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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 ${mappage} – Tax Lot ${taxlot}  Parcel No. ${parcarray} |
| **Tax Assessment:** ${markettot} RMV |
| **Delinquent Taxes:** None |
| **Owner:** ${owner} |
| **Borrower:** ${borrower} |
| **Client File No.:** ${clientref} |
| **Date of the Report:** ${DueDate} |

| **Scope of Work** |
| --- |
| The **scope** of this assignment focuses solely on the leased fee valuation and the following Valuation section utilizes the Sales Comparison Approach in estimating the current market land value that be used as the basis for measuring the market ground rent, with additional valuation analysis of the existing land for projecting the future reversionary interest in the property. After arriving these valuation conclusions, the Income Approach is used to project and estimate the present value of the contract ground rent over the remaining term of the ground lease, plus the present value of the landlord’s reversionary interest. Alternatively, the present value of the difference between market and contract is estimated and added / subtracted from the fee simple land value to estimate the market value of the leased fee interest. These two conclusions are then reconciled into a final concluded as is market value of the leased fee interest in the subject property.  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 a full exterior inspection of the subject property on ${insDate}. |

| **Location and Market Analysis** |
| --- |
| The subject property is located within the city limits of Tigard, a rapidly growing residential suburb situated 8.0 miles south of the City of Portland. Tigard is surrounded by the areas of Tualatin/Durham (south), Beaverton (northwest), Portland (north and northeast) and Lake Oswego (east).  The general boundaries of the subject neighborhood are Washington Square (north), SW 121st Avenue (west) Interstate 5 (east), and Gaarde Street / McDonald Street (south). Access to the subject neighborhood is considered good, with direct linkage via SW Pacific Highway (State Highway 99W) to Highway 217 and Interstate 5. SW Pacific Highway is a primary east-west arterial that links the subject neighborhood to downtown Portland (northeast) and Yamhill County (southwest). Overall, the neighborhood has very convenient access to the major transportation nodes serving Portland, and is well located relative to the population base of the metropolitan area.  Important social factors to consider are the city population trends and area development characteristics of the neighborhood.    The rapid rate of new development in this community is attributed to the availability of land and good access to major transportation routes, commercial services, and employment centers. Future population growth is anticipated to be more moderate with expansion primarily through annexation. Demographic information from the most recent Census for the City of Tigard are provided on the following page.    The immediate subject neighborhood is centered at the intersection of Durham Road and Pacific Highway 99W, and is split between the immediate retirement community of King City to the west of the highway, and the retirement development of Summerfield within the City of Tigard just east of Pacific Highway. However, along the highway and extending a couple of blocks east along Durham Road, uses are primarily commercial, retail, and office with several strip retail, neighborhood shopping centers, free standing retail, professional office buildings, and business parks.  Immediately to the north of the subject lies the Summerfield neighborhood, which includes the Willowbrook Business Park and the Summerfield Retirement Estates, a 55-and-older apartment community developed in the 1970s and 1980s. Just one block west of the subject is King City, an incorporated adult community located to the west of Highway 99W and south of SW Beef Bend Road. However, King City is largely dependent upon the City of Tigard for goods and services. King City encompasses only 216 acres and is primarily a residential community catering to adults 50 years of age and older. The area was incorporated in 1966 with all residents belonging to, and paying dues to, the King City Civic Association. The Civic Association owns and administers facilities such as a nine-hole golf course (King City Golf Course), and the Town Hall, which includes an arts & crafts center, library, post office, and large meeting areas. The Town Center includes three heated outdoor pools, a sauna, lawn bowling area, and shuffleboard courts. The city government is supported entirely by gas taxes, liquor and cigarette taxes, and Federal revenue sharing. The King City Police Department is headed by a full-time Chief of Police and one full time Patrol Officer.  The subject is located approximately ½ block west of Highway 99W (Pacific Highway), a regional arterial that forms an extended commercial corridor staring in the subject’s vicinity and intersecting Hwy 217 approximately 2.7 miles northeast and Interstate 5 roughly 3.8 miles further northeast. The majority of this section of the highway is located within the City of Tigard, with a small portion within King City.  Development activity in the subject's defined area is a mixed use of commercial and primarily multi-family retirement living with substantial single family development in the surrounding areas. Commercial development along SW Pacific Highway consists of strip and neighborhood retail shopping centers such as King City Plaza (1972, 62,702 SF – anchored by Grocers Outlet), Tigard Promenade (1996, 106,575 SF – anchored by Safeway), and Tigard Towne Square (1988, 180,875 SF – anchored by vacant Albertson’s space, Rite-Aid, Marshall’s, Tuesday Morning & Dollar Tree). The Tigard Towne Square also includes the pad tenants McDonald’s, Bank of the West, Chase and HomeStreet Banks. Across from Tigard Towne Square on the west side of Hwy 99W is a Best Western Plus motel. Retail / office uses predominate across the highway at the Willowbrook Business Park (1983-1985, 50,635 SF - unanchored), with a significant amount of space in medical / dental office use. Gaarde Park Plaza, Park Street Square, and several other properties, are located further north along Pacific Highway. A variety of banks, gas stations, fast food outlets, car washes, auto service, convenience stores, and bank branches are also located within the immediate area and along the Pacific Highway.  