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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:** | Income Capitalization Approach |
| **Value Premise:** | As Is | **Omitted Approaches:** | Sales Comparison and Cost Approaches |
| **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% leased to two tenants. |
| 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 only the Income Capitalization Approach to conclude to a final value estimate. Based on prior agreement with the client, the Sales Comparison and Cost Approaches have 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** |
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| The subject property is located in the northeast portion of the City of Portland along the north side of NE Ainsworth Circle, east of Interstate 205, as well as the Portland International Airport. This area is approximately 7.0 miles northeast of the Portland central business district along the south bank of the Columbia River. Comprehensive land use and zoning controls which have protected natural features (Columbia Slough) and provided attractive building sites throughout the area.  The boundaries of the subject neighborhood are the Columbia River (north), Interstate 84 (south), Interstate 205 (west), and the city limits of Fairview (east). This is a predominantly industrial area with significant acreage available for development. However, over the last five years, a core of commercial development has been established along NE Airport Way, between NE 122nd Avenue and NE 185th Avenue, which includes the subject's immediate neighborhood.  Older single-tenant users dominate the area along the NE Columbia Blvd Corridor between I-205 and I-5. Large single-tenant users include the Boeing manufacturing plant, Wagner Mining manufacturing facility, Beta West / Qwest Direct distribution facility, and the Silver Eagle trucking facility. New single-tenant buildings include Ingersoll-Rand and Rundell Products, as well as a large warehouse / office facility for Kaiser Permanente. In the vicinity of NE Ainsworth Circle, Leatherman Tools occupies a large manufacturing facility (89,514 SF; 1992-1997). Johnstone Supply also occupies a large office / distribution facility (112,000 SF; 1991) on NE Ainsworth Circle.  There are a number of multi-tenant industrial parks of varying ages located mostly to the east of Interstate 205, including the Parkrose Business Center (245,231 SF; 1981) and Pacific Business Park (340,855 SF; 1979-built). These established business parks are located along NE 122nd, were constructed in the 1980s, and have had good operating success in recent years. Airport Center I & II (79,932 SF; 1989-built) is located on the west side of NE 122nd Avenue, between NE Airport Way and NE Inverness Drive. Other industrial development includes the Sivers Airport Center (53,950 SF; 1988-built), a two-building, flex-space oriented project located at NE 122nd and NE Airport Way.  A large development in the area is the Gateway Corporate Center which began in 2003 in the vicinity of Interstate 84, Sandy Blvd, and 181st Avenue. This 38-acre parcel is being developed by San Francisco-based McMorgan & Company and will accommodate up to 502,000 SF in future phases; and build-to-suits will be considered up to 250,000 SF. And lastly, the Bernard Commerce Center located at NE Airport Way and Mason Street (NE 165th Avenue) is being developed by Bit-Tel Investment Company of Boise, Idaho. There continues to be a large inventory of vacant industrial land located along NE Airport Way to the east of NE 138th Avenue, as well as several attractive sites within the Portland International Center subdivision. This inventory should be able to facilitate growth for many years to come.  Established commercial development is concentrated on the southern periphery of the neighborhood along NE Sandy Blvd., NE Columbia Blvd, and NE Lombard. This commercial development is generally older, and includes service stations, restaurants, grocery stores, and a Kmart. Since 1990, most of the new commercial development has occurred along NE Airport Way, between Interstate 205 and NE 122nd Avenue, including substantial new hotel, retail and office development. The closest major commercial development is the nearby Portland International Center business park (southeast quadrant of NE 82nd and Airport Way; adjacent to the Portland Airport), which is also emerging as a major new office, hotel, and flex industrial location, with several projects recently developed.  Major new retail development since 1996 has occurred along NE Airport Way and NE Glenn Widing Drive and includes a Home Depot building supply store and a Best Buy store. Other retail developments along this portion of Airport Way include McDonald's and Burger King restaurants on the southeast and northwest corners of NE Airport Way and NE Win Sivers Drive. A newer small in-line retail center, Windy's Corner (anchored by Baskin Robbins, Subway Sandwiches, & Plaid Pantry) is located at the southwest corner of NE Airport Way and NE Win Sivers Drive.  