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|  | | |  | Appraisal Report | | |
|  | | |  | ${propname} | | |
|  | | |  | ${address} | | |
|  | | |  | ${citystatezip} | | |
|  | | |  |  | | |
|  | | |  | Report Date: ${DueDate} | | |
| L3 Valuation | | |  | L3 File No.: ${reportname} | | |
| 16850 SW Upper Boones Ferry Road, Suite A | | |  |  | | |
| Durham, OR 97224 | | |  |  | | |
|  | | |  |  | | |
| 503.620.0881 phone | | |  | For: | | |
|  | | |  | ${cliname}${clides}  ${ctitle}  ${ccomp}  ${caddress}  ${ccsz} | | |
|  | | |  |  | | |
| *L3Valuation.com* | | |  | Client ID: ${clientref} | | |
|  | | |  | Borrower: ${borrower} | | |
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**USPAP Report Option: Appraisal Report**

*This Appraisal Report presents an abbreviated summary of significant data and analysis in support of the assignment results.*

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| **Assignment Information** | | |
| **Property Identification:**  ${address}  ${county}  ${citystatezip} | **Report Prepared By:**  ${apponename} L3 Valuation  16850 SW Upper Boones Ferry Road  Suite A Durham, OR 97224 503.620.0881  ${apponeemail} | **Report Prepared For (Client):**  ${cliname}${clides}  ${ctitle}  ${ccomp}  ${caddress}  ${ccsz} |
| **Tax Parcel ID(s):**  Map ${legal\_desc} |
| **Tax Assessment:**  ${markettot} RMV |
| **Owner:** ${owner} |
| **Client File No.:** ${clientref} |
| **Date of the Report:** ${DueDate} |

| **Scope of Work** |
| --- |
| The **scope** of this Appraisal Report has been limited per the instructions of the client to an analysis of the market rent and market lease terms for the subject property.  The subject market rent is estimated by use of a limited number of applicable steps of the appraisal process. These steps include the following: definition of the pertinent issues related to the appraisal assignment; inspection of the subject property, site and improvement analyses; highest and best use analysis (as vacant and as improved); market rental data selection, verification and analysis; and the sole use of the Direct Market Comparison Analysis in determining the market rent for the subject space.  Our market rent analysis is supported by a collection, verification and analysis of comparable lease transactions; further supported by interviews with knowledgeable market participants (leasing agents, investors, etc.). The initial sources of the comparable data were derived from either the Costar, RMLS, public records, other appraiser / broker leads, or in-house data files, and unless otherwise stated in the analysis of the comparables, were confirmed by a party to the transaction or an agent or representative of a party to the transaction. Data transpiring within typically 1 to 2 years of the date of this report was given the most consideration for rent determination.  The neighborhood was observed and the contents of this report express the appraiser’s opinion of what was found. A search for data in the subject’s market area was performed. The appraiser made an interior and exterior inspection of the subject property on ${insDate}. |

| **Location and Market Analysis** |
| --- |
| The subject property is located in the southwestern quadrant of the City of Portland in the well-established, Johns Landing District. Located two miles south of the City of Portland's central business district, the general boundaries of the neighborhood are Interstate 5 (west), Sellwood Bridge (south), South Waterfront District redevelopment (north), and the Willamette River (east). This is an older established area characterized by a wide mix of office, retail, industrial, residential, and public uses. Originally developed as an industrial and residential area beginning in the 1940s, the neighborhood was in decline until the mid-1970s. Due to city planning mandates, a renewal of the area began in the late 1970s resulting in a number of office, retail, and residential developments, mostly fronting the river. Currently, the immediate neighborhood is largely built-up, with very few infill sites available for development.  Important social factors to consider are the city population trends and area development characteristics of the neighborhood.    Demographic information from the most recent Census for the Portland market indicates decreasing home ownership as home prices have increased significantly. Conversely, household and per capita incomes are expected to increase only modestly.  The most notable retail development in the Johns Landing area is The Water Tower (88,517 SF; 1973), which includes a wide assortment of specialty shops. In addition, there are also two smaller centers fronting Macadam Avenue: Macadam Village (11,033 SF; anchored by Zupan’s Market) and Macadam Market (11,580 SF). There are also several notable riverfront restaurants, including Rosswood and The Old Spaghetti Factory, as well as a number of other specialty restaurants fronting Macadam Avenue.  The Macadam Avenue corridor is predominated by a variety of Class A, B and C office properties. Major office developments include the following Class A projects: River Forum I and II (190,834 SF; 1985 and 1989), Willamette Oaks (35,248 SF; 1990), and Interwest Corporate Center (40,000 SF; 1996).  The most notable new commercial office construction in the immediate area is the 2014-built 64,948 SF office addition to the north end of an existing 39,000 SF office at 4310 SW Macadam Avenue. The addition includes 106 garage parking spaces in two above-ground levels and one below-grade level. The construction was initiated by a new 13-year lease to the Department of Homeland Security’s Immigration and Customs Enforcement unit (ICE).  As to proposed and future construction, the most expansive project in the immediate area is the Zidell Yards, the redevelopment of the Zidell family’s 33-acre riverfront property, which has been the site of the Zidell’s industrial businesses, most notably ship dismantling, barge construction, and valve recovery and resale, since 1946. The site is 1.0 mile northeast of the subject, along the Willamette River, south from under the new Tilikum Bridge, extending under the Ross Island Bridge, to the OHSU campus. The site is mostly adjacent (east) to SW Moody Avenue, though a small portion at the southwest corner of the site is between the west side of SW Moody Avenue and the east side of SW Macadam Avenue. Negotiations between the Zidell family and the City of Portland over a 5-year period have resulted in an agreement that was approved by the City in June 2015. Though lacking in a great deal of detail, the agreement will result in the Zidell’s, through their real estate company, eventually developing 1.5 million square feet of offices, commercial and residential space, all depending on market demand. In the first two phases, the Portland Development Commission pledged to put up $35 million to be used for infrastructure (roads, storm drainage, greenway and parks). The Portland Housing Bureau will put up more money to build subsidized apartments with the right to acquire, at market rates, a site within the acreage to be determined later, that could accommodate about 200 affordable apartment units. However, this project was put on hold indefinitely in June 2018 as infrastructure costs have ballooned and the Zidell family and City of Portland could no longer afford to start the project.  Just south of the Zidell property is the major development within the subject area of the OHSU Center for Health and Healing complex. One of the most unique features of this immediate location and the neighborhood is the aerial tram linking OHSU’s Marquam Hill Campus to the Center for Health and Healing complex. The tram, opening in 2006, further enhanced the transportation options of the area. The OHSU Center, 400,000 SF in 16-stories, a LEED Platinum award building, opened in late 2006 and the Portland Streetcar line which runs along the main Center building was extended in 2007 to provide services south of RiverPlace to the South Waterfront and The River Blocks, linking the OHSU tram station with service directly into downtown Portland. The streetcar line runs south along SW Moody Avenue, turns east one block at SW Lowell Street, before returning north via SW Bond Street.  The newest completed construction by OHSU is the OHSU/OUS Collaborative Life Sciences Building (650,000 SF including parking) and Skourtes Tower (120,000 SF), completed in summer 2014. Recently completing construction (July 2018) is the $160 million Knight Cancer Research Building, a 7-story building which will be located just north of the Collaborative Life Sciences Building.  Also in that immediate area, is the significant neighborhood amenity of the South Waterfront City Park consisting of two square city blocks (Nos. 32 & 36) which is centrally located between SW Bond and SW Moody Avenues, and SW Curry and SW Gaines Streets. In addition, the neighborhood also has a four-acre riverfront park with a 125-foot riparian setback.  Industrial development in the subject neighborhood is generally located in the northeast portion of the area along the waterfront. Major users have been the Zidell Marine Corporation, Lone Star Northwest, Pacific Metal, Great Northern Products, LaGrande Industrial Supply Company, and Lakeside Industries. Most the parties are involved with the aforementioned North Macadam District redevelopment and will likely convert to commercial and residential uses over the next two decades. Additionally, there are smaller industrial type users interspersed throughout the neighborhood but are mostly located along the southern end of Macadam Avenue.  Residential development in the subject area consists of single-family homes and rowhouses west of SW Macadam Avenue and condominium and multi-family projects generally located east of Macadam Avenue along the river. Especially prominent in the immediate area are newer high-rise condominium projects around the newly developed OHSU complex, constructed just prior to the 2008-2009 recession. New mid-rise multi-family residential development includes the just completed Oxbow 49 apartment building (166 units, 2016 built), located mid-block on the east side of SW Macadam Avenue at the 4900 block. Adjacent to the east of the Oxbow project is the two-building market rate apartment project, Macadam Apartments (built 2017). The project consists of one 5-story building at riverfront, 69,000 SF with 76 units, and a 106-unit, 6-story building adjacent to the west. Also completed in 2018 is another two-building redevelopment project at 5833 SW Macadam Avenue, on the northwest corner of Macadam and SW Pendleton Street. According to permits, there is to be a 4-story building with 31 units and a 3-story building with 33 units, to be connected by a three-floor skybridge.  The subject neighborhood is well served by an arterial transportation system, which is centered along the Macadam Avenue (State Highway 43) and Barbur Boulevard (State Highway 99W) corridors from north to south. Macadam Avenue and Barbur Boulevard provide direct access to Portland’s central business district to the residential communities to the south, including Lake Oswego and West Linn. Approximately 2 miles north, Macadam Avenue provides north-south access to the Interstate 5 and Interstate 405 freeways. A single northbound exit at Corbett Street is located along I-5, which provides alternative access (though not egress) to the subject neighborhood.  After major construction, the replacement of the Sellwood Bridge at the south end of the neighborhood was open to traffic in February 2016. The replacement bridge is a steel deck arch design, two traffic lanes, two bike lane/shoulders and two multi-use raised paths for bicyclists and pedestrians.  The subject neighborhood is well served by public transportation with TriMet bus service along SW Macadam Avenue as well as the Portland Streetcar North South Line running south along SW Moody Avenue and north along SW Bond Avenue (about 1.3-mile northeast of the subject), and the MAX Light Rail Orange line (Milwaukie to City Center) with a stop at the west end of the new Tilikum Bridge at SW Moody Avenue (about 2.1 mile north of the subject).  The Johns Landing area lies in close proximity to downtown Portland, and supports a dense, established base of office, retail, residential, industrial, and recreational uses. This long established / redeveloping neighborhood has very good access characteristics and very limited developable land available. With expected population and employment growth in the region, the subject's market area is anticipated to continue strengthening with a steady increase in values.  Conclusion  Our survey currently indicates historically low vacancies of office properties in the immediate sub-market. Existing single-tenant and multi-tenant projects with similar locations and convenient access are experiencing increased tenant demand in tandem with the strong recovery in the local and national economies. Single-tenant properties are predominantly owner-occupied. In addition, the market for properties with owner-user appeal is stronger due to continued low mortgage rates. As our survey would suggest, there is still considered to be a sufficient level of demand to support existing and new office projects, with most likely to occur on a primarily build-to-suit or substantially pre-lease basis versus speculative construction projects.  Demand for commercial and residential properties in the subject area is expected to continue at a stable level, though with stable / increasing rents with slowly decreasing concessions in the near term (1 to 2 years), and gradually increasing rents and property values over the long-term (5 to 10 years), as economic factors improve. Therefore, demand for a wide range of residential and commercial uses in the subject area is expected to continue at a stable level over the long-term with expected regional population and employment growth gradually driving increasing rents and property values for the foreseeable future.  Office Market Overview  The appraiser used **CoStar** to produce a market research report of the **office sector** within the Johns Landing submarket, as of October 2018. This search shows a current overall vacancy of 3.7% (85,472 SF out of 2,283,385 SF; 69 properties), with significant positive net absorption of 308,676 SF over the trailing 12-month period. The current average asking rate is estimated at $29.30 per SF per year (primarily on a full-service basis), which is above the 5-year average at $23.10 per SF. Demand continues to be strong with 320,000 SF delivered over the past year, with new construction of 360,000 SF currently underway, according to the CoStar research. It must be noted that the significant construction and absorption of space is found in the South Waterfront area, just on the north side of the subject's neighborhood and consists of two large medical offices. This area has not been included in the Neighborhood Description.  **SUBJECT**  Johns Landing Submarket      Conclusion  As indicated preceding, office properties in the subject sub-market continue to be in high demand, and undersupplied. Discussions with brokers active in the immediate market indicate that properties in good condition with on-site parking typically rent / sell at a premium due to the scarcity of such properties. Gradually increasing rental rates are forecast over the next 12 to 24 months due to continued good market conditions with limited new supply anticipated. With a low amount of new construction in the area, we anticipate a continuation of the market growth, however, potentially at a slower rate, due to lack of rent payment (possibly mitigated by waivers and CARES Act / PPP & EIDL loans) could occur in the near future as a result of the economic contraction relating to the COVID-19 pandemic. The subject itself has a moderate appeal within the market, due to its average, rural-city location, but good condition. |