The major retail use in the subject proximity is King City Plaza shopping center (62,072 SF; built 1972), and anchored by a Grocery Outlet store and McCann's Pharmacy. Pad uses include a Shari’s restaurant, Kaady Carwash, and bank branches of Bank of America, KeyBank and U.S. Bank. This somewhat dated center currently has a vacancy rate of 0%.  Another nearby commercial influence on the subject is the Willowbrook Business Park, an unanchored specialty commercial/office development located at the northeast corner of Durham Road and Pacific Hwy 99W. The center was developed between 1983 and 1985 and consists of five buildings with tenancy including medical offices, general offices, restaurants, Curves fitness facility, JB O’Brien’s Pub, Edward Jones Investments, and an Oregon Department of Human Services office.  North of the Willowbrook Business Park on the east side of Hwy 99W is a Shurgard Self-Storage facility, and beyond that is Tigard Promenade, which is anchored by Safeway. Just north of the Tigard Promenade is the area’s newest development, a Sonic Drive-in restaurant, which opened in 2010.  Office uses were typically constructed during the 1960s through early 1980s, are of single- and multi-story, with several buildings benefiting from Highway 99W frontage or exposure. There are no Class A office projects in the subject’s neighborhood, with most buildings considered to be of Class C quality. Considerably more office development is located east of the subject’s neighborhood, in the Tigard and Lake Oswego areas.  Alternative convenient access to Interstate 5 is provided via SW Durham Road to the Carman Drive interchange (2.5 miles east). Pacific Highway provides an alternative connection to downtown Portland via Barbur Blvd., but also extends south through Willamette Valley (somewhat paralleling I-5) while serving the communities of Newberg, McMinnville, Monmouth, Corvallis, and finally ending in Eugene.  Bank Branch Vacancy and Absorption  With respect to the subject’s immediate Tigard / King City submarket, our research indicates there currently are no vacant bank or credit union branches. The map at right shows the subject Bank of the West branch relative to other bank branches in the area. The subject is located along the south side of SW Durham Road, just west of Pacific Highway 99W, and at the north main entrance to Tigard Towne Square, a neighborhood shopping center. Within this shopping center there are (3) competing bank branchs (Bank of the West, Chase and Homestreet – all on satellite pad sites), plus U.S.Bank, KeyBank and Bank of America within one to two blocks to the west / northwest. Wells Fargo and Washington Federal maintain branches two blocks north at Tigard Promenade shopping center.  **Subject**  In addition to the preceding, market research published by **CoStar** estimates that for the Portland-Vancouver metro area, there is a total bank branch vacancy of 1.0% (16,807 SF out of 1,606,240 SF; 333 properties surveyed) as of November 2018, with positive net absorption of 18,718 SF over the past 12 months. The 5-year average vacancy is somewhat higher at 3.7%, but still fairly low which suggests very strong market conditions for bank branch space. Average asking rental rates are currently quoted at $16.64 per SF (predominantly NNN), which is below the 5-year average of $23.06 per SF. However, it is important to note that with such a small sampling availability of bank branch space, these asking rates can be a weak indicator of market bank branch rental rates as a whole.  Portland- Vancouver Metro Bank Branch Survey      Conclusion  In summary, the subject property is located in a large established suburban community that has experienced moderate growth in the past 10 years. The Tigard area has a central proximity to the residential areas of southwest Portland, and is one of the major employment and retail centers of Washington County. Thus, a stable, but strong demand for various classes of retail / commercial uses is anticipated to continue. With expected population and employment growth, the subject's market area is anticipated to continue improving with a steady increase in the values for various classes of commercial properties. Due to the subject neighborhood's central proximity and relatively good highway and nearby Interstate 5 access, demand for retail / commercial uses in the local neighborhood is expected to continue for the foreseeable future.  Finally, though there has been some noted consolidation in the banking world, especially with the rise of mobile banking services, demand for bank branch properties in the subject area is expected to continue at a stable level with declining concessions in the near term (1 to 2 years), and increasing rents and property values over the long-term (5 to 10 years). Demand for bank branches with strong retail exposure (i.e. satellite or out-pads to good quality, anchored shopping centers) is expected to continue, with most national banks closing secondary or redundant locations through consolidations and mergers.  Other than these preceding concerns, no other adverse influences were noted to exist in the immediate subject area, which would have a negative impact on the subject’s value or its marketability. |

