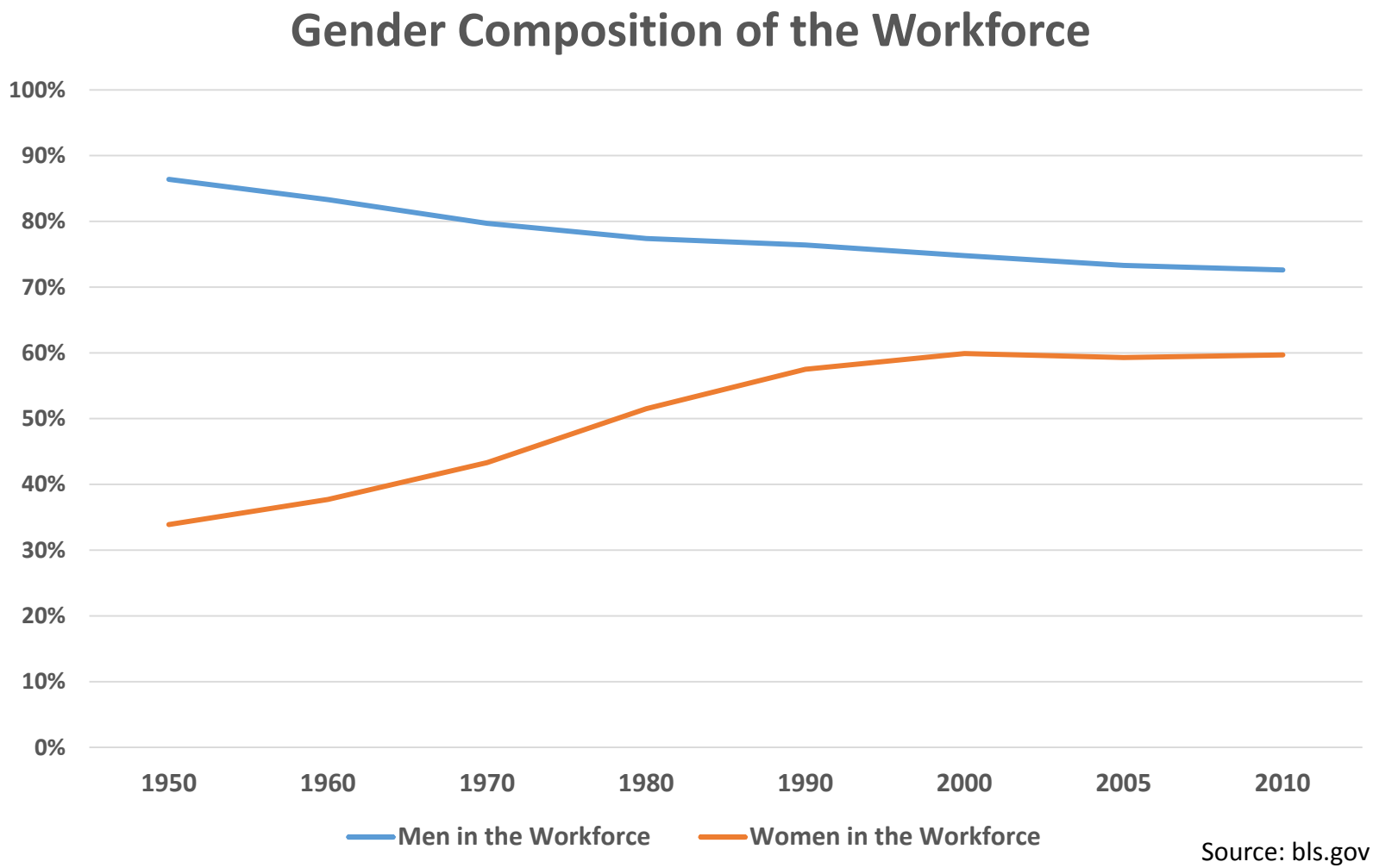
Brief History of the Business

- 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

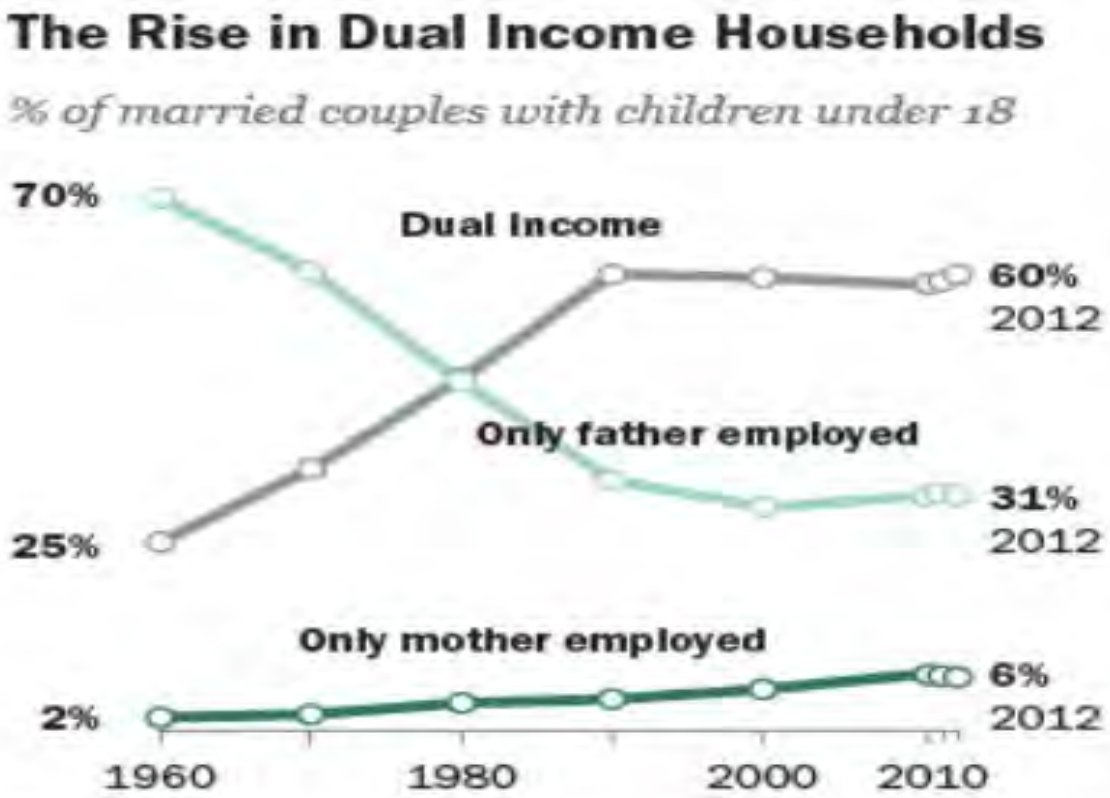
- Women in the workforce
- Dual income households have increased dramatically
  - Convenience is a high priority
- Disposable income has grown exponentially