| **Analysis of Sale, Option, Listing and Offer History** |
| --- |
| Title is currently vested in the name of ${owner} (contact: Melanie Lane, property manager, 503.223.1466) which purchased the property in January 1995 for indicated consideration of $1,277,500.  A search of public records indicates, other than the preceding, no arm’s length transaction(s) involving the subject having occurred during the last three years. |

| **Property Description** | | | |
| --- | --- | --- | --- |
| **Overall Bldg. Area:**  **Subject Tenant Space:** | GBA/NRA: ${gba} SF  NRA: ${nra} SF | **Source of Bldg. Area:** | County / Appraiser Measurement |
| **Site Size (Net):** | ${netacre} Acres / ${netsf} SF | **Property Type:** | Multi-tenant retail center. |
| **Construction Type:** | ${const\_descr} | **Current Use:** | In-linen retail |
| **Yr. Built (Remodel):** | ${yearbt} | **Occupancy:** | 100% Leased / Single-Tenant |
| **Actual / Effect. Age:** | 10 Years / 5 Years | **Zoning:** | ${zcode}, ${zdesc} |
| **Remaining Econ. Life:** | 40 Years | **Conformance to Zoning:** | Yes / Legal conforming use |
| **Quality / Condition:** | ${quality} / ${bcond} | **Functional Utility:** | Average |
| **Land to Bldg. Ratio:**  **Site Coverage Ratio:** | ${ltbrp} to 1  ${scrprim} | **Property Inspected By:** | ${apponename} |
| **Parking:** | ${pspaces} Spaces  ${pratio} per 1,000 SF GLA | **Date of Inspection:** | ${insDate} |
| **FEMA Flood Zone:** | | FEMA Map # 410183- 4101830087E, October 19, 2004 – Zone X – or outside the 100 and 500-year flood plains. | |
| **Seismic Hazards (Earthquake):** | | None | |
| **Comments / Special Features:** | | None | |
| The subject consists of a one-story, two-tenant, creative office building that was originally constructed in 1965. The building has a mid-block location along the east side of SW Kelly Avenue, one block west of SW Macadam Avenue. No traffic count is available for this lightly traveled street.  The building is an "L" shape and covers the east and south sides of the site with a parking / loading area on the west side of the building. The building is divided into two areas with the finished office area on the south end of the site and the creative office area on the east side of the site. The finished office area has a reception area, three private offices and a break room along with two restrooms. This area was renovated to a high level of finish in 2000. After renovations, the creative office area will generally be open with one wall that divides the space roughly in half and a few partial walls. On the south end of the building is the kitchen area and the restroom with four changing rooms across the hall. Exterior walls are poured in place concrete with a stucco finish in the creative office and brick in the finished office. The foundation is concrete slab. The roof is slightly sloping with composition cover. The building includes 1 grade level truck door (16' x 12'). The interior has polished concrete floors with some carpet, drywall interior walls and exposed ceilings. Thermopane windows in the office area and single pane roof level relites in the creative office area. It has an open ceiling with 14 to 15-foot clear height in the creative office and a 12-foot ceiling height in the finished office. Full HVAC throughout the building. No fire sprinkler system. The finished office is very good quality and condition with custom millwork, sheetrock walls / ceilings, granite tile and commercial carpeting and fluorescent / custom incandescent lights. Plumbing includes one single-user restroom in the creative office and two in the finished office.  The buyer intends to spend approximately $100,000 to give a cosmetic upgrade to the creative office space that will include re-distributing the HVAC, demolishing some walls and pulling out carpet, polishing the floors, new lighting, interior paint, new glass roll-up door, upgrade the kitchen and bathroom and possibly add a second restroom for this area. This work is anticipated to take 3 months with completion by the end of January 2019.  The site is 50.4% improved and parking is limited an area on the west side of the building with no designated parking spaces. The appraiser estimated 10 parking spaces in this area, or a parking ratio of 2.0 spaces per 1,000 SF. Note that the limited on-site parking is typical of the neighborhood for buildings of this vintage. Based on the footprint of the building, the site coverage ratio is 50.4% (5,036 footprint ÷ 10,000 SF site), while the land-to-building ratio is 2.0 to 1.  The building has a generally functional design and is in average to good condition. The building is concluded to have an effective age of 15 years, and a remaining economic life of 35 years. | | | |