| **Analysis of Sale, Option, Listing and Offer History** |
| --- |
| Public records indicate the property is owned by RH & LS Enterprises, LLC (contact: Helen Hanson; 541.671.0833), which purchased the subject ground leased fee interest in May 2011 for reported consideration of $1,370,000. Discussions with the owner representative indicate this was market transaction at a negotiated price, with the terms cash to the seller.  A search of public records indicates no arm’s length transaction(s) involving the subject having occurred during the last three years.  The subject consists of a single-tenant bank branch which was constructed by the ground lessee – Umpqua Bank (originally as “South Umpqua Bank”) in 1999. Prior uses of the site are unknown. The subject ground lease originally began as a 20-year on February 12, 1999, and also included (2) 10-year options to extend. In August 2018, the lease was renewed early for the first 10-year extension term, with (2) additional 10-year extension options added. Copies of these renewals and pertinent excerpts from the original ground are provided in the Addenda of this report. Provided below is a Tenant Rent Roll which summarizes the current ground lease terms.    Discussions with the owner contact / ground Lessor indicate the renewal for the current 10-year period was based on a continued CPI increase rather than the stipulated 11.5% return on the land value which would have resulted in a much lower rental rate. Hence, the higher continued CPI increase was used for this renewal, which will likely continue over any future renewal periods.  As will be detailed in the following valuation analysis, the current contract ground rent is considered well above market, and will continue to be above market over the term of the current 10-year renewal term starting February 12, 2019. In addition, it is considered likely the ground Lessee will renew its lease according to the terms indicated above for at least another two 10-year renewal terms. Therefore, there is a significant measurable negative leasehold interest in the property, with the market value of the leased fee interest well exceeding the fee simple value of the underlying land. |