Residential use in the subject neighborhood is limited and is focused near NE Sandy Blvd. at the west end of the area. The most substantial development is located to the south of NE Sandy, and north across the Columbia River in Vancouver, Washington. As noted, there continues to be a large number of older single-family homes on larger lots in the immediate neighborhood. These properties are generally zoned industrial, though some have residential classifications with industrial sanctuary overlays that will ultimately lead to rezoning to industrial use. These properties are gradually being redeveloped to light industrial uses  The neighborhood is well served by the Interstate freeway system, with I-205 bisecting the area from north to south, and I-84 extending from east to west. NE Sandy Blvd., the major local east-west arterial links the subject area with close-in and the eastern suburbs of Gresham, Fairview, Wood Village, and Troutdale. Other major arterials include NE 82nd Avenue, NE 122nd Avenue, NE Columbia Blvd., and NE Marine Drive.  The Portland International Airport is located in the east-central portion of the Columbia Corridor, and has been the major factor influencing growth for this large industrial area. The airport has recently completed major remodeling of the facility, and future plans include expansion of two concourses, moving walkways, and features to facilitate ease of passenger movement and comfort, as well as efficient freight handling. This facility is well positioned for continued expansion, due to available land, minimal air traffic congestion, and favorable average weather conditions.  Finally, of major note is the completed extension of the MAX light rail line from the Gateway area of Northeast Portland, down the center of the I-205 corridor, into the Portland International Center, across NE 82nd Avenue, and onward into the Portland International Airport. This extension was completed in 2001 and has provided an additional development boost to the immediate subject area to west of Interstate 205.  The general character of the subject area is primarily represented by light industrial with some flex development, though significant commercial development, including hotel, retail and office, has occurred in the subject's immediate and general vicinity over the last 20 years. Most of this development is tied to the substantial improvement of infrastructure in recent years, including the water/sewer system and road network.  Overall, the long-term prospects for continued growth in the regional remain good and should have a positive influence on the suburban markets of the Portland-Vancouver area. Hence, the general attitude among investors and developers in Portland and Vancouver metro markets is for increasing optimism relative to the office market with declining vacancy, increasing rental rates, and steady absorption of new office product. Hence, market participants continue to anticipate improving conditions extending into 2020 for most real estate sectors. Coupled with job growth, the paring of low interest rates and low industrial supply have led to increasing real estate prices and decreased market rates of return over the past few years. As such, most professionals agree on a positive outlook for the region with no imbalance of supply versus demand.  Office Market Overview  With respect to the **office** sector in the subject’s Airport Way / Gateway / NE Close-Insub-market area, CoStar research estimates a current total **overall office** vacancy 2.9% (170,322 SF out of 5,919,180 SF; 616 properties), with positive net absorption of 199,810 SF over the past 12 months. Lease rates are currently at $22.37 per SF per year. The 5-year average is $19.04 per SF NNN. No new construction or deliveries have occurred over the last 12 months.  **SUBJECT**  Airport Way / Gateway and NE Close -in Submarket      Conclusion  As indicated preceding, office properties in the subject sub-market continue to be in demand, and slightly undersupplied. Discussions with brokers active in the immediate market indicate that properties in good condition with parking typically rent / sell at a premium due to the scarcity of such properties. Stable rental rates are forecast over the next 12 to 24 months due to continued good market conditions with limited no new supply anticipated. |

| **Analysis of Sale, Option, Listing and Offer History** |
| --- |