| **Highest and Best Use** |
| --- |
| H&B Use – As Vacant: The subject is a ${grossacre} gross acre site (${grosssf} SF) which is zoned ${zcode}, ${zdesc} by the ${zjuris}. The zoning primarily allows commercial development, and the subject is surrounded by such improvements. Based on the location, zoning, surrounding development, and market research, a commercial development is considered the highest and best use of the subject property, as if currently vacant.  H&B Use – As Improved: In determining the highest and best use of the property as improved, the focus is on three possibilities for the property: 1) continuation of the existing use, 2) modification of the existing use, or 3) demolition and redevelopment of the land. Retaining the improvements as they exist meets the tests for physical possibility, legal permissibility and financial feasibility. The improvements are in ${bcond} condition and any alternative use of the existing improvements is unlikely to be economically feasible. The current use as a multi-tenant office building is a legal conforming use. The improvements are physically possible, financially feasible, and maximally productive. Overall, the market value of the property as improved exceeds the combination of vacant site value plus cost of demolition of the improvements. Therefore, demolition and redevelopment of the site is not maximally productive. The highest and best use of the subject property, as improved, is the current single-tenant office use. |

| **Valuation Analysis** |
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| Valuation Summary  **Appraisal Type:** Summary – Direct Market Rent Comparison Only  **Interest Appraised:** Market Rent – Fee Simple  **Date of Market Rent:** ${effdov}  **Date of Inspection:** ${insDate} (interior / exterior)  **Date of Report:** ${DueDate}  Methodology  The following market rent analysis for the subject space within a multi-tenant office building will begin with a survey of reasonably recent leases involving comparable quality, office properties in the immediate submarket, as well as competing nearby submarkets. Based on this comparative analysis, we will arrive at a reconciled opinion as to the subject’s market rent, as of the date of inspection – ${insDate}.  Comparable Rent Analysis  Single-Tenant Office (Absolute NNN)  A review of current subject market trends indicates that typical single-tenant office leases for newer office properties in the subject market area are written on an **absolute triple net** rental basis. Such triple net tenant rents include not only the net base rent, with the tenant typically also responsible for all building operating expenses ( including management fees and reserves for capital expenditures). Hence, we have anticipated that all future rent for the subject would be payable on this basis.  Single-Tenant Office (NNN)  A review of current subject market trends indicates that typical single-tenant office leases in the subject market area are written on a **triple net** rental basis. Triple net tenant rents include only the net base rent, with the tenant typically responsible for all building operating expenses (excluding management fees and reserves for capital expenditures. Hence, we have anticipated that all future rent for the subject would be payable on this basis.  Multi-Tenant Office (Modified Gross)  A review of current subject market trends indicates that typical Class C, multi-tenant office tenant leases in the subject market area are written on a **modified gross** rental basis. While there may be some variability between properties (and landlords) in how the specific expense terms are applied or negotiated, modified gross tenant rents at the subject project typically include all operating expenses, except that interior electrical utilities and janitorial is paid directly by the tenants. Otherwise, property taxes, insurance, landscape maintenance, general repairs, and trash removal are included in the subject base rent. Hence, we have anticipated that all future rent for the subject would be payable on this basis.  Multi-Tenant Office (Gross or Full Service)  A review of current subject market trends indicates that typical office tenant leases in multi-tenant buildings the subject market area are written on a **gross** rental basis (commonly referred to in the marketplace as “full service” rent). Full service rents are inclusive of both net base rent and all building operating expenses. Hence, we have anticipated that all future rent for the subject office space would be payable on this basis.  From our rental survey we selected several office leases and one current listing, four of which are located in the subject submarket area. The selected comparables are presented in the following chart, along with an adjustment grid, photos of each comparable, and a location map.  Rental Adjustments  Depending on market conditions, free rent, above market tenant improvement allowance, or other incentives are used to attract tenants. When applicable, the comparable rents are adjusted to reflect current market terms with an effective rent to the property owner.  In order to estimate the current market rent for the subject office property, we conducted a survey of reasonably comparable tenant leases of office buildings located in the immediate to expanded market area. The result of this survey is summarized on the preceding pages, along with a location map and photographs of the buildings relating to each lease comparable.  Merge & Insert Rent Comp Data Analysis Output  Additional Quantitative Analysis  As supplemental support, an adjustment grid for the comparable rents is provided as additional analysis following the summary chart. The comparables indicate an adjusted rents per square foot between $20.53 and $23.47 per SF NRA with an average rent of $22.01 per SF and median rent of $21.93 per SF. Note that a market conditions adjustment of 3.0% per year was applied in this analysis. The adjusted comparable rent range provides additional support for the following final market rent conclusion.  Final Concluded Market Rental Rate  Based on the preceding discussions, it is concluded that the market rent for the subject property is reasonably supported near the lower end to mid-range values indicated by Rent Comps 1, 2 and 3 ($19.83, $19.67, and $25.48 per SF). Additional secondary consideration given to the adjusted average and median rent indicators ($22.01 and $21.93 per SF). Based on the preceding, the **concluded market rent** for the subject property is estimated at **$\_\_\_\_\_\_ per SF NRA**.  Subject Leasing Activity  The subject property is currently 100% leased to Eye Health Northwest P.C. for a 10-year period which began in May 23, 2019. Annual contract rent began at $20,800 per month triple net ($32.32 / SF GLA), which is fixed for Years 1 to 3, and then escalates by CPI annually thereafter (limited maximum 3.0% annual rent escalations). Note that the landlord is responsible for structural maintenance and management fees. A copy of this lease is provided in the Addenda. A rent roll for the subject property is provided below.    Commentary on the Pending Subject Lease Renewal  Note that the lease summary provided in the Addenda indicates the tenant has (1) 5-year option to renew remaining on its lease to begin February 1, 2022. The terms of this renewal were to be based on the original lease, with the rent to be set at Fair Market Base Rent. However, the Lessee was required to give the Lessor notice to renew 440 days prior to the lease expiration, or by October 1, 2020. It is the appraiser’s understanding that such notice was not provided to the Landlord before this deadline, and as such the Lessee’s right to renew its leases for another 5-year term under the current expense terms is in doubt. This being the case, it would appear the Lessor would have the right to a proposed new, more standard triple net lease to the Lessee to conform better to market standards. Such a lease would make the Lessee responsible for the repair & maintenance of interior walls and landscaping. This market rent analysis is based on such a standard triple net lease, with the landlord only responsible for management fees and reserves for capital replacement. |





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| **Rent Comparable Location Map** |
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Merge & Insert Rent Comp Photos

| **Reconciliation** | |
| --- | --- |
| Concluded Market Rental Rate  Based on the research, analyses and conclusions contained within this Appraisal Report, it is the appraiser’s opinion that the **concluded as is market rent** for the **subject property**, as of ${effdov}, would be as follows:   |  |  |  | | --- | --- | --- | |  | **Monthly**  **Absolute NNN Rent** | **Rent / SF / Year** | | **Concluded Market Rent:** | **$\_\_\_\_\_\_\_\_\_.\_\_\_** | **$\_\_\_\_\_.\_\_\_** |   Additional Counseling – Market Lease Terms  Note that 9 of the 10 rent comparables allowed for annual fixed rent escalations of 3.0% per year, and as such, this would be considered reasonable to include a **3.0% per year rent escalation** factor with any subject lease extension.  As far as concessions, 4 of the 10 rent comparables were signed on an “as is” basis with no tenant improvement allowance due to their already good condition / quality of their build-out. Alternatively, free rent was more prevalently noted with most of the rent comparables, though these were already adjusted for in our analysis with none recommended in this renewal, unless a commensurately higher shell / office rates were applied. In any event – the rental data suggests no more than 0.5 month free rent each year of a 3 to 5-year renewal (say 2 to 3 months of free rent) as applied against a commensurately higher rental rate. A summary of concluded market lease terms is provided in the following chart.   |  |  |  | | --- | --- | --- | | **Market Rent Term Category** |  | **Conclusion** | | **Lessee Term:** |  | **3 to 5 Years** | | **Market Rent Escalations:** |  | **3.0% per Year** | | **Lease Concessions:** | **(Free Rent)** | **2 to 3 Months** | | **Tenant Improvements:** |  | **As Is** | |

|  |  |  |
| --- | --- | --- |
| **Final Value Estimate** | | |
| **Effective Date of Value** | **Interest Appraised** | **Concluded Market Rent** |
| ${effdov} | Market Rent | **$\_\_\_.\_\_ per SF  $\_\_\_\_\_\_\_.\_\_\_\_ per month** |

|  |  |
| --- | --- |
| **Exposure Time / Marketing Time** | |
| **Reasonable Exposure Time:** +6 Months | **Marketing Time Opinion:** +6 Months |

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| **Identification and support for most probable buyer / Most probable user** |
| Based on our market survey and the subject’s leased status, the most probable buyer would be either a local or regional investor. The most probable user would be a local or regional light industrial tenant with a need for flex / office and HVAC service production area. |

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| **Extraordinary Assumptions** |
| None. |