| **Property Description** | | | |
| --- | --- | --- | --- |
| **Bldg. Area:** | ${gba} SF GBA/GLA | **Source of Bldg. Area:** | County / Appraiser Measurement |
| **Site Size (Net):** | ${netacre} Acre  ${netsf} SF | **Property Type:** | ${subtype} |
| **Construction Type:** | ${const\_descr} | **Current Use:** | Single-tenant bank branch. |
| **Yr. Built (Remodel):** | ${yearbt} | **Occupancy:** | 100% Ground Leased / Single-Tenant |
| **Actual / Effect. Age:** | 25 Years / 18 Years | **Zoning:** | ${zoning\_code}, ${zoning\_desc} |
| **Remaining Econ. Life:** | 35 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 – 4101830105F, November 26, 2010 – Zone X – or outside the 100 to 500-year flood plains. | |
| **Seismic Hazards (Earthquake):** | | None | |
| **Comments / Special Features:** | | None – or add comments about anything special about the subject property. | |
| The subject property is located at the southeast corner of a 4-way signalized southeast corner of SW Durham Road and SW Summerfield Drive, at the north main entrance to the Tigard Towne Square shopping center (anchored by vacant Albertson’s space, Rite-Aid, Marshall’s, Tuesday Morning & Dollar Tree – see site plan below). The main shopping center parking lies immediate to the south of the subject satellite pad, with a Chase Bank branch immediately east, the main shopping center entry drive to the west (then paved center parking), and SW Durham Road to the north (followed by Willowbrook Center). The average daily traffic count at this location is 24,000 VPD (Costar / MPSI Estimate 2017). Access to the subject site is via a shared driveway easement across the subject’s larger parcel (TL 1900; 5.57 acres).    **Subject**  As indicated, the subject bank branch is located on a satellite retail pad within a larger shopping center, and does not have its own legal lot of record. The pad is situated in the northwest corner of this parcel, and based on our visual estimates from the site plan, indicates the subject pad has a rough total of 9,500 SF / 0.22 acres (approximately 95’ x 100’). This pad area is below average for most retail pads, which typically range from 15,000 to 30,000 SF.  The subject is currently improved with a one-story, single-user, bank branch building (GBA / GLA = 2,100 SF – per the original tenant lease) originally constructed in 1988. No periodic updates to the building were apparent from our inspection. Note that the appraiser measured the subject building which indicated a supportive GBA of 2,083 SF (see appraiser’s sketch in the Addenda). Overall, we will defer to the tenant lease gross leasable area (GLA) for purposes of our analysis. The wood-frame building also includes a drive-thru teller canopy (20’ x 25.75’; 515 SF). The wood-frame building has an exterior finished with a brick veneer, with amply window space, glass entry, and a metal panel / built-up composition asphalt roof. The foundation appears to be a reinforced concrete pad.  The interior layout is typical of most small bank branches of this vintage, with an entry vestibule & lobby facing a teller row / stations, loan officer / admin desk areas, safe vault room, one single-user restroom for the employees, conference room, and a small lunchroom / break area. The size of the subject bank branch falls near the low end of the range for similar bank / credit union uses.  Site improvements include asphalt paving around the perimeter of the building (allowing for circular drive-thru access), plus perimeter landscaping around the building and site. There are only 4 parking stalls along south / front side, or a parking ratio of just 1.9 stalls / 1,000 SF. However, cross parking easements with the larger shopping center raise the effective to roughly 4.7 stalls per 1,000 SF( per Costar), which is considered relatively good and reasonably acceptable for this property type.  Based on the footprint of the building, the site coverage ratio is 22.1% (2,100 SF county footprint [excluding canopy] ÷ 9,500 SF site), while the land-to-building ratio is 4.5 to 1 (9,500 SF site ÷ 2,100 SF GBA). However, the effective site coverage is higher due to the noted beneficial cross parking easements.  The building has a generally functional design and is in average condition, though some evidence of paint chipping was noted on the metal roof panels, and some water damage to the front entry soffit also noted (see subject photos). The interior finishes, fixtures and cabinetry are adequately maintained and of average quality. The building is concluded to have an effective age of 25 years, and a remaining economic life of 25 years. Note that the original lease mandates that the costs associated with the repairs and maintenance of the subject premises are the responsibility of the tenant. | | | |

| **Highest and Best Use** |
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| H&B Use – As Vacant: The subject is roughly a ${netsf} SF shopping center satellite pad which is zoned ${zoning\_code}, ${zoning\_desc} by the City of Tigard, and is intended to allow for various commercial retail and office uses. The subject is located in an established suburban commercial area with extensive nearby retail / shopping center improvements and Class C office space surrounding, along with large residential neighborhoods. The subject also has good primary signalized corner exposure. Based on the location, zoning, surrounding development, and market research, a retail pad use to the adjacent shopping center (bank branch, small fastfood restaurant, etc.) 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 average, adequately maintained condition, and any alternative use of the existing improvements is unlikely to be economically feasible. The current use as a single-tenant bank branch facility 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 bank branch use. |

