



Information on the Impact of COVID-19 and Commercial Real Estate Values

Clark County Assessor's Office



“The Covid-19 pandemic has negatively impacted many people in our community, often in ways we could not have foreseen. And while property values in Clark County continued to climb based upon local sales, I felt it was necessary to take a deeper look at the real impact of the pandemic upon commercial properties and their assessed values for the 2021 assessment year.”

- PETER VAN NORTWICK, CLARK COUNTY ASSESSOR

Introduction and background

In March of 2020, when the Covid-19 pandemic hit, Governor Jay Inslee issued a series of Stay Home Stay Healthy orders. As the pandemic continued to progress, the Assessor's Office decided that information from property owners would be a good way to help us determine any effects that social distancing and safety measures might be having on commercial property values within Clark County. The Assessor's Office sent a survey to every commercial, industrial, and multi-family property owner in the county asking for information.

This report will discuss the results of those surveys and the other sources of information used to determine any potential market impact of Covid-19 on property values.

The Survey

The Clark County Assessor's Office mailed the survey shown below to 4,869 commercial building owners. Individual responses are confidential, as income is considered private information, therefore this report will focus on the trends found across similar property types and does not discuss individual commercial properties.

Check this box and return if the property is 100% owner occupied and not rented.

COVID-19 Impact Survey					
			2019	2020	Is the 2019 to 2020 difference due to COVID-19?
1) Did the property experience vacancy during the year?	<input type="checkbox"/> YES <input type="checkbox"/> NO	Vacancy Rate:	%	%	<input type="checkbox"/> YES <input type="checkbox"/> NO
2) Did the property experience collection loss during the year?	<input type="checkbox"/> YES <input type="checkbox"/> NO	Collection Loss:	%	%	<input type="checkbox"/> YES <input type="checkbox"/> NO
3) Did the property adjust tenant(s) rent rates during the year?	<input type="checkbox"/> YES <input type="checkbox"/> NO	Average Rent / SF:	\$/sf	\$/sf	<input type="checkbox"/> YES <input type="checkbox"/> NO

Comments: Please comment on any issues you may have on how the COVID-19 pandemic has affected your rental property.

The Assessor's Office received 1,162 completed surveys, representing nearly 25% of all commercial building owners in Clark County. Of the total surveys returned, 359 responses from 100% owner occupied buildings were not considered. The purpose of the survey was not to judge impact on a particular business, but instead on the commercial leasing market. The remaining 803 surveys are considered valid and were used to evaluate the potential market impacts of Covid-19 on commercial property values. The valid responses represent **16.5%** of the commercial properties within Clark County.

The survey asked for three basic financial comparisons between 2019 and 2020: vacancy rate; collection loss; and leasing rate adjustments. The vacancy rate is the percentage of all units in a rental property that are available for lease. The collection loss is an amount which recognizes the number of tenants who were not able to fulfill their contractual lease obligations and have defaulted on payment. The leasing rate adjustments refers to tenant rent rate adjustments which were given due to the impacts of Covid-19.

The findings in this report are a summation of the survey responses from 16.5% of commercial property owners (see Appendix for more information). In addition, this survey was focused on the vacancy, collection loss and rent impacts and not on the true market value of commercial properties.

Overall Impact of COVID-19

The results of the survey indicated that the social distancing and safety regulations had varying effects on commercial properties based on the type of property itself.

Vacancy Rate

When looking at the vacancy rates reported by those who returned a survey, the types of properties with the largest increase in vacancy rates were taverns and bars, lodging and restaurants. Some commercial properties such as daycares, banks and mobile home parks reported little or no change in their vacancy. Conversely some property types such as RV parks, self-storage, fast food, and drive through restaurants reported an actual increase in occupancy for 2020 when compared to 2019.