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| **Definition of Market Rent** |
| The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement including permitted uses, use restrictions, expense obligations; term, concessions, renewal and purchase options and tenant improvements (TIs).  Source: Dictionary of Real Estate Appraisal, 6th Edition |

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| **Client / Intended Use / Intended User / Report Type** |
| ${cliname}, ${ctitle} on behalf of ${ccomp} is the **client** in this assignment.  The **intended users** of the report will include the client as the legal representative of owner / landlord – Channel Investors, LLC, as well as the noted tenant – Bridgetown Printing Co. Please note that the documents are not intended for use in relation to a Federally insured loan transaction or government taxation purposes.  The **intended use** of the appraisal will be to estimate the market rent and terms pertaining to the subject real property to assist the client / Lessor in decisions regarding the lease renewal with the existing tenant, as of ${effdov} (the effective date of value). |
| This **Appraisal Report** conforms to USPAP requirements and is intended to meet the requirements for an Appraisal Report as specified in the engagement contract. |

| **Certification** |
| --- |
| I certify that, to the best of my knowledge and belief:   1. The statements of fact contained in this report are true and correct. 2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and is my personal, impartial, and unbiased professional analyses, opinions, and conclusions. 3. I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved. 4. I have performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding the agreement to perform this assignment. 5. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. 6. My engagement in this assignment was not contingent upon developing or reporting predetermined results. 7. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal. 8. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice. 9. I have made a personal interior and exterior inspection of the subject property. In addition, I made exterior inspections of the comparables used in this report. 10. No one provided significant real property appraisal assistance to the person signing this certification, unless otherwise noted. 11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute. 12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. 13. As of the date of this report, the undersigned has completed the continuing education program for Designated Members of the Appraisal Institute.  |  | | --- | | ${apponedigsig} | | ${apponename}  ${apponetitle}  ${apponelicst} Certified General  Appraiser License #${apponelicno} | |

| **General Assumptions and Limiting Conditions** |
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| This appraisal is subject to the following limiting conditions:   1. The legal description – if furnished to us – is assumed to be correct. 2. No responsibility is assumed for legal matters, questions of survey or title, soil or subsoil conditions, engineering, availability or capacity of utilities, or other similar technical matters. The appraisal does not constitute a survey of the property appraised. All existing liens and encumbrances have been disregarded and the property is appraised as though free and clear, under responsible ownership and competent management unless otherwise noted. 3. Unless otherwise noted, the appraisal will value the property as though free of contamination. L3 Valuation will conduct no hazardous materials or contamination inspection of any kind. It is recommended that the client hire an expert if the presence of hazardous materials or contamination poses any concern. 4. The stamps and/or consideration placed on deeds used to indicate sales are in correct relationship to the actual dollar amount of the transaction. 5. Unless otherwise noted, it is assumed there are no encroachments, zoning violations or restrictions existing in the subject property. 6. The appraiser is not required to give testimony or attendance in court by reason of this appraisal, unless previous arrangements have been made. 7. Unless expressly specified in the engagement letter, the fee for this appraisal does not include the attendance or giving of testimony by Appraiser at any court, regulatory, or other proceedings, or any conferences or other work in preparation for such proceeding. If any partner or employee of L3 Valuation is asked or required to appear and/or testify at any deposition, trial, or other proceeding about the preparation, conclusions or any other aspect of this assignment, client shall compensate Appraiser for the time spent by the partner or employee in appearing and/or testifying and in preparing to testify according to the Appraiser’s then current hourly rate plus reimbursement of expenses. 8. The values for land and/or improvements, as contained in this report, are constituent parts of the total value reported and neither is (or are) to be used in making a summation appraisal of a combination of values created by another appraiser. Either is invalidated if so used. 9. The dates of value to which the opinions expressed in this report apply are set forth in this report. We assume no responsibility for economic or physical factors occurring at some point at a later date, which may affect the opinions stated herein. The forecasts, projections, or operating estimates contained herein are based on current market conditions and anticipated short-term supply and demand factors and are subject to change with future conditions. 10. The sketches, maps, plats and exhibits in this report are included to assist the reader in visualizing the property. The appraiser has made no survey of the property and assumed no responsibility in connection with such matters. 11. The information, estimates and opinions in this report, which were obtained from sources outside of this office, are considered reliable. However, no liability for them can be assumed by the appraiser. Data obtained from the internet or other data sources is used and referenced throughout the report. The overall body of the data or documentation is stored at the source’s website and/or place of business and not in the appraiser’s work file. Information includes population and demographic data, zoning, current and historical references, future planning goals, quotes and various statistical numbers (mortgage rates, inflation rates, population projections, market overview data, etc.). 12. The information, estimates and opinions, which were obtained from sources outside of this office, are considered reliable. However, no liability for them can be assumed by the appraiser. 13. Possession of this report, or a copy thereof, does not carry with it the right of publication. Neither all, nor any part of the content of the report, or copy thereof (including conclusions as to property value, the identity of the appraisers, professional designations, reference to any professional appraisal organization or the firm with which the appraisers are connected), shall be disseminated to the public through advertising, public relations, news, sales, or other media without prior written consent and approval. 14. No claim is intended to be expressed for matters of expertise that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers. We claim no expertise in areas such as, but not limited to, legal, survey, structural, environmental, pest control, mechanical, etc. 15. This appraisal was prepared for the sole and exclusive use of the client for the function outlined herein. Any party who is not the client or intended user identified in the appraisal or engagement letter is not entitled to rely upon the contents of the appraisal without express written consent of L3 Valuation and Client. The Client shall not include partners, affiliates, or relatives of the party addressed herein. The appraiser assumes no obligation, liability or accountability to any third party. 16. Distribution of this report is at the sole discretion of the client, but third-parties not listed as an intended user on the face of the appraisal or the engagement letter may not rely upon the contents of the appraisal. In no event shall client give a third-party a partial copy of the appraisal report. We will make no distribution of the report without the specific direction of the client. 17. This appraisal shall be used only for the function outlined herein, unless expressly authorized by L3 Valuation. 18. This appraisal shall be considered in its entirety. No part thereof shall be used separately or out of context. 19. Unless otherwise noted in the body of this report, this appraisal assumes that the subject property does not fall within the areas where mandatory flood insurance is effective. Unless otherwise noted, we have not completed nor have we contracted to have completed an investigation to identify and/or quantify the presence of non-tidal wetland conditions on the subject property. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination. 20. The flood maps are not site specific. We are not qualified to confirm the location of the subject property in relation to flood hazard areas based on the FEMA Flood Insurance Rate Maps or other surveying techniques. It is recommended that the client obtain a confirmation of the subject’s flood zone classification from a licensed surveyor. 21. If the appraisal is for mortgage loan purposes 1) we assume satisfactory completion of improvements if construction is not complete, 2) no consideration has been given for rent loss during rent-up unless noted in the body of this report, and 3) occupancy at levels consistent with our “Income and Expense Projection” are anticipated. 22. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them. 23. Our inspection included an observation of the land and improvements thereon only. It was not possible to observe conditions beneath the soil or hidden structural components within the improvements. We inspected the buildings involved, and reported damage (if any) by termites, dry rot, wet rot, or other infestations as a matter of information, and no guarantee of the amount or degree of damage (if any) is implied. Condition of heating, cooling, ventilation, electrical and plumbing equipment is considered to be commensurate with the condition of the balance of the improvements unless otherwise stated. Should the client have concerns in these areas, it is the client’s responsibility to order the appropriate inspections. The appraiser does not have the skill or expertise to make such inspections and assumes no responsibility for these items. 24. This appraisal does not guarantee compliance with building code and life safety code requirements of the local jurisdiction. It is assumed that all required licenses, consents, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value conclusion contained in this report is based unless specifically stated to the contrary. 25. When possible, we have relied upon building measurements provided by the client, owner, or associated agents of these parties. In the absence of a detailed rent roll, reliable public records, or “as-built” plans provided to us, we have relied upon our own measurements of the subject improvements. We follow typical appraisal industry methods; however, we recognize that some factors may limit our ability to obtain accurate measurements including, but not limited to, property access on the day of inspection, basements, fenced/gated areas, grade elevations, greenery/shrubbery, uneven surfaces, multiple story structures, obtuse or acute wall angles, immobile obstructions, etc. Professional building area measurements of the quality, level of detail, or accuracy of professional measurement services are beyond the scope of this appraisal assignment. 26. We have attempted to reconcile sources of data discovered or provided during the appraisal process, including assessment department data. Ultimately, the measurements that are deemed by us to be the most accurate and/or reliable are used within this report. While the measurements and any accompanying sketches are considered to be reasonably accurate and reliable, we cannot guarantee their accuracy. Should the client desire a greater level of measuring detail, they are urged to retain the measurement services of a qualified professional (space planner, architect or building engineer). We reserve the right to use an alternative source of building size and amend the analysis, narrative and concluded values (at additional cost) should this alternative measurement source reflect or reveal substantial differences with the measurements used within the report. 27. In the absence of being provided with a detailed land survey, we have used assessment department data to ascertain the physical dimensions and acreage of the property. Should a survey prove this information to be inaccurate, we reserve the right to amend this appraisal (at additional cost) if substantial differences are discovered. 28. If only preliminary plans and specifications were available for use in the preparation of this appraisal, then this appraisal is subject to a review of the final plans and specifications when available (at additional cost) and we reserve the right to amend this appraisal if substantial differences are discovered. 29. Unless otherwise stated in this report, the value conclusion is predicated on the assumption that the property is free of contamination, environmental impairment or hazardous materials. Unless otherwise stated, the existence of hazardous material was not observed by the appraiser and the appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required for discovery. The client is urged to retain an expert in this field, if desired. 30. The Americans with Disabilities Act (“ADA”) became effective January 26, 1992. We have not made a specific compliance survey of the property to determine if it is in conformity with the various requirements of the ADA. It is possible that a compliance survey of the property, together with an analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this could have a negative effect on the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in developing an opinion of value. 31. This appraisal applies to the land and building improvements only. The value of trade fixtures, furnishings, and other equipment, or subsurface rights (minerals, gas, and oil) were not considered in this appraisal unless specifically stated to the contrary. 32. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated, unless specifically stated to the contrary. 33. Any income and expense estimates contained in the appraisal report are used only for the purpose of estimating value and do not constitute prediction of future operating results. Furthermore, it is inevitable that some assumptions will not materialize and that unanticipated events may occur that will likely affect actual performance. 34. Any estimate of insurable value, if included within the scope of work and presented herein, is based upon figures developed consistent with industry practices. However, actual local and regional construction costs may vary significantly from our estimate and individual insurance policies and underwriters have varied specifications, exclusions, and non-insurable items. As such, we strongly recommend that the Client obtain estimates from professionals experienced in establishing insurance coverage. This analysis should not be relied upon to determine insurance coverage and we make no warranties regarding the accuracy of this estimate. 35. The data gathered in the course of this assignment (except data furnished by the Client) shall remain the property of the Appraiser. The appraiser will not violate the confidential nature of the appraiser-client relationship by improperly disclosing any confidential information furnished to the appraiser. Notwithstanding the foregoing, the Appraiser is authorized by the client to disclose all or any portion of the appraisal and related appraisal data to appropriate representatives of the Appraisal Institute if such disclosure is required to enable the appraiser to comply with the Bylaws and Regulations of such Institute now or hereafter in effect. 36. You and L3 Valuation both agree that any dispute over matters in excess of $5,000 will be submitted for resolution by arbitration. This includes fee disputes and any claim of malpractice. The arbitrator shall be mutually selected. If L3 Valuation and the client cannot agree on the arbitrator, the presiding head of the Local County Mediation & Arbitration panel shall select the arbitrator. Such arbitration shall be binding and final. In agreeing to arbitration, we both acknowledge that, by agreeing to binding arbitration, each of us is giving up the right to have the dispute decided in a court of law before a judge or jury. In the event that the client, or any other party, makes a claim against L3 Valuation or any of its employees in connections with or in any way relating to this assignment, the maximum damages recoverable by such claimant shall be the amount actually received by L3 Valuation for this assignment, and under no circumstances shall any claim for consequential damages be made. 37. L3 Valuation shall have no obligation, liability, or accountability to any third party. Any party who is not the “client” or intended user identified on the face of the appraisal or in the engagement letter is not entitled to rely upon the contents of the appraisal without the express written consent of L3 Valuation “Client” shall not include partners, affiliates, or relatives of the party named in the engagement letter. Client shall hold L3 Valuation and its employees harmless in the event of any lawsuit brought by any third party, lender, partner, or part-owner in any form of ownership or any other party as a result of this assignment. The client also agrees that in case of lawsuit arising from or in any way involving these appraisal services, client will hold L3 Valuation harmless from and against any liability, loss, cost, or expense incurred or suffered by L3 Valuation in such action, regardless of its outcome. 38. Acceptance and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and limiting conditions. |