| Public records indicate title to the subject property is currently vested in George C. LeFever (503.705.1222) who acquired the subject property from George V. LeFever, a related entity (Father), in July 2001.  A search of public records indicates no arm’s length transaction(s) involving the subject having occurred during the last three years.  The subject consists of a two-tenant office building with the first floor being leased by Learning Tree, a child day care tenant and the second floor occupied by Umpqua Bank for office use. The subject leases are both modified gross expense basis but have been converted to triple net, which is the most prevalent in the marketplace. Copies of these leases are provided in the Addenda of this report. Provided below is a Tenant Rent Roll which summarizes the current lease terms.    As will be detailed in the following valuation analysis, the current first floor space is considered to be leased below market and will continue to be below market over the term of the current 5-year renewal term starting September 1, 2018. The second-floor space is close to slightly above market. Therefore, overall there is a significant measurable positive leasehold interest in the property, with the market value of the leased fee interest is less than the stabilized fee simple value. |

| **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. Areas:**  **● GBA:**  **● Rentable Bldg. Area:** | First Floor 7,687 SF  Second Floor 8,061 SF  Total GBA ${gba} SF  Learning Tree 6,664 SF  Umpqua Bank 8,529 SF  Total NRA ${nra} SF | | **Property Type:** | ${subtype} |
| **Construction Type:** | ${const\_descr} | | **Current Use:**  **Occupancy:** | Two-Tenant, Daycare / Office  100% Leased / Two-Tenants |
| **Actual / Effective Age:** | 25 Years / 18 Years | | **Yr. Built (Remodel):** | ${yearbt} |
| **Remaining Econ. Life:** | 35 Years | | **Quality / Condition:** | ${quality} / ${bcond} |
| **Parking:** | ${pspaces} Spaces  ${pratio} per 1,000 SF NRA | | **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 commercial retail or office development.  The highest and best use as improved is the existing single-tenant daycare use.  Overall, the most probable user(s) would be a daycare business. The most probable buyer of the subject would be an investor due to the leased status of the subject. |

| **Valuation Analysis** |
| --- |
| Valuation Summary  **Report Type:** Evaluation Report  **Approaches to Value:** Income Capitalization Approach  **Interest Appraised:** Leased Fee  **Date of Value:** ${effdov}  **Date of Inspection:** ${insDate}  **Date of Report:** ${DueDate}  Income Capitalization Approach  The following valuation will be conducted via solely the **Income Capitalization Approach**, based on prior agreement with the client.  The market valuation of the subject property is summarized in this section via the **Direct Capitalization Method** of the Income 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.  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 a monthly 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 single 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  Depending on market conditions, free rent, above market office 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. Note that similar mixed-use daycare and office buildings are difficult to find leases comparable for, so the appraiser has used other potential use buildings in the expanded area for rent comparables in the following analysis. These comparables are considered to be reasonable alternative uses for the subject property as a small general commercial building.  The provided daycare and office rent comparable range from $12.98 to $24.00 per SF NRA prior to adjustments to the subject property. An adjustment grid for the comparable rents is provided for analysis following the summary rent chart on the prior page. The adjusted comparables indicate an adjusted rents per square foot between $14.57 and $20.41 per SF NRA with an average adjusted rent of $17.77 per SF and median rent of $18.10 per SF. Note that a market conditions adjustment of 3.0% per year was applied in this analysis. The appraiser has concluded to a rental rate of **$18.00** per SF for the subject property. The subject’s existing tenants rent are above and below market and will be addressed later in the leasehold analysis.  Potential Gross Income  Applying subject contract rent to the building NRA of 15,193 SF results in a potential gross income of **$273,474** for the subject property.  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.  With respect to the **office** sector in the subject’s **Airport Way / Gateway / NE Close-In** market area, CoStar research estimates a current total **overall office** vacancy 2.9% (170,322 SF out of 5,919,180 SF; 616 properties), with positive net absorption of 199,810 SF over the past 12 months. Lease rates are currently at $22.37 per SF per year. The 5-year average is $19.04 per SF NNN. No new construction or deliveries have occurred over the last 12 months.  Based on the market research and expectations of market participants, a **stabilized vacancy and credit loss** of **5.0%** is considered applicable for the subject property. 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 **$259,800** ($17.10 per SF NRA).  