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|  | | |  | Evaluation 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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**Report Option: Evaluation Report**

*This document meets the criteria for an Evaluation Report and is presented in an abbreviated format.*

| **Scope of Work** | | | |
| --- | --- | --- | --- |
| **Interest Appraised:** | Leased Fee | **Valuation Approach:** | Sales Comparison and Income Capitalization Approaches |
| **Value Premise:** | As Is | **Omitted Approaches:** | Cost Approach |
| **Inspection Type:** | Interior and Exterior | **Client:**  **Intended User:** | ${ccomp} is the client.  The intended users include the client other members of the ownership group. |
| **Inspection Date /**  **Effective Date of Value:** | ${effdov} | **Intended Use:** | The intended use of the appraisal is to estimate the market value of the above-cited real property for potential property disposition purposes. |
| **Inspected By:** | ${apponename} | **Occupancy (owner vs. tenant / %)** | 100.0% owner-occupied. |
| The **scope** of this Evaluation Report is to estimate the as ismarket value of the leased fee interest in the subject property by use of all applicable steps of the appraisal process. These steps include the following: definition of the pertinent issues related to the appraisal assignment; inspection of the subject property, site and improvement analyses; highest and best use analysis (as vacant, and as improved); market data selection, verification and analysis; and the use of the Sales Comparison Approach and Income Approach to arrive at a final value estimate. Based on prior agreement with the client, the Cost Approach has been reasonably excluded from our valuation analysis.  These analyses are provided in abbreviated form, according to the Evaluation Report scope requirements of the client, and ORS 674.000 of the State of Oregon, though adheres to the mandatory reporting requirements of the appraiser as a member of the Appraisal Institute. As used in this report, “evaluation” means an opinion of the market value of real property or real estate provided to a financial institution in conformance with the Interagency Appraisal and Evaluation Guidelines adopted jointly by the federal financial institutions regulatory agencies for use in real estate-related financial transactions that do not require an appraisal. The client should understand that the term “Evaluation Report” is not an appraisal reporting option under USPAP 2020-2021.  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 in the southwestern quadrant of the City of Portland in the well-established, Johns Landing District. Located two miles south of the City of Portland's central business district, the general boundaries of the neighborhood are Interstate 5 (west), Sellwood Bridge (south), South Waterfront District redevelopment (north), and the Willamette River (east). This is an older established area characterized by a wide mix of office, retail, industrial, residential, and public uses. Originally developed as an industrial and residential area beginning in the 1940s, the neighborhood was in decline until the mid-1970s. Due to city planning mandates, a renewal of the area began in the late 1970s resulting in a number of office, retail, and residential developments, mostly fronting the river. Currently, the immediate neighborhood is largely built-up, with very few infill sites available for development.  Important social factors to consider are the city population trends and area development characteristics of the neighborhood.    Demographic information from the most recent Census for the Portland market indicates decreasing home ownership as home prices have increased significantly. Conversely, household and per capita incomes are expected to increase only modestly.  The most notable retail development in the Johns Landing area is The Water Tower (88,517 SF; 1973), which includes a wide assortment of specialty shops. In addition, there are also two smaller centers fronting Macadam Avenue: Macadam Village (11,033 SF; anchored by Zupan’s Market) and Macadam Market (11,580 SF). There are also several notable riverfront restaurants, including Rosswood and The Old Spaghetti Factory, as well as a number of other specialty restaurants fronting Macadam Avenue.  The Macadam Avenue corridor is predominated by a variety of Class A, B and C office properties. Major office developments include the following Class A projects: River Forum I and II (190,834 SF; 1985 and 1989), Willamette Oaks (35,248 SF; 1990), and Interwest Corporate Center (40,000 SF; 1996).  The most notable new commercial office construction in the immediate area is the 2014-built 64,948 SF office addition to the north end of an existing 39,000 SF office at 4310 SW Macadam Avenue. The addition includes 106 garage parking spaces in two above-ground levels and one below-grade level. The construction was initiated by a new 13-year lease to the Department of Homeland Security’s Immigration and Customs Enforcement unit (ICE).  