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| **Addenda** |
| 1. Subject Photos 2. Location / Plat / Zoning / Flood Maps 3. Glossary 4. Engagement Letter 5. Trio / Legal Description 6. Tenant Lease 7. Qualifications / State Certification / License 8. Company Profile |

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| Subject Photos |

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| **Regional Map** |
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| **Neighborhood Map** |
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| **Location Map** |
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| **Aerial Photo** |
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| **County Plat Map** |
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| **Zoning Map** |
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| **Flood Map - FEMA** |
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| **Current Floor Plan** |
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| **Floor Plan Sketch** |
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| Engagement Contract |

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| Legal Description / Trio |

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| Tenant Lease |

Definitions are taken from the Dictionary of Real Estate Appraisal, 6th Edition (Dictionary), The Appraisal of Real Estate (15th Edition), the Uniform Standards of Professional Appraisal Practice (USPAP, 2020-2021 Edition), The Standards of Valuation Practice (SVP) of the Appraisal Institute, and Building Owners and Managers Association International (BOMA).

**Absolute Net Lease**

A lease in which the tenant pays all expenses including structural maintenance, building reserves, and management; often a long-term lease to a credit tenant. (Dictionary)

**Amortization**

The process of retiring a debt or recovering a capital investment, typically though scheduled, systematic repayment of the principal; a program of periodic contributions to a sinking fund or debt retirement fund. (Dictionary)

**Arm’s-Length Transaction**

A transaction between two parties who are each acting in his or her own best interest. (Dictionary)

**As Is Market Value**

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.

(Dictionary; Interagency Appraisal and Evaluation Guidelines)

**(Building) Shell**

The structural portion, common areas, common systems, demising walls, and other elements of a building. For occupancy by a tenant, a shell building requires tenant improvements.

(Dictionary)

**Band of Investment**

A technique in which the capitalization rates attributable to components of an investment are weighted and combined to derive a weighted average rate attributable to the total investment (i.e., debt and equity, land and improvements). (Dictionary)

**Base Rent**

The minimum rent stipulated in a lease. (Dictionary)

**Base Year**

The year on which escalation clauses in a lease are based. (Dictionary)

**Building Common Area**

The areas of the building that provide services to building tenants but which are not included in the rentable area of any specific tenant. These areas may include, but shall not be limited to, main and auxiliary lobbies, atrium spaces at the level of the finished floor, concierge areas or security desks, conference rooms, lounges or vending areas food service facilities, health or fitness centers, daycare facilities, locker or shower facilities, mail rooms, fire control rooms, fully enclosed courtyards outside the exterior walls, and building core and service areas such as fully enclosed mechanical or equipment rooms. Specifically excluded from building common areas are; floor common areas, parking spaces, portions of loading docks outside the building line, and major vertical penetrations. (BOMA)

In an office building, the areas on a floor such as washrooms, janitorial closets, electrical rooms, telephone rooms, mechanical rooms, elevator lobbies, and public corridors which are available primarily for the use of tenants on that floor. In essence, floor common areas represent all of the area on the floor that is common to that respective floor with the exception of those areas that penetrate through the floor, such as the elevator shaft and stairwell. The significant point to be made is that floor common area is not part of the tenant’s usable area. (BOMA)

**Build-Out**

Interior construction that converts raw space into finished space ready for occupancy; includes various levels of installation of equipment, finish carpentry, construction of amenities, and initial tenant improvements.

(Dictionary)

**Capitalization Rate (R)**

A ratio of one years’ net operating income provided by an asset to the value of the asset; used to convert income into value in the application of the income capitalization approach. (Dictionary)

**Client**

1) The individual, group or entity who engages a valuer to perform a service.

2) The party or parties (i.e., individual, group or entity) who engage an appraiser by employment or contract in a specific assignment, whether directly or through an agent.

3) Generally the party or parties ordering the appraisal report. It does not matter who pays for the work. (USPAP / Dictionary)

**Common Area Maintenance (CAM)**

The expense of operating and maintaining common areas; may or may not include management charges and usually does not include capital expenditures on tenant improvements or other improvements to the property. (Dictionary)

**Condominium / Condominium Unit**

A condominium is a form of ownership of separate units or portions of multi-unit buildings with undivided ownership of common elements.

(15th Edition)

A condominium unit is a separate ownership interest, and title is held by an individual owner. The unit may be separately leased, sold, or mortgaged. (15th Edition)

**Conservation Easement**

An interest in real property restricting future land use to preservation, conservation, wildlife habitat, or some combination of those uses. A conservation easement may permit farming, timber harvesting, or other uses of a rural nature to continue, subject to the easement.