Projected Operating Expenses  The market rent conclusion has been based on a typical triple net lease for single-tenant, stand-alone office properties. The triple net rent structure provides landlord responsibility for 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 Fees:**  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 4.0% of effective gross income depending on the property's size, lease structure, and rent levels. Considering the subject's relatively small size, two-tenant configuration, and triple net lease structure, a management fee of **2.0% of effective gross income** is considered reasonable for use in this analysis.  **Reserves for Replacement:** 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, landscaping, paving, and roof cover. A reserve allowance must be established for the replacement of these components, which the owner may be responsible for replacing during the economic life of the building. The probable future cost of replacing and repairing these items is converted into an annual figure. The analysis estimates the amount of money which must be set aside on an annual basis in an interest-bearing account to have adequate funds to repair or replace the item at the end of its economic life. This reflects typical investor behavior as it accounts for the cost which owners incur or the discount from the market's perspective for the deficiency.  Analysis of the market indicates investors are allocating a reserve equal to 1.0% to 3.0% of effective gross income depending on the property age, size, condition, quality of construction, and value. Considering the age of the subject, as well as the average quality of the improvements, an allocation of **3.0% of effective gross income** is made for reserves for replacement items for the subject property.  Total Operating Expenses  Based on the preceding, **total stabilized operating expenses** for the subject property of **$12,990** ($0.85 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 **$246,810** ($16.25 per SF 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 Rate  **Direct Comparison Analysis:** The final step of the Income Capitalization Approach is to capitalize the estimated net operating income by an appropriate rate. The capitalization rate is estimated using the market sales method. The overall capitalization rate of each sale is market derived by dividing its net operating income by its cash equivalent sale price. This technique illustrates what purchasers are willing to pay for the net operating income available from competitive investment properties. This method best approximates the decision-making processes of the typical investor.  The primary factors influencing capitalization rates are: 1) The quality and certainty of the net operating income stream; 2) risk factors; 3) physical and locational characteristics of the property; 4) the competitive market position of the property and 5) the potential for future appreciation. These supplemental sales are summarized in the following chart along and are used to estimate the market capitalization rate for the subject.    Cap Rate Conclusion  The cap rates range from 5.57% to 6.69%, all of the comparables provide a relatively narrow range with a variance of only 112 basis points. The subject is a relatively small two-tenant building close to commercial service and the Portland Airport. Based on the preceding, a concluded **direct capitalization rate** of **6.25%** is reasonably supported and used 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 overall 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 summarized in the following table. |



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

| **Reconciliation** |
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| The reconciliation of value indications is the final step in the appraisal process and involves the reviewing and weighing of the individual valuation techniques in relationship to their substantiation by market data, and the reliability and applicability of each valuation technique to the subject project. The reconciliation criteria are appropriateness, accuracy, and quantity of evidence.  Only the Income Capitalization Approach to value was utilized in this assignment. The Sales Comparison Approach could have provided additional credible valuation support, but was omitted due to prior agreement with the client in this assignment. The Cost Approach was reasonably omitted due its inapplicability in this assignment. Based on the selected method of appraisal, the estimated **stabilized market value** of the fee simple interest in the **subject property** is as follows:   |  |  |  | | --- | --- | --- | | **VALUATION APPROACH** |  | **STABILIZED MARKET VALUE** | | **COST APPROACH** |  | **Not Applicable** | | **SALES COMPARISON APPROACH** |  | **Omitted per Scope** | | **INCOME CAPITALIZATION APPROACH** |  | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   Concluded As Is Market Value  As previously, discussed, the tenant's contract rent is considered at market with no measurable leasehold interest noted. Therefore, the market value of fee simple and leased fee interests are equal to one-another.  