| **Valuation Analysis** |
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| Valuation Summary  **Appraisal Type:** Summary-Style  **Approaches to Value:** Sales Comparison & Income Capitalization Approaches  **Interest Appraised:** Leased Fee  **Date of Value:** ${effdov}  **Date of Inspection:** ${insDate}  **Date of Report:** ${DueDate}  Subject Valuation  In this appraisal, two traditional approaches to value are used in conjunction to determine the subject's as is market value (as encumbered by the ground lease) of the leased fee interest. These include the Income Capitalization and Sales Comparison Approaches. Due to the age of the improvements and very long remaining duration of the ground lease, a Cost Approach was not deemed applicable in this appraisal.  As the scope of this appraisal is to estimate the market value of the subject leased fee interest, and given the lack of such ground leased fee sales from our research, it was initially necessary to appraise the fee simple interest in the subject land. Thus, in following Section 1 – Fee Simple Land Valuation, only the Sales Comparison Approach is used to estimate the underlying land value.  Next in Section 2 –Leased Fee Valuation, we will estimate the market value of the subject leased fee interest via a series of analyses, first involving an allocation via a direct addition of the lessee’s negative leasehold interest to the concluded fee simple property value in arriving at a subject leased fee value estimate. Then, this will be cross-checked with a discounted cash flow analysis involving the projection of the contract rent payable on the underlying ground lease over the remaining term of the ground lease, and discounting this cash flow plus the reversionary interest in the subject property back to a present value equating the leased fee interest.  Finally, in Section 3 – Reconciliation and Final Conclusion, these two value estimates will be reconciled into a final as is market value of the subject lease fee interest.  Section 1 – Fee Simple Land Valuation  The **Sales Comparison Approach** involves the estimation of value by comparing the subject property to similar properties that have sold recently. Appropriate units of comparison are used and adjustments to the sales prices are made when appropriate. The comparison to other properties may use the price per square foot, dwelling unit, or rental space, depending on the composition of the subject property and the behavior of buyers and sellers in the marketplace. For special purpose properties, other bases of comparison may also be appropriate.  Units of Comparison  The unit of comparison depends on land use economics and how buyers and sellers use the property. Industrial land in the area is typically valued based on price per net square foot of land area (after deducting any unusable portions), which is the foremost unit of comparison used by buyer and sellers in this market area. Therefore, sales price per square foot is used as the basis for estimating the subject’s land value.  Elements of Comparison  Elements of comparison are the characteristics or attributes of properties and transactions that cause the prices of real estate to vary. The main elements of comparison that are considered in sales comparison analysis are as follows: (1) real property rights conveyed, (2) financing terms, (3) conditions of sale, (4) expenditures made immediately after purchase, (5) market conditions, (6) location and (7) physical characteristics.  Sale Adjustments  When applicable, the comparables are adjusted for property rights conveyed, financing terms, conditions of sale, market conditions, location, and physical characteristics. After adjustments, analysis reflecting market behavior is used to determine which comparables are superior or inferior to the subject after considering the remaining characteristics that could not be accounted for in the adjustment process. This analysis establishes value parameters for the subject, allowing for a final conclusion of value.  Land Sale 4 was adjusted $60,000 for seller concessions to the buyer for needed pilings and a vapor barrier over the site for future development, though the actual costs for these items far exceeded the seller’s discount to the price.  No other specific adjustments were made to the comparables on the Land Sale Chart. See adjustment grid for additional transaction and property adjustments.  Comparable Land Sales Data  Presented on a following page is a summary of the selected land transaction data which are located in relatively similar industrial-commercial neighborhoods of the City of Portland. All were reasonably similar in terms of zoning, and all had similar potential for various light industrial or quasi-industrial uses. Our presentation of the land sales is presented in the chart at the end of this subsection.  Merge & Insert Land Sale Data Analysis Output  Additional Quantitative Analysis  An adjustment grid for the comparable land sales is provided as additional analysis following the summary chart. The adjusted comparables indicate an adjusted price per square foot between $29.51 and $34.80 per land area with an average price of $31.81 per SF and median price of $31.46 per SF. Note that a market conditions adjustment of 3.0% per year was applied in this analysis. The adjusted value range provides additional support for the following final land value conclusion.  Pending Subject Sale Activity  Not applicable.  - Or -  As previously noted, the subject is currently pending sale to Ernie S. Freitag. The property was listed for $399,000 or $33.28 per SF land area by Michael Kauffman (503.597.2444) of Keller Williams Realty Portland Premiere. Shortly after listing in September 2019, the property went into escrow at full lists price of $399,000, but was later adjusted downward to the current pending price of $366,600 ($30.58 per SF) to cover the cost of hooking up the existing improvements to city sewer. The terms of the sale are cash to the seller, with the transaction anticipated to close no later than January 15, 2020 (total marketing time of 4 months). The buyer is will reportedly 100% owner-occupy the property with a related party entity dba Oregon Abatement (asbestos abatement contractor). A copy of the purchase and sale agreement, plus addendum, is contained in the Addenda of this report.  Overall, the subject’s recent sale price appears to be reasonably bracketed and supported by the preceding comparable land sale analysis, and therefore is considered at market.  Concluded Market Land Value  The appraiser has considered the characteristics of each comparable, with primary emphasis on the lower middle portion of the range indicated by Land Sales 2, 3 and 4 ($27.51, $22.44 and $45.33 per SF; adjusted to $29.57, $29.51 and $33.36 per SF), as well as the above cited listing (inferred fee simple land price of $34.44 per SF). Strong secondary emphasis is placed on the subject’s pending sale price which equates to $30.58 per SF which is reasonably supported by these preceding data sets. Finally, additional strong secondary consideration is placed just below the average and median adjusted comparable amount of ($31.81 and $31.46 per SF). Hence, a unit land value of **$\_\_\_\_.\_\_\_ per SF** is reasonably concluded.  Based on the preceding, it is the appraiser’s opinion that the **concluded market value** of the fee simple interest in the **subject land** (${netsf} SF land area) is as follows:   |  |  |  | | --- | --- | --- | |  |  |  | | **Concluded Market Land Value** | **$\_\_\_\_.\_\_\_ / SF** | **$\_\_\_\_\_\_\_\_\_\_** | |