As to proposed and future construction, the most expansive project in the immediate area is the Zidell Yards, the redevelopment of the Zidell family’s 33-acre riverfront property, which has been the site of the Zidell’s industrial businesses, most notably ship dismantling, barge construction, and valve recovery and resale, since 1946. The site is 1.0 mile northeast of the subject, along the Willamette River, south from under the new Tilikum Bridge, extending under the Ross Island Bridge, to the OHSU campus. The site is mostly adjacent (east) to SW Moody Avenue, though a small portion at the southwest corner of the site is between the west side of SW Moody Avenue and the east side of SW Macadam Avenue. Negotiations between the Zidell family and the City of Portland over a 5-year period have resulted in an agreement that was approved by the City in June 2015. Though lacking in a great deal of detail, the agreement will result in the Zidell’s, through their real estate company, eventually developing 1.5 million square feet of offices, commercial and residential space, all depending on market demand. In the first two phases, the Portland Development Commission pledged to put up $35 million to be used for infrastructure (roads, storm drainage, greenway and parks). The Portland Housing Bureau will put up more money to build subsidized apartments with the right to acquire, at market rates, a site within the acreage to be determined later, that could accommodate about 200 affordable apartment units. However, this project was put on hold indefinitely in June 2018 as infrastructure costs have ballooned and the Zidell family and City of Portland could no longer afford to start the project.  Just south of the Zidell property is the major development within the subject area of the OHSU Center for Health and Healing complex. One of the most unique features of this immediate location and the neighborhood is the aerial tram linking OHSU’s Marquam Hill Campus to the Center for Health and Healing complex. The tram, opening in 2006, further enhanced the transportation options of the area. The OHSU Center, 400,000 SF in 16-stories, a LEED Platinum award building, opened in late 2006 and the Portland Streetcar line which runs along the main Center building was extended in 2007 to provide services south of RiverPlace to the South Waterfront and The River Blocks, linking the OHSU tram station with service directly into downtown Portland. The streetcar line runs south along SW Moody Avenue, turns east one block at SW Lowell Street, before returning north via SW Bond Street.  The newest completed construction by OHSU is the OHSU/OUS Collaborative Life Sciences Building (650,000 SF including parking) and Skourtes Tower (120,000 SF), completed in summer 2014. Recently completing construction (July 2018) is the $160 million Knight Cancer Research Building, a 7-story building which will be located just north of the Collaborative Life Sciences Building.  Also in that immediate area, is the significant neighborhood amenity of the South Waterfront City Park consisting of two square city blocks (Nos. 32 & 36) which is centrally located between SW Bond and SW Moody Avenues, and SW Curry and SW Gaines Streets. In addition, the neighborhood also has a four-acre riverfront park with a 125-foot riparian setback.  Industrial development in the subject neighborhood is generally located in the northeast portion of the area along the waterfront. Major users have been the Zidell Marine Corporation, Lone Star Northwest, Pacific Metal, Great Northern Products, LaGrande Industrial Supply Company, and Lakeside Industries. Most the parties are involved with the aforementioned North Macadam District redevelopment and will likely convert to commercial and residential uses over the next two decades. Additionally, there are smaller industrial type users interspersed throughout the neighborhood but are mostly located along the southern end of Macadam Avenue.  Residential development in the subject area consists of single-family homes and rowhouses west of SW Macadam Avenue and condominium and multi-family projects generally located east of Macadam Avenue along the river. Especially prominent in the immediate area are newer high-rise condominium projects around the newly developed OHSU complex, constructed just prior to the 2008-2009 recession. New mid-rise multi-family residential development includes the just completed Oxbow 49 apartment building (166 units, 2016 built), located mid-block on the east side of SW Macadam Avenue at the 4900 block. Adjacent to the east of the Oxbow project is the two-building market rate apartment project, Macadam Apartments (built 2017). The project consists of one 5-story building at riverfront, 69,000 SF with 76 units, and a 106-unit, 6-story building adjacent to the west. Also completed in 2018 is another two-building redevelopment project at 5833 SW Macadam Avenue, on the northwest corner of Macadam and SW Pendleton Street. According to permits, there is to be a 4-story building with 31 units and a 3-story building with 33 units, to be connected by a three-floor skybridge.  