A Changing Workforce



Source: bls.gov

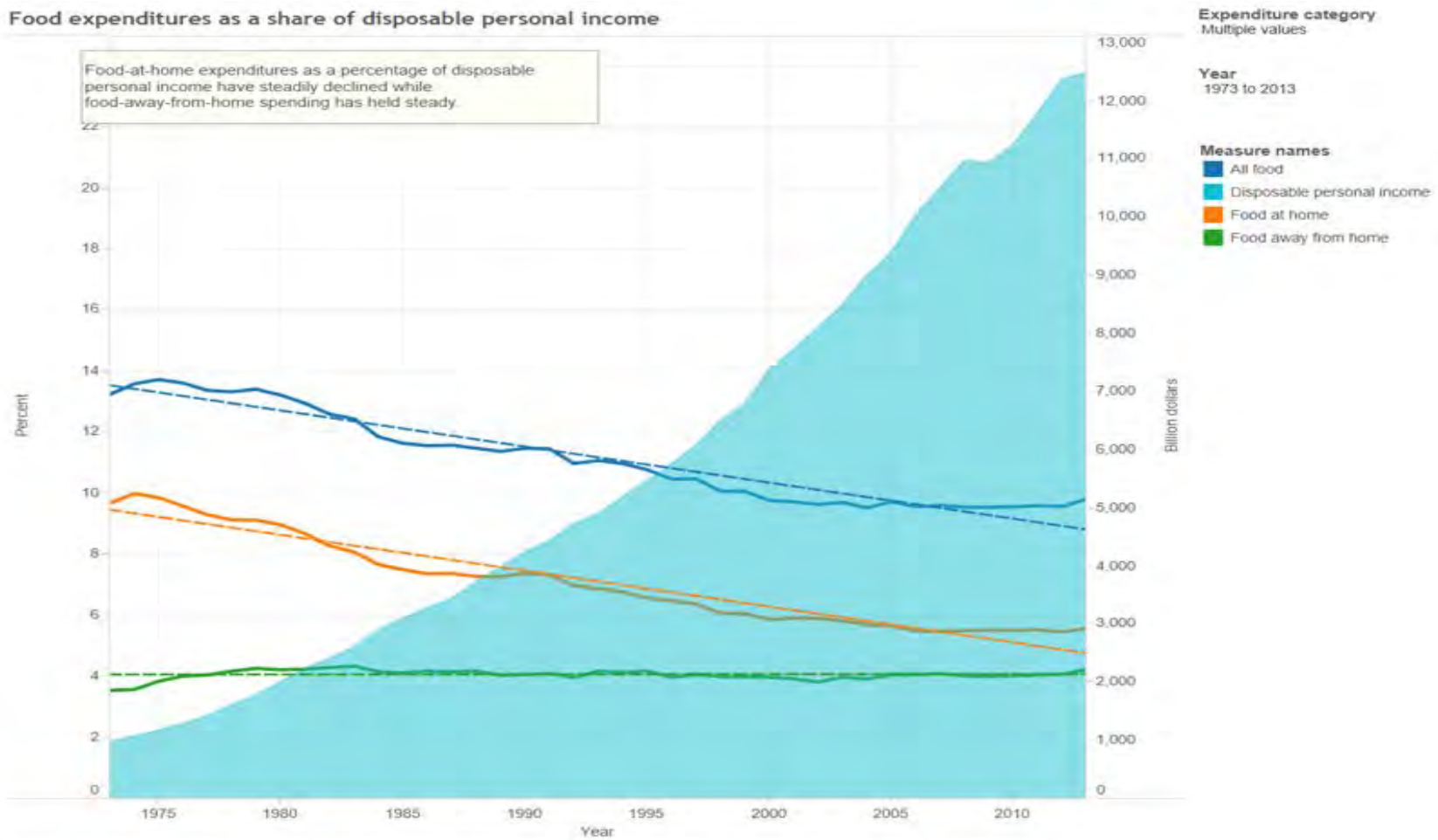
Dual Income Households



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

PEW RESEARCH CENTER

Disposable Income & Food Expenditure %