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| **Land Sale Location Map** |
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Merge & Insert Land Sale Photos

| **Valuation Analysis** |
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| Section 2 –Leased Fee Valuation  Methodology  There are two opposite methods an appraiser can employ in approaching the valuation of the subject leased fee interest, as encumbered by the existing ground lease. In the first method, this involves allocations of value by direct deduction or addition of the tenant / lessee’s leasehold interest to the concluded fee simple land value in arriving at a leased fee value estimate for the subject. In the second method, a discounted cash flow analysis involving the projection of the contract rent payable on the underlying ground lease over the remaining term of the ground lease (reasonably assumed over the 30 years potentially remaining on the lease as of February 6, 2019, which assumes the [3] 10-year options to extend are exercised), and discounting this cash flow plus the reversionary interest in the subject land back to a present value equating the current leased fee interest. Finally, these two value estimates will be reconciled into a final market value of the subject leased fee interest.  Based on the preceding, our leasehold analyses are provided as follows.  Method 1 – Allocation of Value  As noted, the subject site is currently 100% leased to one tenant. In estimating the leased fee value of the subject property (as of February 6, 2019), it is necessary to adjust its concluded fee simple value for the impact of the tenant's leasehold position caused by the payment of below or above-market, contract rent over their remaining lease terms.  As previously discussed in the Sale History subsection, the subject ground lease was for an initial 20-year period to the lessee – Umpqua Bank, with the lessee originally having (2) 10-year options to extend. This original 20-year term began February 12, 1999 and ends February 11, 2019. The terms are absolute triple net with tenant responsible for all expenses, including management and reserves for capital improvement replacement. This lease was renewed in August 2018 for its first 10-year renewal term, with the lessee also gaining two more 10-year option extensions (3 total options now remaining, beyond the current renewal term). Contract rent is payable monthly in advance and will begin at $9,177.54 per month for Year 1, and then annually escalate by the increase CPI (All Urban Consumers, USA, 1982-1984 = 100), but in no event more than 5.0%.  Overall, there is the potential for up to 40 years in option extensions (including the current term, after the initial lease term expires on February 11, 2019). However, as will be detailed later under Method 2 – the current contract ground rent of $9,177.54 per month is far above market rent estimated at $3,666.67 per month. It can only be surmised that the contract rent has continued to escalate annually by CPI, and has progressively increased to the point it is far above market, and will continue to be so until the tenant either vacates the premises at the end of one of its option terms, or the lease runs of extension options.  The general lease terms and schedule of contract rents are summarized in the Tenant Rent Roll provided previously. Our leasehold analysis of the subject is presented in the chart following this subsection, and briefly explained in the following narrative.  Note that while the tenant has 10 years remaining on the current extension term, and the ability to extend for (3) more 10-year terms, our cash flow projection only assumes (2) more renewal period to match the remaining economic life of the improvements. Further, given the above-market, contract rent situation, a 40-year projection was considered unlikely.  Leasehold cash flow assumptions are based on the PwC survey for Q-4 2018 and include the following: 1) assumed 2.0% annual CPI increases for market and contract rent, 2) market rent based on 8.0% capitalized rate of return on a fee simple land value of $550,000, and 3) discount rate of 9.0% due to the higher risk associated with the above-market cash flow continuing into each option extension.    The calculations relating to our valuation of the subject leasehold interest are provided in the following chart. Based on this analysis, the market value of the lessee’s negative leasehold interest in the subject property is concluded at $820,000, which under this methodology would likely be recognized as an addition in value to the fee simple value by a potential investor to recognize the right to receive this additional above-market cash flow for the remainder of the ground lease.  Adding the market value of the negative leasehold interest in the subject property to the concluded fee simple land value results in a **market value** of theleased fee interestin the subject property via leased fee allocation analysis - **Method 1** concluded as follows:   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | |  |  |  | | | **Value Conclusion** | | **Concluded Market Land Value – Fee Simple** | | |  |  | **$550,000** | | Add: Value of Negative Leasehold Interest | | |  |  | **$820,000** | | **Method 1) Leased Fee Market Value** | | |  |  | **$1,370,000** |     Method 2 – Discounted Cash Flow Analysis  A second approach to valuing the subject’s leased fee interest is to measure the value of the existing ground lease in place through a discounted cash flow analysis. In conducting a Discounted Cash Flow Analysis, income and expenses are projected over a typical investor holding period, and expense projections are then subtracted from income projections, resulting in net operating income. Net operating income projections are then discounted for time to reflect their future receipt, and then added together, resulting in a present value of the income stream. The reversionary value (net sales proceeds at the end of the holding period) of the property is estimated and discounted, resulting in a present value of the reversion. The present value of the reversion is then added to the present value of the income stream, resulting in the overall market value of the leased fee interest via a discounted cash flow analysis.  Cash flow assumptions include the following: 1) 2.0% annual contract rent appreciation in line with CPI, and 2) a discount rate of 9.0% due to the added risk of the receipt of above-market contract rent over the projection term. In addition, the reversion was calculated by appreciating the current estimated fee simple land value also by an annual rate of 2.0% per year. Sales commissions of 5.0% will be deducted as a reasonable cost to the owner at the end of the projected lease term (current 10-year term, plus (2) 10-year renewals (similar to the projection term in the leasehold analysis in Method 1). In this analysis, a discount rate of 9.0% will be used for both the cash flow and reversion, which is similar to the rate used in the previous analysis. The present value of the cash flow and reversion are added to indicate the total leased fee value. The discounted cash flow calculations relating to our valuation of the subject leased fee interest are provided in following chart.  Based on this analysis, the **market value** of the leased fee interest in the subject property via discounted cash flow analysis – **Method 2** is concluded at **$1,440,000**.    Concluded As Is Market Value – Leased Fee  The preceding two methodologies indicate a range of leased fee values that is fairly tight at $1,370,000 and $1,440,000. Overall, the higher value indicated by the discounted cash analysis (Method 2) is considered more credible and reliable as it basically mirrors the investment decisions making process of a typical leased fee buyer.  Hence, applying greater weight to Method 2 (discounted cash flow analysis), it is the appraiser’s opinion that the **concluded as is market value** of the leased fee interest in the subject property, as of ${effdov}, is as follows:   |  |  |  | | --- | --- | --- | |  |  |  | | **Concluded As Is Market Value – Leased Fee** |  | **$\_\_\_\_\_\_\_\_\_\_\_\_** | |