(Dictionary)

**Debt Coverage Ratio (DCR)**

The ratio of net operating income to annual debt service (DCR = NOI/Im), which measures the relative ability to a property to meet its debt service out of net operating income. Also called Debt Service Coverage Ratio (DSCR). A larger DCR indicates a greater ability for a property to withstand a downturn in revenue, providing an improved safety margin for a lender. (Dictionary)

**Deed Restriction**

A provision written into a deed that limits the use of land. Deed restrictions usually remain in effect when title passes to subsequent owners.

(Dictionary)

**Depreciation**

1) In appraising, the loss in a property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.

2) In accounting, an allocation of the original cost of the asset, amortizing the cost of the asset’s life; calculated using a variety of standard techniques. (Dictionary)

**Discount Rate (Y)**

A rate of return on capital used to convert for payments or receipts into present value; usually considered to be a synonym for yield rate (Y).

(Dictionary)

**Disposition Value**

The most probable price that a specified interest in real property is likely to bring under the following conditions:

* Consummation of a sale within a specific time, which is much shorter than the typical exposure time for such a property in that market;
* The property is subjected to market conditions prevailing as of the date of valuation;
* Both the buyer and seller are acting prudently and knowledgeably;
* The seller is under compulsion to sell;
* The buyer is typically motivated;
* Both parties are acting in what they consider to be their best interests;
* An adequate marketing effort will be made during the exposure time;
* Payment will be made in cash in U.S. dollars (or local currency) or in terms of financial arrangements comparable thereto; and
* The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. (Dictionary)

**Easement**

The right to use another’s land for a stated purpose. (Dictionary)

**Economic Life**

The period over which improvements to real property contribute to property value. (Dictionary)

**Effective Age**

The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. (Dictionary)

**Effective Date**

The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service applies. In a lease document, the date upon which the lease goes into effect.

(Dictionary)

Glossary

**Effective Gross Income (EGI)**

The anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses and an addition is made for any other income. (Dictionary)

**Effective Gross Income Multiplier (EGIM)**

The ratio between the sales price (or value) of property and its effective gross income.

(Dictionary)

**Effective Rent**

Total base rent, or minimum rent stipulated in a lease, over the specified lease term, minus rent concessions; the rent that is effectively paid by the tenant net of financial concessions provided by a landlord. (Dictionary)

**Escalation Clause**

A clause in an agreement that provides for the adjustment of a price or rent based on some event or index, e.g., a provision to increase rent if operating expenses increase; also called escalator clause, expense recovery clause or stop clause. (Dictionary)

**Estoppel Certificate**

A signed statement by a party (such as a tenant or mortgagee), certifying, for another’s benefit, that certain facts are correct, such that a lease exists, that there are no defaults, and that rent is paid to a certain date. (Black’s) In real estate, a buyer of rental property typically requests estoppel certificates from existing tenants. Sometimes referred to as an estoppel letter.

(Dictionary)

**Excess Land**

Land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately and is valued separately. (Dictionary)

**Expense Stop**

A clause in a lease that limits the landlord’s expense obligation, which results in the lessee paying any operating expenses above a stated level or amount. (Dictionary)

**Exposure Time**

1) The time a property remains on the market. 2)

An opinion, based on supporting market data, of the length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. Comment: A retrospective estimate based on an analysis of past events assuming a competitive and open market. (USPAP / Dictionary)

**Extraordinary Assumption**

An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions. Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (Dictionary)

**Feasibility Analysis**

A study of the cost-benefit relationship of an economic endeavor. (Dictionary)

**Fee Simple Estate**

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat. (Dictionary)

**Floor Area Ratio (FAR)**

The relationship between the above-grade floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g. a ratio of 2.0 indicates that the permissible floor area of the building is twice the total land area. (Dictionary)

**Furniture, Fixtures and Equipment (FF&E)**

Business trade fixtures and personal property exclusive of inventory. (Dictionary)

**Functional Utility**

The ability of a property or building to be useful and to perform the function for which it was intended according to current market tastes and standards; the efficiency of a building’s use in terms of architectural style, design and layout, traffic patterns, and the size and type of the rooms. (Dictionary)

**Going Concern Value**

An outdated label for the market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern or market value of the total assets of the business. (Dictionary)

**Gross Building Area (GBA)**

Total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls of the above-grade area. This includes mezzanines and basements if and when typically included in the market area of the property type involved. (Dictionary)

**Gross (Full Service) Lease**

A lease in which the landlord receives stipulated rent and is obligated to pay all of the property’s operating and fixed expenses; also called a full-service lease. (Dictionary)

**Gross Leasable Area (GLA)**

Total floor area designed for the occupancy and exclusive use for the tenants, including basements and mezzanines; measured from the center joint partitioning to the outside wall surfaces. (Dictionary)

Comment: In the Pacific Northwest, GLA applies to both commercial and industrial properties. Typically, mezzanines and basements areas are excluded from GLA.

**Gross Living Area (GLA)**

Total area of the finished, above-grade residential space; calculated by measuring the outside perimeter of the structure and includes only finished, habitable above-grade living space. (Finished basements and attic areas are not general included in gross living area. Local practices, however, may differ). (Dictionary)

**Hypothetical Condition**

1) A condition which is presumed to be true, but is known to be false. (SVP / Dictionary)

2) A condition directly, related to a specific assignment, which is contrary to what is known by the appraiser to exist as of the effective date of the assignment results, but is used for purposes of the analysis. Comment: Hypothetical conditions are contrary to known facts about legal, or economical characteristics of the subject property; or about conditions of the external property, such as market conditions or trends; or about the integrity of the data used in the analysis (USPAP / Dictionary)

**Insurable Replacement Cost**

Also referred to as Replacement Cost for Insurance Purposes. The estimated cost, at current market prices as of the effective date of valuation, of a substitute for the building being valued, using modern materials and current standards, design and layout for insurance purposes guaranteeing that damaged property is replaced with new property (i.e., depreciation is not deducted). (Dictionary)

**Insurable Value**

A type of value for insurance purposes. (Dictionary)

May be based on the replacement or reproduction cost of physical items that are subject to loss from hazards. Land value is not included and items such as underground piping and below-grade foundations are typically excluded as well. (15th Edition)

**Intended Use**

1) The valuer’s intent as to how the report bill be used. (SVP / Dictionary)

2) The use(s) of an appraiser’s reported appraisal or appraisal review assignment results, as identified by the appraiser based on communication with the client at the time of the assignment. (USPAP)

**Intended User**

1) The valuer’s intent as to how the report bill be used. (SVP / Dictionary)

2) The client and any other party as identified by name or type, as users of the appraisal or appraisal review report by the appraiser on the basis of communication with the client at the time of the assignment. (USPAP)

**Investment Value**

1) The value of a property interest to a particular investor or class of investors based on the investor’s specific requirements. Investment value may be different from market value because it depends on a set of investment criteria that are not necessarily typical of the market.

2) The value of an asset to an owner or a prospective owner for individual investment or operational objectives. (Dictionary)

**Just Compensation**

In condemnation, the amount of loss for which a property owner is compensated when his or her property is taken. Just compensation should put the owner in as good a position as he or she would be if the property had not been taken. (Dictionary)

**Lease**

A contract in which the right to use and occupy land, space, or structures are transferred by the owner to another for a specified period of time in return for a specified rent. (Dictionary)

**Leased Fee Interest**

The ownership interest held by the lessor, which includes the rights to receive the contract rent, specified in the lease plus the reversionary right when the lease expires.

(Dictionary)

**Leasehold Interest**

The right held by the lessee to use and occupy the real estate for a stated term and under the specified terms of the lease. (Dictionary)

**Lessee (Tenant)**

One who has the right to occupancy and use of the property of another for a period of time according to a lease agreement. (Dictionary)

**Lessor (Landlord)**

One who conveys the rights of occupancy and use to others under a lease agreement.