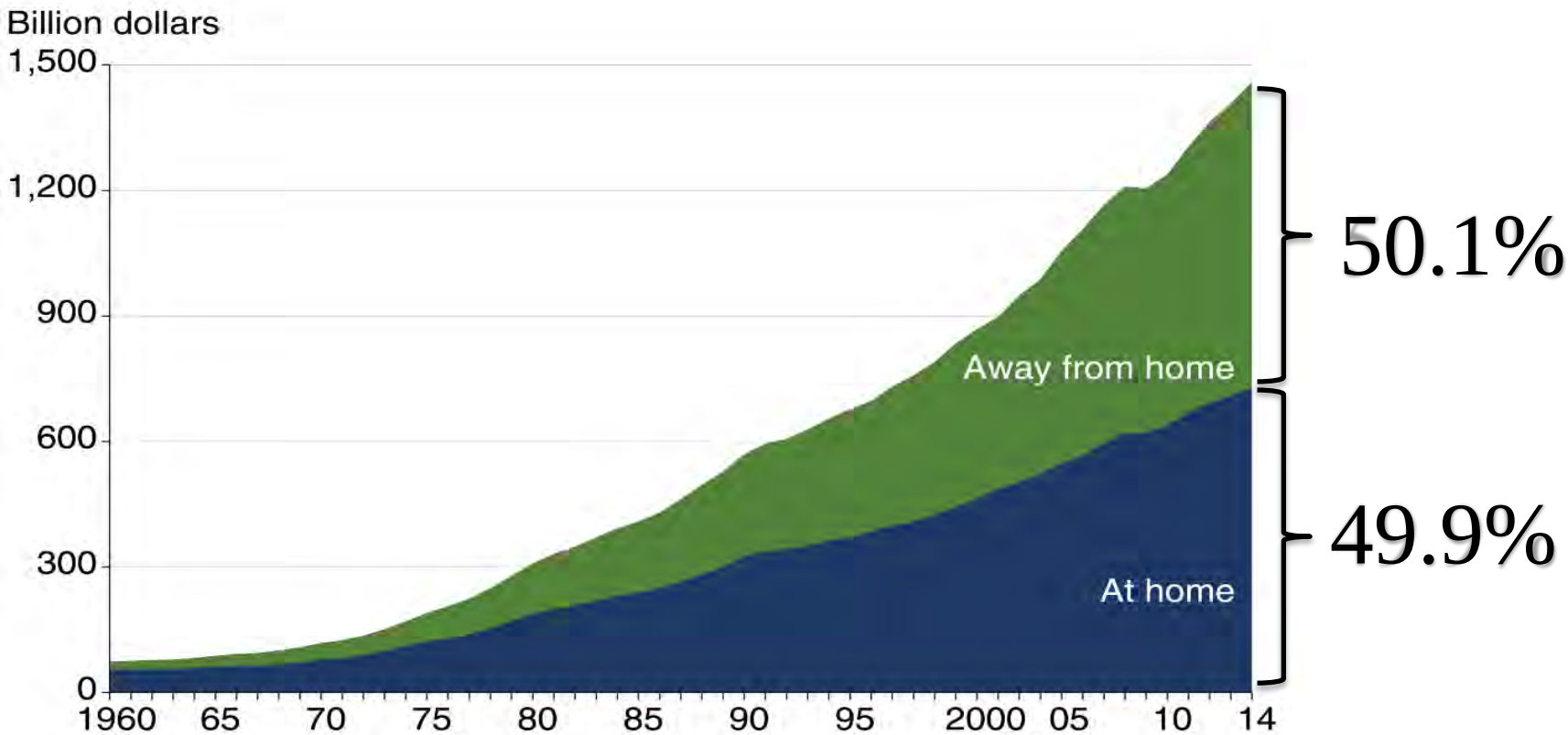


Source: Food Expenditures data product, Economic Research Service, USDA and Bureau of Economic Analysis, Dept. of Commerce

All data are in current dollars.