Collection Loss

The next measurement, collection loss, had similar results by property type as was reported with vacancy rates. The properties with the highest reported collection losses were those with small, independently owned business such as automotive service shops, small car dealerships and one privately owned convenience store. These collection losses were followed by taverns, bars, and restaurants. Banks, warehouse, flex space buildings, manufacturing and mobile home parks saw little to no collection loss changes. RV parks and self-storage facilities had decreases in the collection losses reported through the Assessor's Office survey.

Rent Adjustments

In reviewing the surveys, we found that late fees were often waived or rent forgiven/reduced for a couple of months, yet property owners were typically not adjusting the rent for existing tenants. Long term and new leases were not reflecting a measurable overall decrease in leasing rates. This was true across all commercial, industrial, and multi-family property types.

Market Research and Analysis

RCW 84.40.030 requires all Assessor's Offices in the State of Washington to assess property at "100% of true and fair value". The primary source of information for the Assessor's Office comes from the analysis of market sale transactions. More than 300 sales of commercial properties were recorded in Clark County from January through December of 2020. These sales were analyzed and compared to the existing assessed values to determine what, if any, impact Covid-19 had in our real estate market. The results of this market study suggested that an increase to assessed value would be warranted for many commercial property types. Other property types, such as hotels, the mall, movie theaters, and bowling alleys had no sales transactions to study and therefore any potential Covid-19 effect could not be derived through sales analysis.

Clark County's commercial appraisal team uses a wide variety of resources to study real estate values and market trends throughout the year. Well respected resources such as Korpaz, Marcus & Millichap, CoStar and HVS are used by the department for reliable and necessary information. The appraisers use data from these trade publications to study trends and fluctuations in the market.

Commercial properties are often held as a long-term investment, making a single year's income only a small portion of the overall investment analysis. Knowledge of investors' expectations, desires and the risks involved with different types of property enable the appraiser to understand and interpret the effect of a relatively short-term change in the income generation of an individual investment.

Summary

The Assessor's Office has made a considerable effort to use all available avenues to research the potential influence of Covid-19 on commercial properties throughout Clark County. Because of the varying reactions of different property types, some property owners may see a decrease to their assessed value while other owners may see an increase in assessed value. And, many owners will not have any change in assessed value from 2019. As discussed in this report, all available information was collected, analyzed, and utilized in the valuation of commercial properties as of January 1, 2021.

If you have a question or concern about this summary report, the results of our survey or your particular property please contact our commercial appraisal department at 564.397.4609 or email your question to assessorcim@clark.wa.gov.

Appendix

The charts below are tabulated survey results for Vacancy and Collection Loss by Type of Property:

Vacancy - by Property Type						
	Population per Property Type	Surveys Returned	Percent Returned of Population	2019 Average	2020 Average	Percentage Change
RV & Self-Storage	92	5	5.4%	18.64	13.07	-5.57
Fast Food - Drive Thru	112	26	23.2%	1.02	0.98	-0.04
Banks & Credit Unions	84	3	3.6%	0.00	0.00	0.00
Private Daycare/Schools	40	6	15.0%	0.00	0.00	0.00
Mobile Home Park	66	14	21.2%	0.69	1.14	0.46
Flex Space	298	39	13.1%	3.03	4.95	1.92
Warehouse	416	72	17.3%	3.47	5.59	2.12
Multi-Family	1153	201	17.4%	2.86	4.98	2.12
Service - Auto & General	255	46	18.0%	1.02	3.73	2.70
Manufacturing	113	12	10.6%	0.00	3.64	3.64
Health Care	205	37	18.0%	4.87	10.23	5.36
Retail	934	147	15.7%	4.03	10.75	6.71
Miscellaneous	145	21	14.5%	1.47	10.21	8.74
Office	652	116	17.8%	4.94	14.04	9.09
Assisted Living	53	3	5.7%	3.77	17.43	13.65
Restaurants	160	33	20.6%	5.09	20.38	15.28
Lodging	51	13	25.5%	34.05	51.17	17.12
Tavern & Bars	39	9	23.1%	12.50	33.13	20.63
Total Vacancy Avg by Property Type	4858	803	16.5%	4.01	9.21	5.20