| **Reconciliation** |
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| The reconciliation of value indications is the final step in the appraisal process and involves the reviewing and weighing of the individual valuation techniques in relationship to their substantiation by market data, and the reliability and applicability of each valuation technique to the subject project. The reconciliation criteria are appropriateness, accuracy, and quantity of evidence.  Only the Income Capitalization Approach to value was utilized in this assignment. The Sales Comparison and Cost Approaches were omitted due to prior agreement with the client in this assignment, though reasonable comparables land sales were used to assist in establishing the market ground rent. Based on the selected method of appraisal, the estimated **market value** of the leased fee interest in the **subject property** is as follows:   |  |  |  | | --- | --- | --- | | **VALUATION APPROACH** |  | **STABILIZED MARKET VALUE** | | **COST APPROACH** |  | **Not Applicable** | | **SALES COMPARISON APPROACH** |  | **Not Applicable** | | **INCOME CAPITALIZATION APPROACH** |  | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   Concluded As Is Market Value  Based on the methodologies used in this analysis, it is the appraiser’s opinion that the **concluded as is market value** of the leased fee interest in the **subject property**, as of ${effdov}, is as follows:   |  |  | | --- | --- | |  |  | | **Concluded As Is Market Value** | **$\_\_\_\_\_\_\_\_\_\_\_\_** | |

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| **Final Value Estimate** | | | |
| **Effective Date of Value** | **Interest Appraised** | | **As Is Market Value** |
| ${effdov} | Leased Fee | | **$\_\_\_\_\_\_\_\_\_\_\_\_** |
| **Exposure Time / Marketing Time** | | | |
| **Reasonable Exposure Time:** +12 Months | | **Marketing Time Opinion:** +12 Months | |

| **Identification and Support for Most Probable Buyer / Most Probable User** |
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| Based on the subject’s long-term ground lease status, the most probable buyer would be a local or regional investor. The most probably user would be a regional or national financial institution seeking a satellite pad bank branch building within a larger shopping center. |

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| **Extraordinary Assumptions / Hypothetical Conditions** |
| None. |

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| **Definition of Market Value** |
| Market value means 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:   1. Buyer and seller are typically motivated; 2. Both parties are well informed or well advised, and acting in what they consider to be their own best interests; 3. A reasonable time is allowed for exposure to the open market; 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and 5. The price represents a normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.   Source: 12 CFR 34.42(g). |