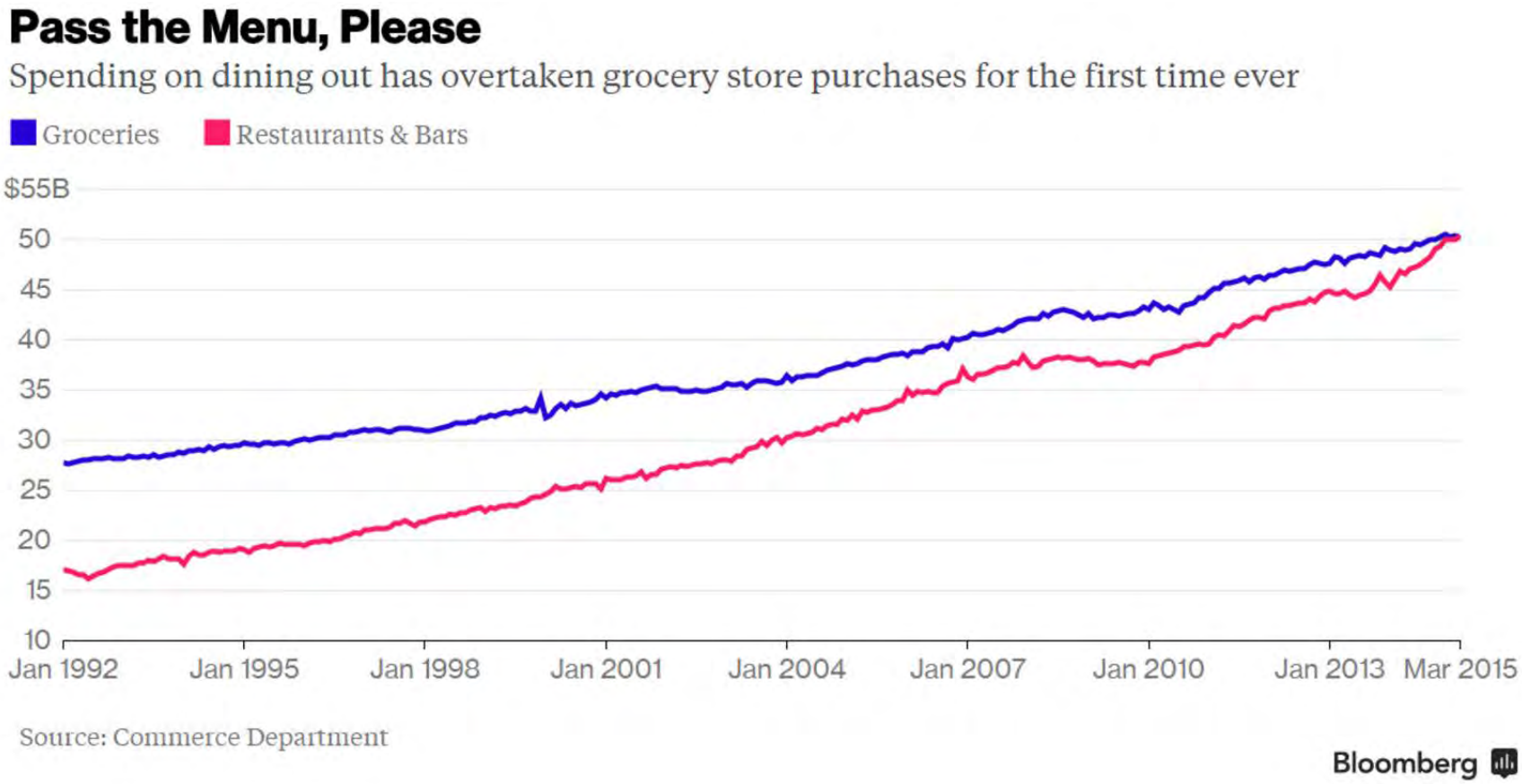
Food Expenditures: At Home vs. Away

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

