

MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE



OLD FLORIDA BARBER SHOP – FRONT UNIT FOR 638 BREVARD AVENUE

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BACKYARD BAR – REAR UNIT FOR 638 BREVARD AVENUE (OUTDOOR ONLY)

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I will address the following topics during this presentation:

1. Cocoa Village neighborhood description (north versus south districts).
2. Importance of proximity to positive and adverse influences.
3. What marketability is in a real estate valuation context (not marketable title).
4. How adverse influences can affect market value (Income Approach example).
5. Approved special variance property use restrictions and proposed floorplan.
6. Proposed bar/lounge compatibility with surrounding and nearby properties.
7. Presentation summary and brief biography (Glen Kemp's qualifications).

Cocoa Village Neighborhood Description (Brief):

The following map was obtained from the Brevard County Property Appraiser:



MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Cocoa Village boundaries are SR 520/King Street to the north, the Indian River to the east, US 1 to the west, and Rosa L. Jones Drive/Oak Street to the south. The parcel highlighted in red is on the northeast corner of Brevard Avenue and Derby Street. It is a 7-unit office/residential condominium project located at 640 Brevard Avenue owned by Alex Greenwood, one of the petitioners. This property is directly south of 638 Brevard Avenue which is the barber shop and bar/lounge that is the subject of this presentation. The aerial photo shown below indicates Mr. Greenwood's property (highlighted in blue). A total of six parking spaces were located to the rear of the barber shop/bar property. The parking spaces are no longer present, having been replaced with outdoor seating for the bar. Note that several single-family homes are located nearby (south and east of the barber shop/bar property). The road that fronts the barber shop/bar on the left/west is Brevard Avenue. Florida Avenue is located a short distance west of Brevard Avenue (see left-most road in aerial photo). Note the three-story pink building directly north of the barber shop/bar. This multitenant apartment and commercial building will (like Mr. Greenwood's property) be directly affected by the sound generated by the outside bar/lounge located at 638 Brevard Avenue.



MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Further north near SR 520/King Street are several restaurant/bars, retail/service properties, and offices. The north half of Cocoa Village is much more intensively retail commercial in character. The south half includes single and multifamily residential properties and is mixed commercial/residential in character.

Importance of proximity to positive and adverse influences:

Regarding this issue, I will briefly discuss the process I used to determine where I was going purchase my new home. I presently live in Panther Ridge off US One north of SR 528 (the Beachline), not far from Cocoa Village. I bought this home 4 years ago. Previously, I rented a home in Fern Meadows (west of I-95 on north side of SR 520). I was working for the Orange County Property Appraiser and was commuting to downtown Orlando. I considered buying a home in Adamson Creek, which is a relatively new subdivision on the east side of Adamson Road north of SR 524. I toured this subdivision several times. However, I was finally able to smell the Cocoa Landfill that is located over one mile to the north. If the wind is blowing south or southeast, the foul smell is quite apparent. I appraised the Cocoa Landfill expansion many years ago. It goes without saying I do not recommend buying or renting a home anywhere near the Cocoa landfill (or any landfill for that matter).



MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

An example of a positive influence is easily demonstrated by Cocoa Village itself. The eastern boundary is the Indian River lagoon which provides a positive view amenity for several mid-rise residential condominium projects and riverfront residences, and a positive recreational amenity (boating/fishing). The closer a property is to an adverse influence (such as an outdoor bar with or without loud music), the greater the negative impact. This is self-evident (common sense).

What is marketability in a real estate valuation context:

Marketability refers to how marketable a property is considering its physically possible, legally permitted, and financially feasible uses. This is the definition of highest and best use - that use of a property which is physically possible, legally permitted, financially feasible, and maximally productive (highest net value).