(Dictionary)

**Liquidation Value**

The most probable price that a specified interest in real property should bring under the following conditions:

* Consummation of a sale within a short period.
* The property is subjected to market conditions prevailing as of the date of valuation.
* Both the buyer and seller are acting prudently and knowledgeably.
* The seller is under extreme compulsion to sell.
* The buyer is typically motivated.
* Both parties are acting in what they consider to be their best interests.
* A normal marketing effort is not possible due to the brief exposure time.
* Payment will be made in cash in U.S. dollars or in terms of financial arrangements comparable thereto.
* The price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

This definition can also be modified to provide for valuation with specified financing terms. (Dictionary)

**Load Factor**

A measure of the relationship of common area to usable area and therefore the quality and efficiency of building area layout, with higher load factors indicating a higher percentage of common area to overall rentable space thane lower load factors; calculated by subtracting the amount of usable area from the rentable area and then dividing the difference by the usable area: (Dictionary)



**Loan to Value Ratio (LTV)**

The ratio between the mortgage load and the value of the property pledged as security, usually expressed as a percentage; also called loan ratio or LTV. (Dictionary)

**Major Vertical Penetrations**

Stairs, elevator shafts, flues, pipe shafts, vertical ducts, and the like, and their enclosing walls. Atria, lightwells and similar penetrations above the finished floor are included in this definition. Not included, however, are vertical penetrations built for the private use of a tenant occupying office areas on more than one floor. Structural columns, openings for vertical electric cable or telephone distribution, and openings for plumbing lines are not considered to be major vertical penetrations. (BOMA)

**Market Rent**

The rental income a property would have commanded had it been exposed to the market prior to the date of appraisal. It is indicated by the current rents that are either paid or asked for comparable space with the same treatment of expenses as of the date of value. (15th Edition)

The most probable rent that a property should bring in a competitive and open market under all conditions requisite to a fair lease transaction, the lessee and lessor each acting prudently and knowledgeably, and assuming the rent is not affected by undue stimulus. Implicit in this definition is the execution of a lease as of a specified date under conditions whereby:

a. Lessee and lessor are typically motivated;

b. Both parties are well informed or well advised, and acting in what they consider their best interests;

c. Payment is made in terms of cash or in terms of financial arrangements comparable thereto; and

d. The rent reflects specified terms and conditions, such as permitted uses, use restrictions, expense obligations, duration, concessions, rental adjustments and revaluations, renewal and purchase options, and tenant improvements (TIs).

(15th Edition)

**Market Value**

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

a. Buyer and seller are typically motivated;

b. Both parties are well informed or well advised, and acting in what they consider their own best interests;

c. A reasonable time is allowed for exposure in the open market;

d. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and

e. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

(OCC, 12 CFR, Part 34, Subpart C-Appraisals 34.42 Definitions (g) )

**Marketing Time**

An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of the appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. (Advisory Opinion 7 of the Standards Board of the Appraisal Foundation and Statement on Appraisal Standards No. 6, “Reasonable Exposure Time in Real Property and Personal Property Market Value Opinions” address the determination of reasonable exposure and marketing time). (Dictionary)

**Master Lease**

1) A lease in which the fee owner leases a part or the entire property to a single entity (the master lease) in return for a stipulated rent. The master lessee then leases the property to multiple tenants.

2) The first lease in a sandwich lease. (Dictionary)

**Modified Gross Lease**

A lease in which the landlord receives stipulated rent and is obligated to pay some, but not all, of the property’s operating and fixed expenses. Since assignment of expenses varies among modified gross leases, expense responsibility must always be specified. In some markets, a modified gross lease may be called a double net lease, net net lease, partial net lease, or semi-gross lease. (Dictionary)

**Operating Expense Ratio**

The ratio of total operating expenses to effective gross income (TOE/EGI); the complement of the net income ratio, i.e., OER = 1 – NIR. (Dictionary)

**Net Operating Income (NOI)**

The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income but before mortgage debt service and book depreciation are deducted. Note: This definition mirrors the convention used in corporate finance and business for EBITDA (earnings before interest, taxes, depreciation and amortization). (Dictionary)

**Net Rentable Area (NRA)**

For office and retail buildings, the tenant’s pro rata portion of the entire office floor, excluding elements of the building that penetrate through the floor to areas below. The rentable area of a floor is computed by measuring to the inside finished surface of the dominant portion of the permanent building walls, excluding any major vertical penetrations of the floor. Alternatively, the amount of space on which the rent is based; calculated according to local practice. (Dictionary)

Comment: In the Pacific Northwest, NRA applies to primarily office properties, though may also sometimes be referred to as rentable area for retail properties.

**Obsolescence**

One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external. (Dictionary)

**Option**

A legal contract, typically purchased for a stated consideration, that permits but does not require the holder of the option (known as the optionee) to buy, sell, or lease real property for a stipulated period of time in accordance with specified terms; a unilateral right to exercise a privilege. (Dictionary)

**Partial Interest**

Divided or undivided rights in real estate that represent less than the whole, i.e., a fractional interest in a tenant in common, easement or life interest. (Dictionary)

**Pass Through**

A tenant’s portion of operating expenses that may be composed of common area maintenance (CAM), real estate taxes, property insurance, and any other expenses determined in the lease agreement to be paid by the tenant. (Dictionary)

**Potential Gross Income (PGI)**

The total income attributable to real property at full occupancy before vacancy and operating expenses are deducted. (Dictionary)

**Prospective Market Value “As Completed”**

**and “As Stabilized”**

A prospective market value may be appropriate for the valuation of a property interest related to a credit decision for a proposed development or renovation project. According to USPAP, an appraisal with a prospective market value reflects an effective date that is subsequent to the date of the report. Prospective value opinions are intended to reflect the current expectations and perceptions of market participants, based on available data. Two prospective value opinions may be required to reflect the time frame during which development, construction and occupancy will occur. The prospective market value – as completed – reflects the property’s market value at the time that development is expected to be completed. The prospective market value – as stabilized – reflects the property’s market value as of the time the property is projected to achieve stabilized occupancy. For an income-producing property, stabilized occupancy is the occupancy level that a property is expected to achieve after the property is exposed to the market for lease over a reasonable period of time and at comparable terms and conditions to other similar properties. (USPAP - Advisory Opinion 17 / Interagency Appraisal and Evaluation Guidelines / Dictionary)

**Qualitative Analysis**

The process of accounting for differences (such as between comparable properties and the subject property) that are not quantified; may be combined with quantitative analysis.

(Dictionary)

**Quantitative Analysis**

In the sales comparison approach, the process of making numerical adjustments to the sale prices of comparable properties, including data analysis techniques (paired data analysis, grouped data analysis, and secondary data analysis), statistical analysis, graphic analysis, trend analysis, cost analysis (cost-to-cure, depreciation cost), and capitalization of rent difference; usually precedes qualitative analysis. (Dictionary)

**Replacement Cost**

The estimated cost to construct, at current prices as of a specified date, a substitute for the building or other improvements, using modern materials and current standards, design, and layout. (Dictionary)

**Reproduction Cost**

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all of the deficiencies, super-adequacies, and obsolescence of the subject building. (Dictionary)

**Retrospective Value Opinion**

A value opinion effective as of a specified historical date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific prior date. Value as of a historical date is frequently sought in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., “retrospective market value opinion.” (Dictionary)

**Sandwich Leasehold Estate**

The interest held by the sandwich leaseholder when the property is subleased to another party; a type of leasehold estate. (Dictionary)

**Scope of Work**

1) The type of data and the extent of research and analyses. (SVP)

2) The type and extent of research and analyses in an appraisal or an appraisal review assignment. (USPAP)

**Sublease**

An agreement in which the lessee in a prior lease conveys the right of use and occupancy of a property to another, the sublessee, for a specific period of time, which may or may not be conterminous with the underlying lease term. (Dictionary)

**Subordination**

A contractual arrangement in which a party with a claim to certain assets agrees to make his or her claim junior, or subordinate, to the claims of another party. (Dictionary)

**Superadequacy**

An excess in the capacity or quality of a structure or structural component; determined by market standards. (Dictionary)

**Surplus Land**

Land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved parcel. (Dictionary)

**Tenant Improvements (TI)**

1) Fixed improvements to the land or structures installed for use by a lessee.

2) The original installation of finished tenant space in a construction project; subject to period change for succeeding tenants. (Dictionary)

**Triple Net (Net Net Net) Lease**

A lease in which the tenant assumes all expenses (fixed and variable) of operating a property except that the landlord is responsible for structural maintenance, building reserves, and management. Also called NNN, triple net lease, or fully net lease. (Dictionary)

(The market definition of a triple net lease varies; in some cases, tenants pay for items such as roof repairs, parking lot repairs, and other similar items.)

**Usable Area**

The measured area of an office area, store area or building common area on a floor. The total of all the usable areas or a floor shall equal floor usable area of that same floor. The amount of floor usable area can vary over the life of a building as corridors expand and contract and as floors are remodeled. (BOMA)

**Vacancy and Collection Loss**

A deduction from potential gross income (PGI) made to reflect income reductions due to vacancies, tenant turnover, and non-payment of rent; also called vacancy and credit loss and vacancy and contingency loss. (Dictionary)

**Value In Use**

The value of a property assuming a specific use, which may or may not be the property’s highest and best use on the effective date of the appraisal. Value in use may or may not be equal to market value but is different conceptually. (Dictionary)

**Yield Capitalization**

A method used to convert future benefits into present value by 1) discounting each future benefit at an appropriate yield rate (Y), or 2) developing an overall rate that explicitly reflects the investment’s income pattern, holding period, value change and yield rate. (Dictionary)





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| **Company Profile** |

L3 Valuation is a commercial real estate appraisal and consulting firm located in Durham, Oregon. The goal of the company is to offer appraisal, review, and consulting services to clients in a professional and timely manner in covering all types of real estate. Though the firm's primary focus is the State of Oregon, we also provide appraisal services for properties located in the southwestern portion of the State of Washington.