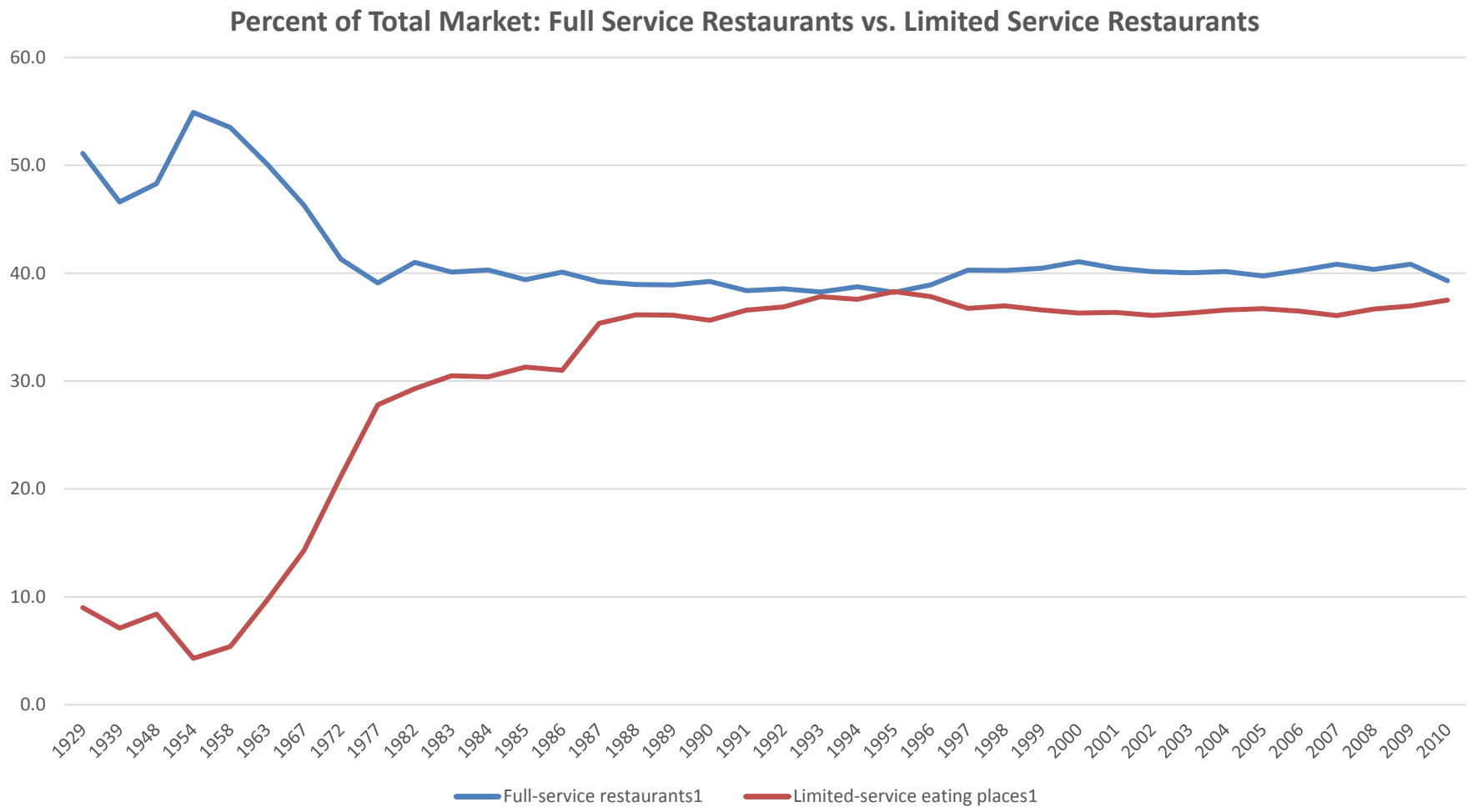


Source: USDA, Economic Research Service, Food Expenditure Series.