An example of a property facing marketability issues is the 3-story apartment complex directly north of the barber shop/bar property. Since I am not presently appraising this property, I will present a hypothetical example of how its market value could (probably would) be adversely affected. My key assumptions for this simplified hypothetical Income Approach valuation are summarized as follows:

Number of Units = 50 1 Bedroom/1Bath Units each containing 1,000 Square Feet
Market Rent before bar conversion of 638 Brevard Avenue = \$1,000/Unit/Month
Market Rent after bar conversion of 638 Brevard Avenue = \$800/Unit/Month
Annual Market Occupancy Rate before bar conversion = 95%
Annual Market Occupancy Rate after bar conversion = 80%
Total Operating Expenses before bar conversion = \$5.00/Square Foot/Year
Total Operating Expenses after bar conversion = \$4.00/Square Foot/Year*
Overall Capitalization Rate (for both scenarios) = 10.00%*

How adverse influences can affect market value (Income Approach example):

The following table summarizes the key components/calculations for the simple Income Approach valuation for a hypothetical small apartment complex (the key assumptions for which are summarized above).

Key Components	Before Bar Conversion	After Bar Conversion
Potential Gross Income	\$ 600,000	\$ 480,000
Vacancy Collection Loss	\$ 30,000 (minus)	\$ 96,000 (minus)
Effective Gross Income	\$ 570,000	\$ 384,000
Total Operating Expense	\$ 250,000 (minus)	\$ 200,000 (minus)*
Net Operating Income	\$ 320,000	\$ 184,000
Overall Cap Rate (OCR)	10% (divide by)	10%* (divide by)
Indicated Income Value	\$3,200,000	\$1,840,000

MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Supporting Calculations:

Total PGI Before Bar Conversion = (50 Units x \$1,000) x 12 Months = \$600,000
Total PGI After Bar Conversion = (50 Units x \$800) x 12 Months = \$480,000
Total VCL Before Bar Conversion = \$600,000 x 5% = \$30,000
Total VCL After Bar Conversion = \$480,000 x 20% = \$96,000
TOE Before Conversion = 50,000 Square Feet x \$5.00/Square Foot = \$250,000
TOE After Conversion = 50,000 Square Feet x \$4.00/Square Foot = \$200,000
NOI Before Conversion = \$570,000 - \$250,000 = \$320,000
NOI After Conversion = \$384,000 - 200,000 = \$184,000

In conclusion, this simplified hypothetical Income Approach valuation indicates a hypothetical value reduction of \$1,360,000 or about 42%. Please note that I did not perform an appraisal, but rather as a real estate consultant demonstrated how an adverse influence can substantially reduce surrounding/nearby property values. From the perspective of the City of Cocoa, do you want to add another bar to the local entertainment scene (the added tax base value for which is quite small) when it could significantly/substantially reduce the surrounding tax base?

Another factor to consider is that bars can become "attractive nuisances". This is supported by the recent stabbing attack on a restaurant/bar patron near the north end of Cocoa Village who was waiting outside for an Uber ride. What type of patrons does Cocoa want in the south district described herein? How does this affect nearby residents who want "quiet enjoyment" (a real estate right that is apparently being overlooked)? The real issue is the city's vision for the future of Cocoa Village. If you want a stable positive influence, then proceed with the approval of plans for the small scale high quality assisted living facility (near the barber shop/bar) and mid-rise good/excellent quality hotel. If you want more bars (nightlife), consider what has been happening in downtown Orlando. The same factors influence both locations – the only real difference is size (scale).