Collection Loss - by Property Type						
	Count per Property Type	Surveys Returned	Percent Returned	2019 Average	2020 Average	Percentage Change
RV & Self-Storage	92	5	5.4%	11.50	10.00	-1.50
Banks & Credit Unions	84	3	3.6%	0.00	0.00	0.00
Mobile Home Park	66	14	21.2%	1.47	2.62	1.15
Flex Space	298	39	13.1%	0.14	2.95	2.81
Fast Food - Drive Thru	112	26	23.2%	0.00	3.24	3.24
Manufacturing	113	12	10.6%	0.00	3.33	3.33
Warehouse	416	72	17.3%	0.71	4.82	4.10
Multi-Family	1153	201	17.4%	1.47	5.59	4.12
Office	652	116	17.8%	0.71	4.86	4.15
Service - Auto & General	255	46	18.0%	0.61	5.05	4.44
Private Daycare/Schools	40	6	15.0%	0.00	5.50	5.50
Assisted Living	53	3	5.7%	2.93	9.10	6.17
Lodging	51	13	25.5%	10.74	17.05	6.31
Retail	934	147	15.7%	2.51	11.14	8.63
Health Care	205	37	18.0%	1.03	15.05	14.02
Restaurants	160	33	20.6%	1.24	21.32	20.08
Tavern & Bars	39	9	23.1%	1.43	22.90	21.48
Miscellaneous	145	21	14.5%	1.25	26.94	25.69
Total Coll Loss Avg by Property Type	4858	803	16.5%	1.43	8.02	6.59

Recap by property types

Taverns and Bars

9 surveys were returned from taverns and bars within Clark County representing 23.1% of the property type's population. When analyzing these surveys, the tavern and bar property type reported occupancy decreases of 20.63% and collection loss of 21.48%. Commercial appraisers looked at these returns along with market and trade information and found a consistent indication that Covid-19 had a significant effect on the value of these types of properties. Many of these properties received an adjustment lowering the value for the 2021 assessment.

Restaurants

This property type followed the trends we saw with taverns and bars. Properties classified as restaurants for the purpose of this report are only those stand-alone structures that have a highest and best use of restaurant for the improvement. Restaurants returned 33 surveys, amounting to 20.6% of the property type's population in Clark County. These surveys reported decreases in occupancy averaging 15.28% along with collection loss increases averaging 20.08%. Further research conducted by commercial appraisers also indicated that the Covid-19 health and safety restrictions had a downward effect on the real estate values of restaurants. Most of these properties received an adjustment lowering the market value for the 2021 assessment.

Lodging

The travel and hospitality industry were well reported through news and trade publications as having one of the more prominent Covid-19 business impacts. Hotels/motels returned 13 surveys to the Assessor's Office reporting an average decrease in occupancy of 17.12% and an increase in collection loss of 6.31%. Hotels and motels had varying impacts from the health and safety protections ordered by the Governor. Hospitality properties were affected in differing ways based on individual characteristics unique to each property. The commercial appraisers analyzed the survey results, trade publications and market information to determine parcel specific adjustments to each of the hospitality improvements within the county. Adjustments lowering the value for the 2021 assessment were made to some properties while others may have seen little to no decrease in the assessed value.

Assisted Living - Convalescent & Nursing Homes

There are 53 commercial assisted living, convalescent and nursing home facilities in Clark County and our office received 3 survey responses. Those responses amount to 5.7% of the total population and make the analysis results statistically insignificant. From those 3 surveys, an average vacancy rate increase of 13.65% and a collection loss increase of 6.17% were reported. The information and comments on those returned surveys provided helpful information for our appraisers. In addition to the 3 surveys, local, regional, and national market information was used to discern if there was an actual market value impact related to the Covid-19 restrictions in place. Some impact to the real estate value was denoted and a downward adjustment to most assisted living facilities was applied to the 2021 assessed value.