Food Expenditures: Groceries vs. Restaurants



Market Share: Full Svc. Vs. Limited Svc.



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

Restaurant – Imp. Code 580

Restaurant – Imp. Code 580

Restaurant – Imp. Code 580

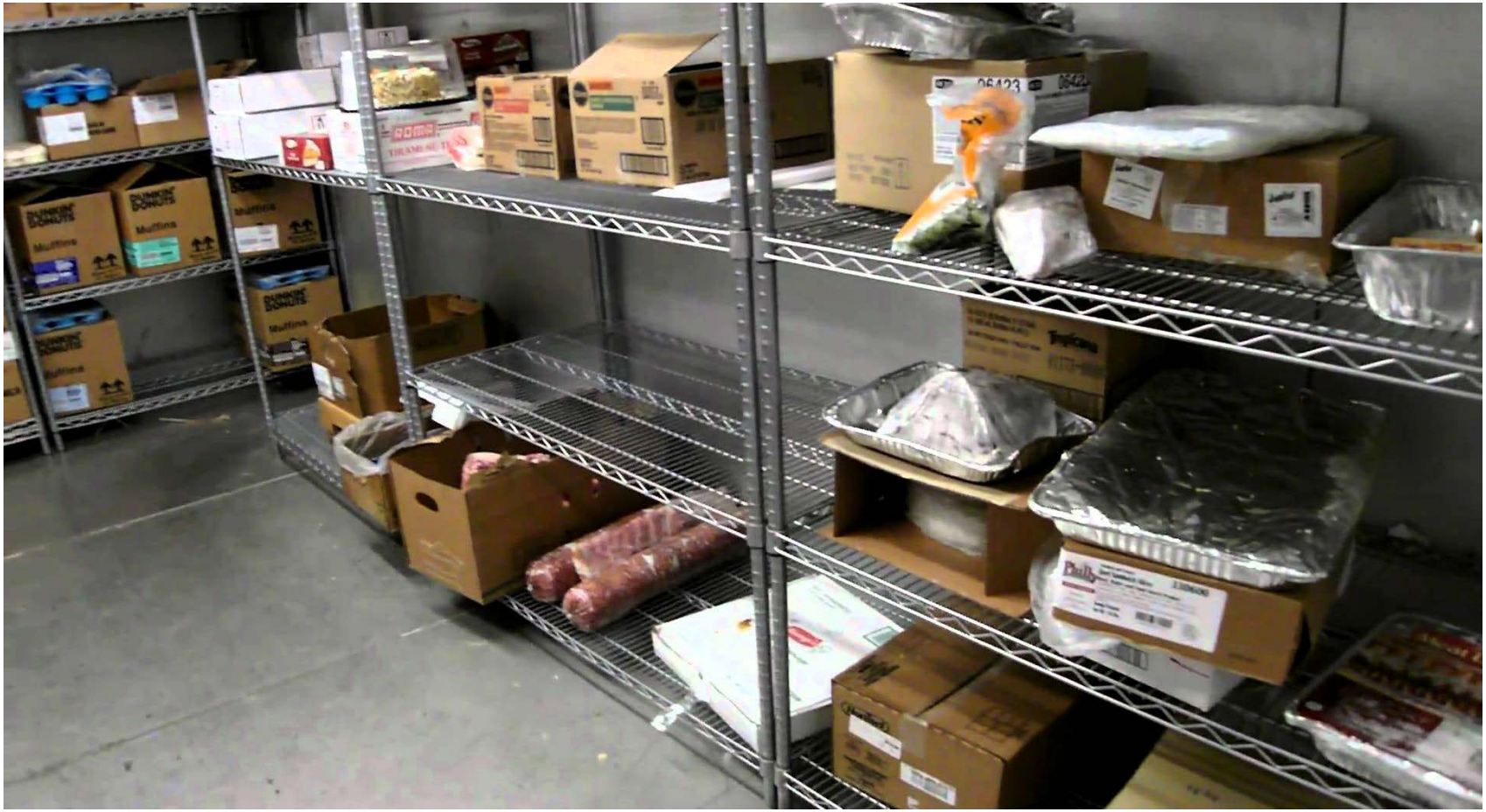
Listing the Restaurant

- 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

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 Restaurant – Imp Code 583

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Fast Food Restaurant – Imp Code 583