The subject neighborhood is well served by an arterial transportation system, which is centered along the Macadam Avenue (State Highway 43) and Barbur Boulevard (State Highway 99W) corridors from north to south. Macadam Avenue and Barbur Boulevard provide direct access to Portland’s central business district to the residential communities to the south, including Lake Oswego and West Linn. Approximately 2 miles north, Macadam Avenue provides north-south access to the Interstate 5 and Interstate 405 freeways. A single northbound exit at Corbett Street is located along I-5, which provides alternative access (though not egress) to the subject neighborhood.  After major construction, the replacement of the Sellwood Bridge at the south end of the neighborhood was open to traffic in February 2016. The replacement bridge is a steel deck arch design, two traffic lanes, two bike lane/shoulders and two multi-use raised paths for bicyclists and pedestrians.  The subject neighborhood is well served by public transportation with TriMet bus service along SW Macadam Avenue as well as the Portland Streetcar North South Line running south along SW Moody Avenue and north along SW Bond Avenue (about 1.3-mile northeast of the subject), and the MAX Light Rail Orange line (Milwaukie to City Center) with a stop at the west end of the new Tilikum Bridge at SW Moody Avenue (about 2.1 mile north of the subject).  The Johns Landing area lies in close proximity to downtown Portland, and supports a dense, established base of office, retail, residential, industrial, and recreational uses. This long established / redeveloping neighborhood has very good access characteristics and very limited developable land available. With expected population and employment growth in the region, the subject's market area is anticipated to continue strengthening with a steady increase in values.  Conclusion  Our survey currently indicates historically low vacancies of office properties in the immediate sub-market. Existing single-tenant and multi-tenant projects with similar locations and convenient access are experiencing increased tenant demand in tandem with the strong recovery in the local and national economies. Single-tenant properties are predominantly owner-occupied. In addition, the market for properties with owner-user appeal is stronger due to continued low mortgage rates. As our survey would suggest, there is still considered to be a sufficient level of demand to support existing and new office projects, with most likely to occur on a primarily build-to-suit or substantially pre-lease basis versus speculative construction projects.  Demand for commercial and residential properties in the subject area is expected to continue at a stable level, though with stable / increasing rents with slowly decreasing concessions in the near term (1 to 2 years), and gradually increasing rents and property values over the long-term (5 to 10 years), as economic factors improve. Therefore, demand for a wide range of residential and commercial uses in the subject area is expected to continue at a stable level over the long-term with expected regional population and employment growth gradually driving increasing rents and property values for the foreseeable future.  Office Vacancy and Absorption  The appraiser used CoStar to produce a market research report of the office sector within the **Johns Landing** submarket, as of October 2018. This search shows a current overall vacancy of 3.7% (85,472 SF out of 2,283,385 SF; 69 properties), with significant positive net absorption of 308,676 SF over the trailing 12-month period. The current average asking rate is estimated at $29.30 per SF per year (primarily on a full-service basis), which is above the 5-year average at $23.10 per SF. Demand continues to be strong with 320,000 SF delivered over the past year, with new construction of 360,000 SF currently underway, according to the CoStar research. It must be noted that the significant construction and absorption of space is found in the South Waterfront area, just on the north side of the subject's neighborhood and consists of two large medical offices. This area has not been included in the Neighborhood Description.  **SUBJECT**  Johns Landing Submarket      As indicated preceding, office properties in the subject sub-market continue to be in high demand, and undersupplied. Discussions with brokers active in the immediate market indicate that properties in good condition with on-site parking typically rent / sell at a premium due to the scarcity of such properties. Gradually increasing rental rates are forecast over the next 12 to 24 months due to continued good market conditions with limited new supply anticipated. |