To better serve our clients, L3 Valuation created and implemented a proprietary analytical mobile app capable of real-time access to confirmed data via cloud-based technology. Confirmed data includes local, regional and national sales, leases and resource data. L3 Valuation makes certain that our team members have access the necessary tools and information relevant to solving the client’s issues and assuring their needs are satisfied. As a top regional boutique firm, L3 Valuation maintains deep connections within the local brokerage, investment and development communities allowing it access to information unavailable to firms more national in focus.

L3 Valuation considers its clients to be its most valuable assets. We are privileged to serve various small and large financial institutions, pension funds, insurance companies, corporations, developers, private individuals, attorneys, accountants and government agencies. Past assignments have been conducted to serve various functions, including mortgage financing, property purchase & disposition, lease rent arbitration & negotiation, charitable donation & gifting, partnership & divorce settlement, litigation support & expert witness services, condemnation, property tax analysis, appeal services and corporate planning purposes.

The partners and team members are dedicated to the company's goal, to providing a fresh new approach to any real estate problem, and to working with each client on a personal basis. The firm was founded by managing partners - Kurt M. Mueller, MAI and James F. Kurasz, MAI, AI-GRS; each with +25 to 30 years of experience in commercial real estate. Being members of the Appraisal Institute (AI), Mr. Mueller and Mr. Kurasz, as well as our AI designated staff associates, must adhere to strict codes of professional practice and ethics in serving the public.

The firm also includes a team of very seasoned associates, including professionals with over 25 years of experience. All are either designated members of the Appraisal Institute, including the prestigious MAI and SRA designations, or candidates for one of these professional designations. All have extensive experience in providing appraisal and consultation services for a wide array of types of real property and real property interests throughout the Pacific Northwest.

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| **Company Profile** |

Mr. Mueller has been actively involved in commercial real estate and consulting fields since 1986. Before relocating to Portland, he was the owner of the commercial appraisal firm of Mueller and Company in Honolulu, Hawaii, and holds an expert knowledge of ground leases and the valuation of leasehold properties. His specialties include subdivisions, complex land assignments, and a wide array of special use properties such as new auto dealerships, schools / religious facilities, R&D and hi-tech facilities, aircraft hangars, etc. Mr. Mueller is licensed in Oregon and Washington and is also an active real estate developer / investor, and licensed broker in Oregon. Mr. Mueller has direct experience in arbitration, settlement services, tenant lease negotiation, marketing, site selection, and project general contracting.

Mr. Kurasz started his commercial real estate appraisal career with Mason & Mason in 1987 in Los Angeles, California. In 1992, he relocated to Portland, and originally worked with some residential firms, then committing to commercial work in 1994. After working with several commercial firms over the years, including Mueller and Company, he started his own firm, Kurasz Consulting, Inc. in 2003. Mr. Kurasz is licensed in Oregon, Washington, and Idaho. Mr. Kurasz is a generalist whose specialties include appraisal review, as well as appraising multi-family / manufactured home parks, retail, office, industrial, land and subdivisions.

In addition, the principals of the firm – Mr. Mueller and Mr. Kurasz offer expertise in eminent domain, right-of-way and condemnation assignments. Both are members of the International Right of Way Association (IRWA), and pursuing the requirements to obtain the prestigious SR/WA designation.

Senior members of our team include those holding the MAI and SRA designations from the Appraisal Institute, with a deep level of experience appraising in Oregon and Washington, as well as California, Hawaii, and Virginia. The team members at L3 Valuation are all licensed to appraise in the States of Oregon and Washington, and all have extensive commercial appraisal experience. All our team members are adept at traditional retail, office and industrial properties, while specialties provided by these team members include such specialties as urban core redevelopment / mixed-use properties, medical / dental properties, veterinary clinics & hospitals, schools / religious facilities and public facilities, investment grade properties (office, industrial and apartment), hi-tech / R&D properties, historic office, breweries and distilleries, new and used auto dealerships, self-storage facilities, bank branches, car wash, restaurant (sit-down and fastfood), auto service & repair, quick lube, manufactured home parks, subdivision and complex land assignments, high value and unique residential properties, and a variety of agricultural and ranch properties. Areas of specific geographic focus include the Oregon Coast, Columbia River Gorge, Willamette Valley &Yamhill County areas, and Central / Southern Oregon.

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| **Professional Services** |

Valuation Reports

The market valuation of real property interests (fee simple, leasehold, leased fee, etc.) in various types of properties is the primary focus of most real property appraisal assignments performed by L3 Valuation. It involves defining the real property interests to be appraised, collection and verification of market data, analysis of the highest and best use of the property, and the market valuation of the property via the most applicable appraisal methods. Other valuation studies may involve the estimation of investment value for various real property interests based on client specific data and/or criteria. Our services also include reports intended to assist in a team approach to Valuation for Financial Reporting.

Real Estate Consulting

In order to better serve our clients with unique properties and/or investment problems, L3 Valuation can also conduct consulting assignments covering all property types. Providing competent, unbiased, professional guidance on diversified problems in real estate has taken on ever increasing importance as a method of reducing the risks associated with the real estate field. The firm has undertaken such tasks as highest and best use analysis, market studies, rent renegotiation consulting, subdivision analysis, office/retail analysis, project planning studies, and market and feasibility analysis.

Estate Planning, Litigation Support, and Expert Witness Services

L3 Valuation also offers services for real estate matters involving arbitrations (ground rent renegotiations, tenant space lease renegotiations, etc.). We offer estate planning tax support for accounting firms and litigation support services to attorneys. It is our goal to provide not only offensive, but defensive strategies, in a fair and unbiased manner, in order to expose the strengths and weaknesses of a particular case. Finally, Mr. Mueller and Mr. Kurasz are experienced in working with attorneys in providing expert witness testimony.

Appraisal Review Services

An appraisal review serves the purpose of analyzing the content and conclusions of an appraisal report. It is the reviewer's responsibility to assess the relevancy, adequacy and analysis of the market data used; to form an opinion as the appropriateness and logical consistency of the appraisal methods and techniques used; to comment on the overall presentation of the report, and its general conformance with accepted appraisal practice. Clients consider an appraisal review to be a valuable tool in determining the credibility of an appraisal report, in order to reduce the risks associated with important lending, legal, and investment decisions.

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| **Partial List of Clients** |

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| AEGON USA Realty Advisors, Inc. | FDIC | Portland Development Commission |
| Albertson's Companies | First Citizens Bank | Port of Cascade Locks |
| Arbor Custom Homes | First Tech Credit Union | Rabobank, N.A. |
| Armed Forces Bank | First Community Credit Union | Roberson Auto Group |
| Ball Janik LLP | First Interstate Bank | Riverview Community Bank |
| Bank of America | Garvey Schubert Barer | Royal Moore Auto Group |
| Bank of the West | Gevurtz Menashe | SAFECO |
| Banner Bank | Goodwill Industries | Schwabe Williamson & Wyatt |
| Belmar Properties | Gramor Development | Standard Insurance Company |
| Beneficial State Bank | Heritage Bank | State Farm Bank |
| Bittner & Hahs, P.C. | Hillsboro School District | St. Helens Community Credit Union |
| Black | Helterline LLP | HomeStreet Bank | Stockman Bank of Montana |
| BOK Financial Corporation | Intervest Mortgage Company | Stoel Rives LLP |
| Buckley Law P.C. | International Paper | Summit Bank |
| California Bank and Trust | JP Morgan Chase Bank | Tigard-Tualatin School District |
| Capitol Auto Group | Kendall Motors | The CIT Group |
| City of Banks | KeyBank | Tonkin Torp. LLC |
| City of Happy Valley | Lanphere Enterprises, Inc. | Tonkin Auto Group |
| City of North Plains | Lehigh Hansen Corporation | Tri-Met |
| City of Sherwood | Lewis & Clark Bank | Twinstar Credit Union |
| Citizens Bank | Lithia Motors | Umpqua Bank |
| Clackamas County Bank | MAPS Credit Union | Union Bank |
| Coca Cola Enterprises | MBank | Unitus Community Credit Union |
| Columbia Bank | METRO | U.S. Bancorp |
| Columbia Credit Union | Mid-Columbia Medical Center | Venerable Properties |
| Columbia Distributing | M&T Bank | Washington Capital Management |
| Davis Wright Tremaine LLP | National Mortgage Company | Washington Trust Bank |
| DePaul Industries | Northwest Bank | Wauna Credit Union |
| Department of Veteran Affairs | Northwest Farm Credit Services | Wells Fargo Bank |
| Draneas & Huglin, P.C. | OnPoint Community Credit Union | Winco Foods, Inc. |
| Farleigh Wada Witt | Oregon Department of Transportation | Zions Bank |
|  | Pacific Western Bank |  |