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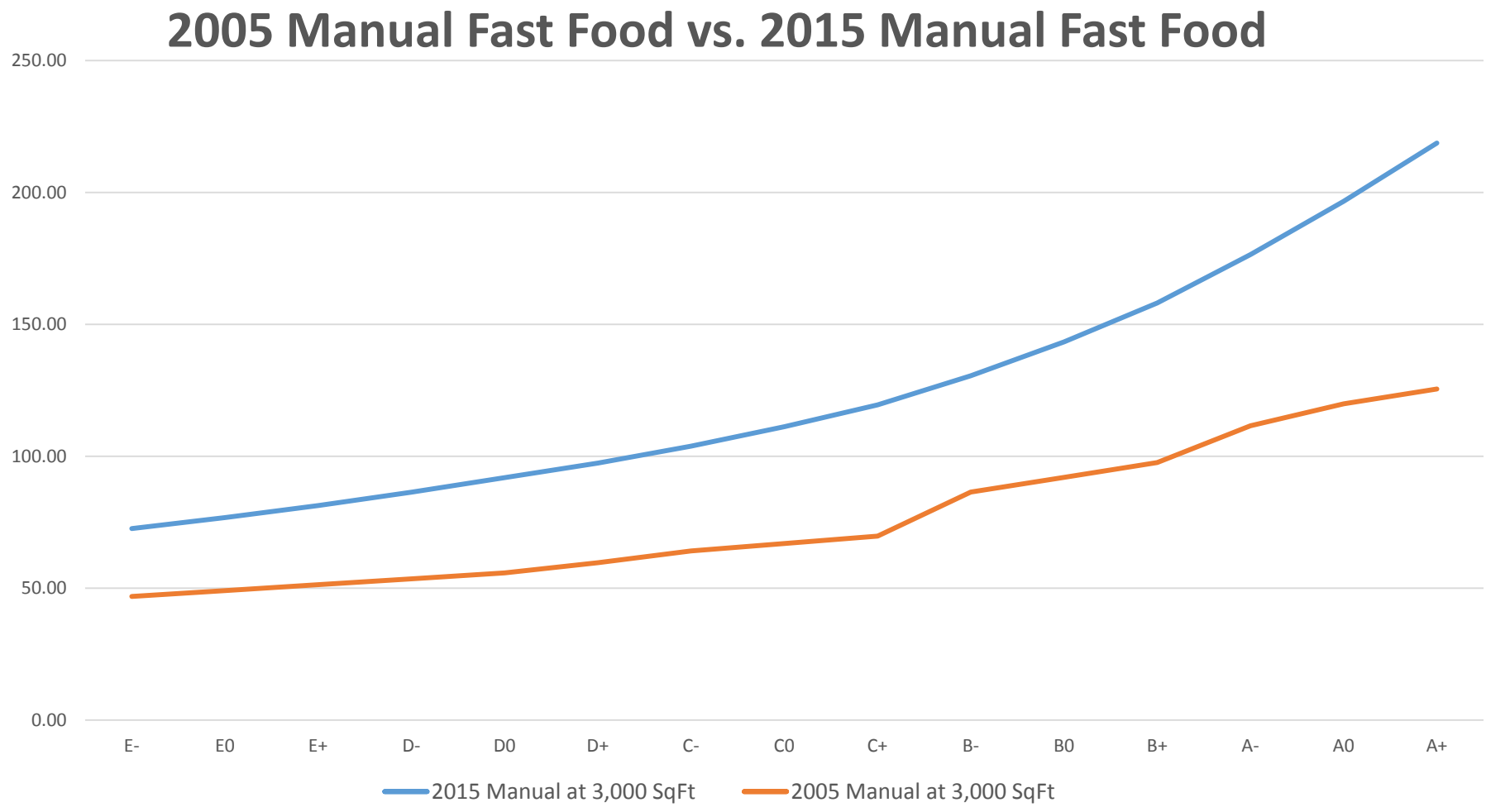
Fast Food Restaurant – Imp Code 583

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
250.00
200.00
150.00
100.00
50.00
0.00
E-
E0
E+
D-
D0
D+
C-
C0
C+
B-
B0
B+
A-
A0
A+
2015 Manual at 3,000 SqFt
2005 Manual at 3,000 SqFt

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 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 Restaurant – Class C

2005 Manual Listing

DEPRECIATION ADJUSTMENT	
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	B+
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

Calculated Based on the Alabama Appraisal Manual, 2005 Edition

APPENDAGES				APPENDAGES			
SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
U. 5	0.5	117	59				

Improvement value $617,000

2015 Manual Listing

DEPRECIATION ADJUSTMENT	
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
MKT ADJUSTMENT	1
FINAL VALUE	599,300

Calculated Based on the Alabama Appraisal Manual, 2015 Edition

APPENDAGES				APPENDAGES			
SYMBOL	DEC.	AREA	ADJ. AREA	SYMBOL	DEC.	AREA	ADJ. AREA
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