| **Analysis of Sale, Option, Listing and Offer History** |
| --- |
| The subject is currently investor-owned by First Street, LLC which purchased the property in August 2010. The owner has signed a Purchase and Sale agreement to sell the property to Cascadia Associates, LLC for $1,350,000, or $268.07 per SF GBA. The terms are cash to the seller, with the sale expected to close in December 2018. The partial owner-user buyer intends to convert the warehouse area to creative office at a reported rough cost estimate of $100,000 for cosmetic upgrades. Thus, the total acquisition and renovation is $1,450,000, or $287.93 per SF GBA. No renovation budget was provided. The property had been listed for lease and this was an unsolicited offer to purchase (buyer's broker, Rhys Konrad, Macadam Forbes, 503.972.7293). The existing office portion (1,076 SF) of the property is currently leased to Attunement Acupuncture, LLC on a 3-year term basis. The lease began in April 2018 at a rent of $18.40 per SF NNN and bumps up $75 per month, annually over the life of the lease, as well as the 3-year option. The rent for this space over the next 12 months will be $18.89 per SF, NNN.  A search of public records indicates, other than the preceding, no arm’s length transaction(s) involving the subject having occurred during the last three years. |

| **Property Description** | | | | |
| --- | --- | --- | --- | --- |
| **Tax Parcel ID(s):** | Map ${legal\_desc}  Parcel No. ${parcarray}  ${county} | | **Tax Assessment:** | ${markettot} RMV ${assessedyear} |
| **Site Size (Net):** | ${netacre} Acre  ${netsf} SF | | **Source of Bldg. Area:** | County / Appraiser Measurement |
| **Bldg. Area:** | ${gba} SF  including 1,174 SF partial mezzanine 1,573 SF (39%) | GBA/GLA  Office Bld.-out | **Property Type:** | ${subtype} |
| **Construction Type:** | ${const\_descr} | | **Current Use:**  **Occupancy:** | Light Industrial / Equipment Rental  100% Owner-Occupied |
| **Actual / Effective Age:** | 25 Years / 18 Years | | **Yr. Built (Remodel):** | ${yearbt} |
| **Rem. Econ. Life:** | 30 Years | | **Quality / Condition:** | ${quality} / ${bcond} |
| **Parking:** | ${pspaces} Spaces  ${pratio} per 1,000 SF GLA | | **Functional Utility:** | Average |
| **Land to Building Ratio:**  **Site Coverage Ratio:** | ${ltbrp} to 1  ${scrprim} | | **Zoning:** | ${zoning\_code}, ${zoning\_desc} |
| **Site Access / Orientation:**  **Exposure / Traffic Count:** | ${access} / ${orientation}  ${exposure} / ${traffic\_count} VPD | | **Conformance to Zoning:** | Yes / Legal conforming use |
| **FEMA Flood Zone:** | | FEMA Map # 410187-41053C0237F, December 19, 2006 – Zone X – outside of the 100 to 500-year flood plain | | |
| **Seismic Hazards (Earthquake):** | | None | | |
| **Comments / Special Features:** | | None – or add comments about anything special about the subject property. | | |

| **Highest and Best Use / Most Probable User & Buyer** |
| --- |
| The highest and best use as though vacant is for light industrial development.  The highest and best use as improved is the existing single-tenant, light industrial building.  Overall, the most probable user(s) would be light industrial warehouse / service industrial tenants. The most probable buyer and user of the subject would be an owner-user for use as a light industrial service property. |