Retail

The survey return rate for retail buildings totaled 15.7% of the county's retail population. The results indicated an average decrease in occupancy of 6.71% and an average increase in collection loss of 8.63%. For the 2020 calendar year, the Covid-19 survey indicated that retail vacancy rates were approximately 10.75%. When studying the operating income of retail buildings, normal, or stabilized, occupancy varies from 5-10% depending on the building, location of the property, access, exposure,

and various other factors. While conducting a market study on retail buildings for 2021 there were many indications that the current assessed value did not warrant a change or may require an increase in value. Most retail properties were not adjusted downward as Covid-19 restrictions did not indicate a valid concern about the 2021 assessment when compared to the 2020 assessment.

Miscellaneous

There are several types of properties within the county that are unique and have limited purposes. For instance, there is one public ice rink and one regional mall in Clark County. Some of the other property types that are limited in number are bowling alleys, granges, Moose and Elks lodge, athletic clubs, and movie theaters. The Assessor's Office commercial appraisal team researched all available information to study the market impact to these properties. Most of these facilities were closed for months resulting in a higher perceived risk and lower demand from investors. Of the various types of properties in this category, 21 surveys were returned to our office reflecting 14.5% of the total population. Overall, average vacancy increased by 8.74% and collection loss increased by 25.69%. This is a wide category, including many differing types of property, making the total category results inconclusive for each individual property. Many properties in this category will see a decrease in assessed value for 2021.

Daycare

Private daycares and schools had 6 survey responses representing 15% of the total population for this property type. An analysis of the information provided indicated no change to the occupancy rate and a 5.5% change to the collection loss between 2019 and 2020. Even though the typical income model used by our office to value this type of property employs a higher vacancy and collection loss as a standard, the commercial appraisal team found there was some market indication that the values of many daycares should be lowered slightly. Most properties of this type were adjusted downward for the 2021 market assessment.

Office

The survey return rate for office buildings totaled 17.8% of the county's office population. The results indicated an average decrease in occupancy of 9.09% and an average increase in collection loss of 4.15%. For the 2020 calendar year, the Covid-19 survey indicated that office vacancy rates were approximately 14%. When studying the operating income of office buildings, normal, or stabilized, occupancy varies from 5-15% depending on the building, location of the property, access, exposure, and various other factors. While conducting a market study on office buildings for 2021 there were many indications that the current assessed value did not warrant a change or may have required an increase. Most office properties were not adjusted downward as Covid-19 restrictions did not indicate a valid concern about the 2021 assessment when compared to the 2020 assessment.

Healthcare

Healthcare facilities act very similarly to office buildings in the marketplace. With the survey request receiving 37 returns for healthcare facilities, the analysis performed resulted in information indicating an increase in vacancy on average of 5.36% and an average increase in collection loss of 14.02%. When studying the operating income of healthcare facilities, normal, or stabilized, occupancy varies from 5 -15% depending on the building, location of the property, access, exposure, and various other factors. While conducting a market study on healthcare buildings for 2021, there were many indications that the current assessed value did not warrant a change or may have required an increase in value. Most medical office properties were not adjusted downward as Covid-19

restrictions did not indicate a valid concern about the 2021 assessment when compared to the 2020 assessment.

Other property types surveyed

RV and Self-Storage, fast food, banks, credit unions, mobile home parks, flex space, warehouse, multi-family buildings, service garages, and manufacturing properties had, for the most part, a significant number of returns based on their individual property types. The results of these surveys indicated that these types of properties experienced little to no effect from the Covid-19 pandemic. Some of the properties saw increases to their occupancy and collection rates. Other types of properties indicated no change to their vacancy or collection loss rates and the remainder had slight upward movement. Several of these property types have many market sales indicating an increase in value was necessary for the 2021 assessment.