Fast Casual Exterior

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

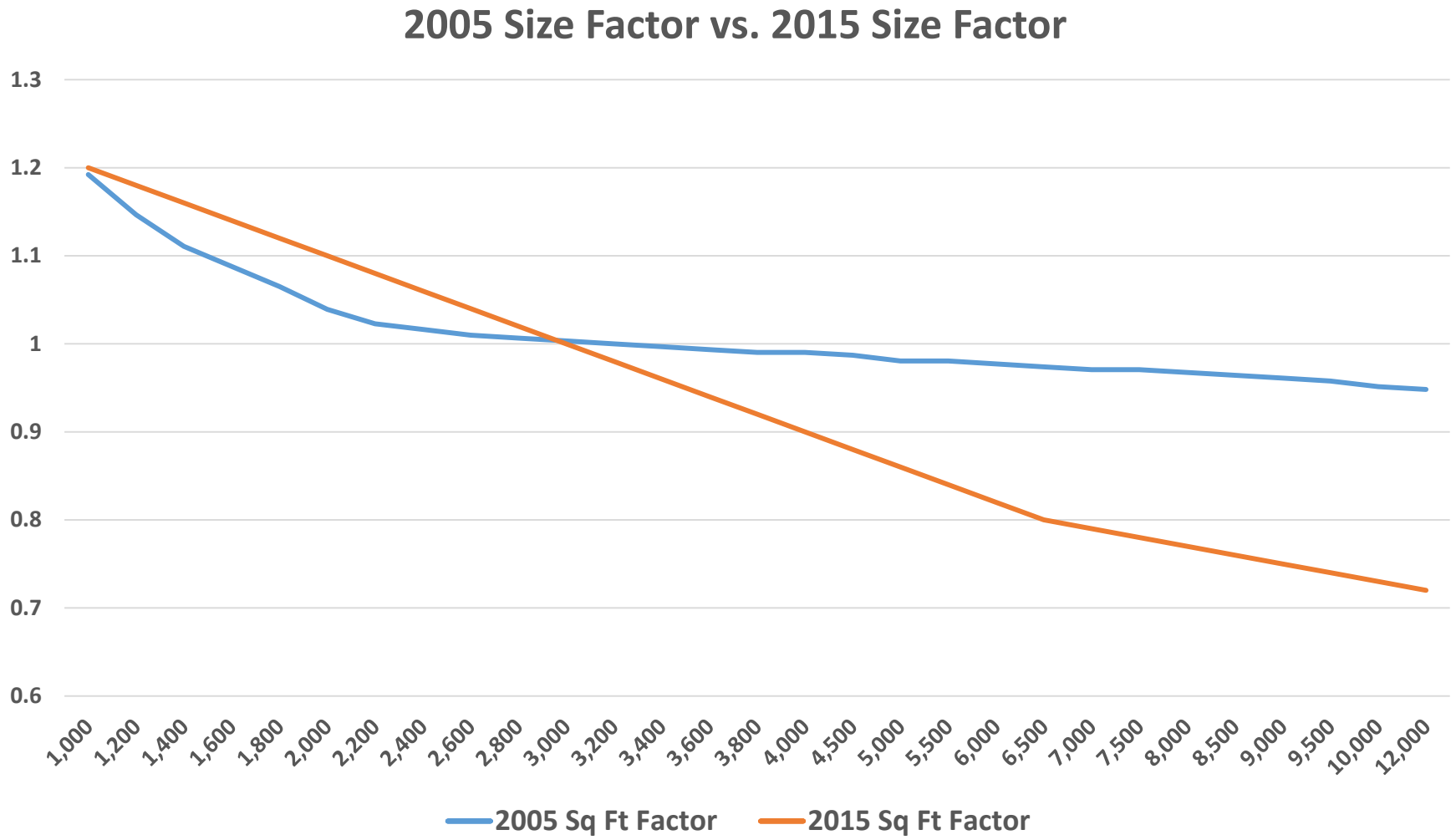
- *Source: Time.com/business, Fast Food's New Mantra: Remodel and They Will Come (and Spend) July, 2012

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



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

590 Building with Stall Adjustment

590 Building with Stall Adjustment

590 Building with Stall Adjustment

590 Building with Stall Adjustment

590 Building – No Stall Adjustment

590 Building – No Stall Adjustment

Common Miscellaneous Improvements

- Paving & curbing
- Floodlights on pole
- Dumpster enclosures

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”