| **Valuation Analysis** |
| --- |
| Valuation Summary  **Appraisal Type:** Restricted  **Approaches to Value:** Sales Comparison and Income Approaches  **Interest Appraised:** Fee Simple  **Date of Value:** ${effdov}  **Date of Inspection:** ${insDate}  **Date of Report:** ${DueDate}  Methodology  The following valuation will be conducted via the **Sales Comparison and** **Income Capitalization Approaches**, based on prior agreement with the client. These valuations will later be reconciled into a final stabilized market value conclusion.  Sales Comparison Approach  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 valuation of improved properties involves selecting not only similar properties for analysis, but also utilizing a unit of comparison that is considered most typical in a given local market. As the subject is a single-tenant office property, the most reliable unit of comparison is considered based on the sales price per square foot of gross building area (GBA).  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.  Improved Sale 4 was adjusted $60,000 for seller concessions to the buyer for buyer paid roof repairs.  No other specific adjustments were made to the comparables on the Improved Sales Chart. See adjustment grid for additional transaction and property adjustments.  Comparable Improved Sales Data  A search of data sources and public records, a field survey, interviews with knowledgeable real estate professionals in the area, as well as a review of our internal database was also conducted to obtain and verify comparable sales and listings of similar properties. Emphasis was given to office properties, similar in size, age and quality, within the Portland metropolitan area.  After analyzing each building comparable, unadjusted unit prices between $255.96 and $390.63 per SF GBA were indicated. The buildings were considered generally comparable in quality, age, and condition, as compared to the subject’s improvements, and provide a reasonable basis to estimate its value. Our analysis of each building comparable and its relationship to the subject property is provided following.  Merge & Insert Improved Sale Data Analysis Output  Additional Quantitative Analysis  As supplemental analysis, an adjustment grid for the comparable sales is provided as additional analysis following the summary chart. The adjusted comparables indicate an adjusted price per square foot between $285.58 and $356.98 per SF GBA with an average price of $308.16 per SF and median price of $303.23 per SF. Note that a market conditions adjustment of 3.0% per year was applied in this analysis due to average market conditions and demand for properties like the subject. The adjusted value range provides additional support for the following final value conclusion.  Recent Subject Sale Activity  Not applicable.  - Or -  Copy from Subject Ownership & Sales History section  Overall, the subject’s recent sale price appears to be reasonably bracketed and supported by the preceding comparable improved sale analysis, and therefore is considered at market.  Concluded Market Value Via The Sales Comparison Approach  Primary emphasis is placed on the pending subject sale at $287.93 per SF (adjusted for planned renovations) which is supported just below the range indicated by Improved Sales 1 and 4 ($293.81 and $293.88 per SF). Secondary consideration and bracketing support placed just below the average and median adjusted comparable range of ($295.96 and $296.21 / SF, less Sale 4). Thus, a concluded unit value of **$\_\_\_\_\_.\_\_ per SF GBA** is indicated for the subject building.  Based on the preceding, it is the appraiser’s opinion that the **stabilized market value** of the fee simple interest in the **subject property** (GBA = ${gba} SF) via the **Sales Comparison Approach** is as follows.   |  |  | | --- | --- | |  |  | | **Concluded Market Value Via**  **The Sales Comparison Approach:** | **$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** | |





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

| **Valuation Analysis** |
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| Income Capitalization Approach  The market valuation of the subject property is summarized in this section via the Direct Capitalization Method of the **Income Capitalization Approach**. In applying the Direct Capitalization Method, two components are necessary in arriving at an estimate of net operating income: potential revenues and projected operating expenses; with the difference resulting in net operating income. Value is then derived by dividing stabilized year's income by a market derived capitalization rate. Therefore, it is important to analyze both income and expenses for the subject property in terms of reasonability and their relative relationship to similar properties in the marketplace.  Potential Gross Rental Income  The first step in the Income Approach is to estimate the subject's potential gross income, which reflects its market rent if currently leased in the marketplace. The analysis is conducted on the basis of an annual dollar per square foot rental, which is then applied to the net rentable area (NRA) of the property.  A review of current subject market trends indicates that typical tenant leases in the subject market area are written on a **triple net** rental basis. Triple net tenant rents include only the net base rent, with the tenant typically responsible for all building operating expenses. Generally excluded are allocations for management fees and reserves for the replacement of capital items. Hence, we have anticipated that all future rent for the subject would be payable on this basis.  Comparable Rent Analysis  Rental Adjustments  Depending on market conditions, free rent, above market TI build-out or other incentives are used to attract tenants. When applicable, the comparable rents are adjusted to reflect current market terms with an effective rent to the property owner. |