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| **Client / Intended Use / Intended User / Report Type** |
| ${ccomp} is the client in this assignment.  The intended use of the appraisal report is to provide information for use in loan underwriting and/or credit decisions by ${ccomp} and/or participants.  The intended users of this report may include: ${ccomp} and its affiliates or subsidiaries, other participating financial institutions, government or non-government agencies, legal counsel or other transaction participants. Other users include the Small Business Administration (SBA). |
| This **Appraisal Report** conforms to USPAP requirements and is intended to meet the requirements for an Appraisal Report as specified in the engagement contract. |

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| **Significant Appraiser Assistance** |
| The following charts acknowledges that significant appraisal assistance was provided by Scott M. Steinman (Registered Appraisal Assistant License No. AA03393), Charlene A. Britton (Registered Appraisal Assistant License No. AA003384), and Lindsey I. Mains (Registered Appraisal Assistant License No. AA003391) in the marked fields. While significant assistance was provided, all work was overseen and reviewed by the Supervisory Appraiser, Kurt Mueller, MAI (Oregon General Certified Appraiser No. C000484) or James F. Kurasz, MAI, AI-GRS (Oregon General Certified Appraiser No. C000643).   |  |  | | --- | --- | | **Significant Appraisal Assistance (Scott M. Steinman)** |  | | Define the appraisal problem |  | | Conduct preliminary analysis, select and collect applicable data |  | | Conduct an analysis of the subject property |  | | Conduct highest and best use analysis |  | | Estimate land value, including on-site improvements |  | | Estimate value of the property using each of the following approaches to value: |  | | Cost |  | | Sales Comparison |  | | Income Capitalization |  | | Reconcile each value indication and reconcile the final value estimate |  |  |  |  | | --- | --- | | **Significant Appraisal Assistance (Charlene A. Britton)** |  | | Define the appraisal problem |  | | Conduct preliminary analysis, select and collect applicable data |  | | Conduct an analysis of the subject property |  | | Conduct highest and best use analysis |  | | Estimate land value, including on-site improvements |  | | Estimate value of the property using each of the following approaches to value: |  | | Cost |  | | Sales Comparison |  | | Income Capitalization |  | | Reconcile each value indication and reconcile the final value estimate |  |  |  |  | | --- | --- | | **Significant Appraisal Assistance (Lindsey I. Mains)** |  | | Define the appraisal problem |  | | Conduct preliminary analysis, select and collect applicable data |  | | Conduct an analysis of the subject property |  | | Conduct highest and best use analysis |  | | Estimate land value, including on-site improvements |  | | Estimate value of the property using each of the following approaches to value: |  | | Cost |  | | Sales Comparison |  | | Income Capitalization |  | | Reconcile each value indication and reconcile the final value estimate |  | |

| **Certification** |
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| 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 report has been made with the following general assumptions:   1. Title to the property is assumed to be good and marketable unless otherwise stated in this report. 2. The property is appraised as though free and clear of any or all liens and encumbrances unless otherwise stated in this report. 3. Responsible ownership and competent property management are assumed unless otherwise stated in this report. 4. All engineering is assumed to be correct. The plot plans and illustrative material in this report are included only to assist the reader in visualizing the property. 5. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. 6. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report. 7. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless nonconformity has been stated, defined, and considered in this appraisal report. 8. It is assumed that all required licenses, certificates of occupancy consents, 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 estimates contained in this report are based. 9. The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process. 10. Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility. |

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| **Addenda** |
| 1. Subject Photos 2. Location / Plat / Zoning / Flood / Site Maps 3. Glossary 4. Engagement Letter 5. Trio / Legal Description 6. Qualifications / State Certification / License 7. 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** |
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| **Appraiser Sketch** |
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| Engagement Letter |

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| Trio / Legal Description |

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| Ground Lease + Addendum / Extensions |

Definitions are taken from the Dictionary of Real Estate Appraisal, 6th Edition (Dictionary), The Appraisal of Real Estate (14th 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 represents 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**

A form of ownership in which each owner possesses the exclusive right to use and occupy an allotted unit plus an undivided interest in common areas. (14th Edition)

A multi-unit structure, or a unit within such a structure, with a condominium form of ownership. (Dictionary)

**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. (14th 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 command in the open market. It is indicated by the current rents that are either paid or asked for comparables space with the same division of expenses as of the date of appraisal. Market rent is sometimes referred to as economic rent. (14th 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 |  |