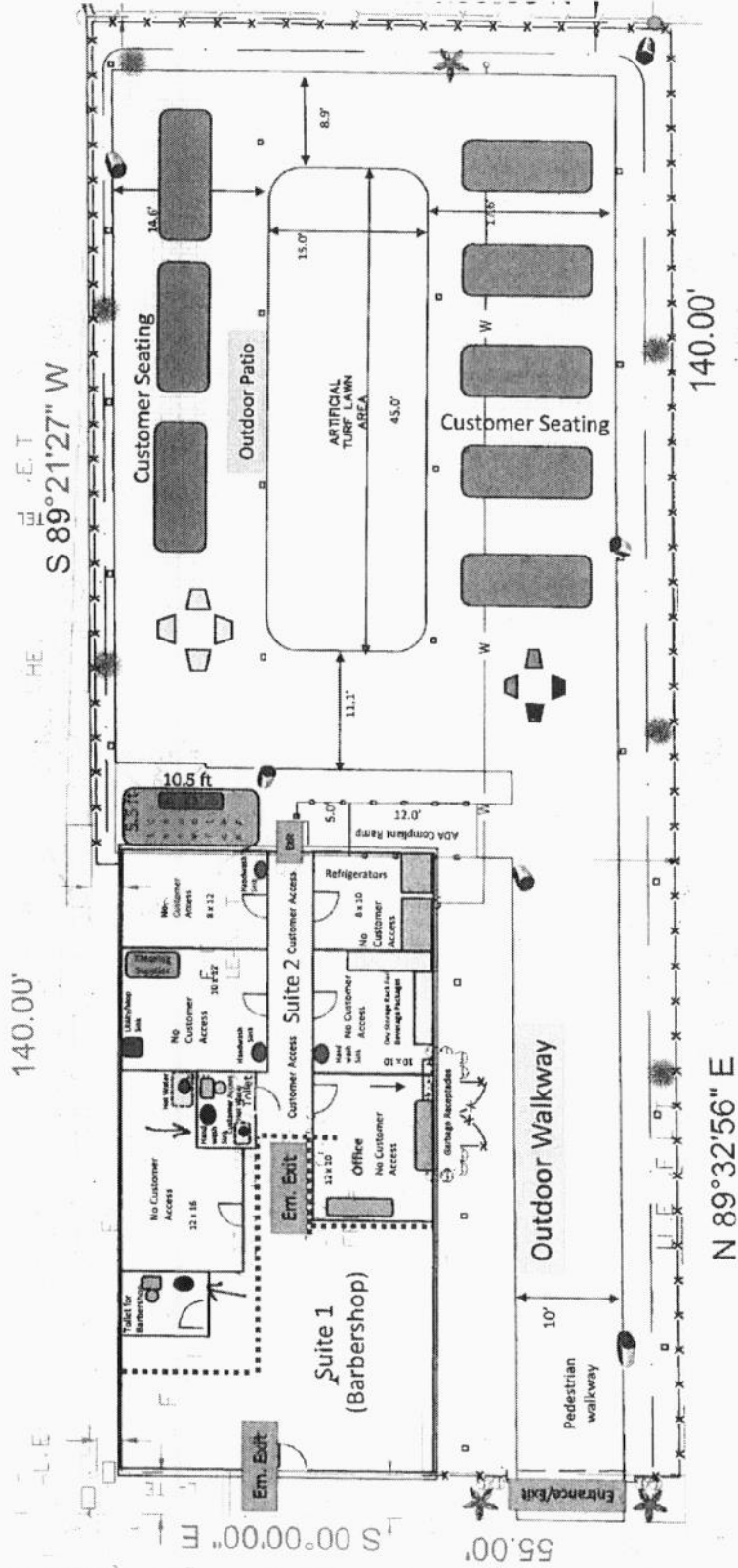
Approved Special Variance Property Use Restrictions/Floor Plan:

The special variance previously granted by the City of Cocoa allows 49 seats in an outdoor format for a wine and beer bar/lounge operation. Hours of operation are limited to between 10 AM and 10 PM Tuesday through Saturday. The project name is the Backyard Bar, whose stated claim is to be family and dog friendly. Six onsite parking spaces were replaced with outdoor seating and artificial turf. A sound limitation was imposed that reportedly equates to a human voice talking normally. However, if 40-50 people are talking at once, I submit that the sound limitation will be greatly exceeded, even without amplified music (specifically prohibited by the variance). Between the heat and rain that occurs in central Florida during the spring through fall months, I doubt this concept will "fly".

MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Operating Plan - 638 Brevard

4/9/24



MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Proposed bar/lounge compatibility with surrounding and nearby properties:

As a commercial and residential appraiser with over 30 years of experience, I can confidently state that the proposed bar/lounge at 638 Brevard Avenue is not compatible with surrounding and nearby properties. Why? Because every time I perform an appraisal (several thousand over the years), I am required to verify the highest and best use of the property being appraised. A key component of this process is that I must identify the property's legally permitted, physically possible, financially feasible, and maximally productive uses. Regarding legal uses, compatibility is a key issue. I spotted this issue after performing market research. I would not want to own the single-family home directly east of this property, as the outdoor bar activity will certainly be heard by the owner and her guests. I would not want to own the otherwise very promising residential land to the southeast, as its highest and best use before the bar/lounge was approved was upscale single family residential development (1-3 homes). This probably will not occur if the variance is allowed, as the noise will make the single-family residential development scenario undesirable/unviable. Since this land fronts Derby Street, a commercial use is not likely (the traffic count is too low for this).

I would not want to own the mixed commercial/residential apartment complex to the north of the proposed barber shop/bar, as per my hypothetical analysis, this could (probably would) lead to a large market value reduction. I would not want to own Mr. Greenwood's property for a similar reason. Granting the proposed variance would create a "spot zoning" situation, where a use that is otherwise deemed to be undesirable in the general vicinity is granted by special exception.

Destroying six onsite parking spaces in a parking-restrained neighborhood such as Cocoa Village is generally inconsistent with most zoning codes. Please note that an established neighborhood church is located a short distance to the south of the proposed bar/lounge. Most zoning authorities do not support approval of drinking establishments being located in close proximity to religious/educational facilities. I am speaking from vast commercial/residential appraisal experience. It appears that Cocoa operates quite differently from almost every other zoning jurisdiction I have dealt with in my many years of appraising. I have performed appraisals in over 30 Florida counties, and countless cities, during my career.

What direction does the city of Cocoa want to go with Cocoa Village? Do you want to see a strip of indoor/outdoor bars all along Brevard Avenue, or do you want to preserve the rich historical heritage and residential character of the south half of Cocoa Village? In my view (I majored in finance and real estate at the University of Florida), do you want to undermine the strong/stable tax base generated by Cocoa Village for many years to accommodate outdoor bars?

MARKETABILITY ISSUES ARISING FROM 638 BREVARD AVENUE VARIANCE

Presentation summary and brief biography (Glen Kemp's qualifications):

It is my professional opinion as a commercial/residential appraiser in Florida since 1985 that an outside bar at the location described herein will most likely adversely affect the market appeal (marketability) of surrounding and nearby commercial and residential properties. A formal market study is required to prove this allegation, but we must not minimize or overlook common sense and my extensive appraisal experience.

Relative location should be greatly considered. If this property were located in the north half of Cocoa Village (as described herein), perhaps this would be consistent with what the City of Cocoa wants and has approved in the past. We enjoy the entertainment provided in the north half of Cocoa Village. As for the south half of Cocoa Village, I believe it is in Cocoa's best interest to preserve its mixed commercial/residential character and not impose on so many adjacent and nearby properties the presumed right(s) of the 638 Brevard Avenue owner.

As for my qualifications, I have been a commercial and residential appraiser in Florida since 1985. I have lived in Brevard County for about 37 years. I am a UF graduate (BSBA in Finance and Real Estate – graduated with honors). I worked at Kennedy Space Center as a technical writer for the Space Shuttle program for five years. My notable appraisals include the Port Canaveral Headquarters building (this was my suggestion – that Port Canaveral consolidate its offices into this building). I appraised the headquarters building for Darden Restaurants in Orlando. Many years ago I appraised the 1900 Building located in downtown Melbourne. This was formerly a hotel originally built by Henry Flager. I appraised several mid-rise office buildings in downtown Tallahassee during the 1980's, including the Florida Hotel and Motel Association, the Florida Association of Counties, the Florida Restaurant Association, and College Station (downtown Tallahassee). I also appraised the east and west campuses for Lockheed-Martin in Orange County. I will soon be serving as a Special Magistrate for the Orange County Valuation Adjustment Board. I agreed to provide this written summary of my oral presentation to be presented to the Cocoa city council regarding the 638 Brevard Avenue variance issue. My role is real estate consultant. I have not performed a real estate appraisal pursuant to this consultation assignment. My number is Florida state certified general real estate appraiser #RZ-1178.

Signed this 27th day of August, 2024

Glen Kemp

Glen Kemp, Kemp Valuation Services LLC