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

| **Valuation Analysis** | |
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| Comparable Rent Analysis  From our rental survey we selected leases of office / creative work spaces in the immediate to expanded close-in submarket areas. All provide a reasonable basis for concluding a market rent for the subject space. The unadjusted rental rates range from $15.75 to $26.39 per SF per month NNN.  Merge & Insert Rent Comp Data Analysis Output  Additional Quantitative Analysis  An adjustment grid for the comparable rents is presented on a preceding page as additional analysis. The adjusted comparables indicate an adjusted rental range of between $16.97 and $19.15 per SF NRA with an average rent of $18.30 per SF and median rent of $18.78 per SF. Note that a market conditions adjustment of 3.0% per year was applied in this analysis. The adjusted rental range provides additional support for the following final value conclusion.  Subject Leasing Activity  Currently, the subject is pending sale to a partial owner-user who intends to convert the warehouse area to creative office (3,960 SF; 78.6% NRA) at a reported rough cost estimate of $100,000 for cosmetic upgrades. No renovation budget was provided. The property had been listed for lease by Colliers International for $16.00 per SF NNN, though this lease rate was as is without conversion to creative office. Amortizing the owner’s intended renovation costs over a 10-year period at a 6.0% rate of return equates to a TI add-on of $3.36 per SF, or a total equivalent NNN rent of $19.36 per SF. However, this was based on the asking rate at the time, and while only provided for illustrative purposes, is relatively well supported by the comparable rent analysis.  The existing office portion (1,076 SF) of the property is currently leased to Attunement Acupuncture, LLC on a 3-year term basis. The lease began in April 2018 at a rent of $18.40 per SF NNN and bumps up $75 per month, annually over the life of the lease, as well as the 3-year option. The rent for this space over the next 12 months will be $18.89 per SF, NNN. This lease rate is considered reasonably bracketed by the adjusted rent comps, and therefore considered a reasonable indicator for the property as a whole (as fully converted to creative office space).    Market Rent Conclusion  Based on the preceding discussions of the commercial rent comparables, the subject’s current rental rates, with additional consideration given the bracketing support of the overall adjusted comparable range ($16.97 and $19.15 per SF), it is concluded that the triple net market rent for the subject spaces should be **$18.89 per SF** NRA, and has been used in this analysis.  Potential Gross Income  Applying the market rent estimates, other income and the reimbursed expenses results in an annual potential gross rental income of **$95,133** ($18.89 SF NRA) indicated in the following stabilized income and expense statement for the subject property (at the end of this section).  Vacancy and Credit Loss  This expense category accounts for the time period between tenants, as well as possible prolonged vacancies under slow market conditions. The assignment will reflect the probable vacancy during the economic life of the property.  The appraiser used CoStar to produce a market research report of the office sector within the **Johns Landing** submarket, as of October 2018. This search shows a current overall vacancy of 3.7% (85,472 SF out of 2,283,385 SF; 69 properties), with significant positive net absorption of 308,676 SF over the trailing 12-month period. The current average asking rate is estimated at $29.30 per SF per year (primarily on a full-service basis), which is above the 5-year average at $23.10 per SF. Demand continues to be strong with 320,000 SF delivered over the past year, with new construction of 360,000 SF currently underway, according to the CoStar research.  The subject will be 78.6% owner-occupied at completion of renovations, with the remainder leased through March 2021 (excluding options). Based on the subject's location, current full occupancy, and market research, a **stabilized vacancy and credit loss** of **5.0%** is considered applicable for the subject property (applied to the subject rental income and reimbursed expenses). The concluded rate is equivalent to 6 months of rent loss every 10 years.  Effective Gross Income  Based on the preceding, **effective gross rental income** for the subject property is estimated at **$90,376** ($17.95 per SF NRA).  Projected Operating Expenses  The market rent conclusion has been based on a typical triple net lease for office properties similar in age to the subject, in which only professional management fees and a reserve allowance for the replacement of capital items are paid by the landlord. To estimate expenses applicable to the subject property on a stabilized basis, local suppliers have been contacted, and comparable properties have been analyzed.  Management: A professional management fee is typically incurred to provide for periodic contact with the tenants, collection of rents, and supervision of required maintenance and replacement items. Conversations with representatives of property management companies in the market area indicate a range for professional management for office properties of 2.0% to 3.0% of effective gross income depending on the property's size, lease structure, and rent levels. Considering the subject's moderate size and condition, and triple net lease structure, a management fee of **2.0% of effective gross income** is considered reasonable for use in this analysis.  Reserves and Replacements: Reserves are not typical annual cash expenditures, but rather, the annualized cost of major expense items in the future, such as repair or replacement of the heating and air-conditioning system, and roof cover. Analysis of the market indicates that investors are allocating a reserve equal to 1.0% to 3% of EGI depending on the age, size, condition and quality of construction. Considering the subject's age and construction, an allocation of **3.0% of EGI** is reasonably made for reserves for replacement items.  Based on the preceding, **total stabilized operating expenses** for the subject property of **$4,519** ($0.90 per SF NRA) were considered reasonably supported in this analysis.  Net Operating Income  Deducting projected annual operating expenses from the annual effective gross income results in a projected **net operating income** for the subject property of **$85,857** ($17.05 per SF per NRA) as is summarized on a following page. It is at this time that net income can be capitalized into a value estimate.  Overall Capitalization Rates  Capitalization is the process by which projected net operating income is converted into a single value indication. In deriving an overall rate, reliance has been placed upon the data obtained from improved sales of small commercial buildings in our files and have been report in the following chart.   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | **Comp. No.** | **Property Name Address Location** | **Sale Date** | **Year Built (Renovated)** | **Rentable Area**  **(SF)** | **Cash Equivalent Sales Price** | **Cap Rate** | | A | Hawthorne & 35th Retail 3500 SE Hawthorne Boulevard Portland, OR | 03/18 | 1923 | 7,081 | $3,000,000 | 5.02 % | | B | None 5338 SE Foster Road Portland, OR | 01/18 | 1911 | 3,565 | $635,000 | 5.46 % | | C | None 4040 Douglas Way Lake Oswego, OR | 12/17 | 1981 | 9,984 | $2,500,000 | 6.00 % | | D | MAJ Place, Hazel Dell 7202 NE Highway 99 Vancouver, WA | 12/17 | 2015 | 4,800 | $2,750,857 | 5.25 % | | E | Park Way Office Bldg. 10255 SW Park Way Portland, OR | 09/17 | 1967  (2008) | 5,000 | $1,185,000 | 7.01 % | | F | Commercial Black Bldg. 623 NE 23rd Avenue Portland, OR | 09/17 | 1952  (2017) | 5,741 | $940,000 | 5.65 % |   The above sales provide an overall capitalization rate range of 5.02% to 7.01%. Omitting the high and low indicators, the range narrows to 5.46% to 6.00%. Given the rising trend in commercial mortgage rates, an upper end cap rate is suggested in this analysis.  Cap Rate Conclusion  Based on the preceding, a concluded **direct capitalization rate** of **\_\_.\_\_\_%** is reasonably supported in analyzing the subject property on a stabilized basis.  Concluded Market Value Via The Income Capitalization Approach  To value the subject by Direct Capitalization, the Net Operating Income was divided by the selected cap rate yielding a **stabilized market value** of the fee simple interest in the **subject property**, via the **Income Capitalization Approach**, rounded to:   |  |  | | --- | --- | |  |  | | **Concluded Market Value Via the**  **Income Capitalization Approach** | **$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_** |   Our analysis of the subject property via the Income Capitalization Approach is presented following. |

| **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.  The Sales Comparison and Income Approaches to value were utilized in this assignment, while the Cost Approach was omitted due to its inapplicability in this assignment. Based on these two methods of appraisal, the estimated **stabilized market value** of the fee simple interest in the **subject property** are as follows:   |  |  |  | | --- | --- | --- | | **VALUATION APPROACH** |  | **STABILIZED MARKET VALUE** | | **COST APPROACH** |  | **Not Applicable** | | **SALES COMPARISON APPROACH** |  | **$\_\_\_\_\_\_\_\_\_\_\_\_** | | **INCOME CAPITALIZATION APPROACH** |  | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   Concluded As Is Market Value  The subject is a two-tenant creative office property that is 21.4% tenant occupied. However, most similar sized properties in this market are fully owner-occupied. Therefore, while typically primary weight would be placed on the Income Approach for a leased property, the Highest and Best Use of the subject is for owner-occupancy and the leased area is only a small percentage of the building. Therefore, greatest weight is placed on the value conclusion via the Sales Comparison Approach with some weight place on the Income Approach. As previously indicated, the Cost Approach has been reasonably omitted from this valuation given its lesser reliability and owner-user potential of the subject property. In addition, it was concluded that the subject lease is at market and the leased fee interest is equal to the fee simple interest.  Based on the preceding, it is the appraiser’s opinion that the **concluded as is market value** of the leased fee interest in the **subject property**, as of ${effdov}, is as follows:   |  |  | | --- | --- | |  |  | | **Concluded As Is Market Value** | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   The preceding as is market value conclusion equates to $\_\_\_\_.\_\_ per SF NRA which is reasonably bracketed by the improved sales analyzed previously in this report. |

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

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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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| **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} | |

| **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 did not inspect the subject property or comparables, but have completed a detailed review of 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.  |  | | --- | | ${apptwodigsig} | | ${apptwoname}  ${apptwotitle}  ${apptwolicst} Certified General  Appraiser License #${apptwolicno} | |

| **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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| Purchase and Sale Agreement |

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| Tenant Lease |

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 |  |