Based on the sole use of the Income Capitalization Approach, it is the appraiser’s opinion that the **concluded as is market value** of the leased fee interest in the **subject property**, as of ${effdov}, is as follows:   |  |  | | --- | --- | |  |  | | **Concluded As Is Market Value** | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   Use the following section if a leasehold interest exists.  Concluded Stabilized Market Value – Fee Simple  Based on the research, analyses and conclusions contained within this report, it is the appraiser’s opinion that the **concluded stabilized market value** of the fee simple interest in the **subject property** is as follows:   |  |  | | --- | --- | |  |  | | **Concluded Stabilized Market Value - Fee Simple** | **$\_\_\_\_\_\_\_\_\_\_\_\_** |   As Is Leased Fee Valuation  The as is market value of the leased fee interest in the subject property represents the value of the subject property encumbered by the current tenant lease which was determined to be at above market rent resulting in a measurable negative leasehold interest. The as is market value of the subject property is estimated by adding an allocation for the negative leasehold interest relative to the concluded stabilized fee simple market value.  Leasehold Valuation  As noted, the subject is currently 100% leased to two-tenants, with approximately 3.5 years remaining on both leases (See Rent Roll in the prior section of the report). Based on the lease comparables is was noted that the first-floor tenant is paying below market rent and the second-floor tenant is pay near market or slightly above market rent. In estimating the current leased fee value of the subject property, it is necessary to adjust the concluded market value for the impact of the tenant's positive leasehold position caused by the payment of overall below-market, contract rent over the remaining lease term. The tenant lease terms were summarized previously in the Income Capitalization Approach section and the rent roll. Note the current market rent for the subject property was estimated at an annual rate of $18.00 per SF, while the current overall contract rent is $15.70 per SF (adjusted to NNN). Based on the preceding, our analysis is presented as follows.  With respect to rent escalations, we have anticipated long-term inflation at a rate of +3.0% per year. This rate of appreciation is supported by investor expectations indicated by recent, long-term office and commercial tenant leases in the Portland metro area (which generally indicate either flat, or 2.5% to 3.0% / year, based on in-house lease comps). It is further supported by the rate increases in the subject lease. Note that the PwC Real Estate Investor Survey – Q‑4 2019 indicates that investor expectations for the Pacific Northwest Office Market (the closet category to match the subject’s use) forecasts average market rent changes at 0.0% to 5.0% (average = 2.88%). Note the average is closer to 3.0% and more predominate in our research, thus 3.0% has been applied and not the 2.0%.    Over the remaining term of the tenant lease, the overall leasehold position held by the tenant is merely the sum of the present values of the monthly differential between market and contract rents. Because the tenant's rent is payable on a monthly basis, it was necessary to project the rent differential on a monthly basis, much like an annuity. The periodic (monthly) rent differential between contract and market rent for the remaining months of each lease was brought back to a present value based on a reasonable discount rate. Note that the PwC Real Estate Investor Survey – Q-4 2019 indicates that investor expectations for the Pacific Northwest Office Market forecasts average discount rates at 5.75% to 10.00% (average = 7.22%).  Due to the subject's average locational and physical characteristics, as well as its lower risk due to below market, contract rental rent(s)*,* a discount rate at the upper portion of the range, or 6.00% is concluded as reasonable for use in this analysis. The calculations relating to our valuation of the subject leasehold interest are provided in the following chart. Please note that the annuity factor provided in the chart is the number of periods left after being discount by the selected rate of return.  Based on this analysis, the **market value of the overall positive** **leasehold interest** in the subject property is concluded at **$110,000**, which would likely be recognized by a potential knowledgeable investor.    Final Concluded As Is Market Value - Leased Fee  Deducting the market value of the positive leasehold interest in the subject property from the concluded stabilized fee simple property value results in a **final** **concluded as is market value** of the leased fee interest in the subject property, as of ${effdov}, is as follows:   |  |  | | --- | --- | |  |  | | Concluded Market Value – Fee Simple | $3,950,000 | | Less: Value of Positive Leasehold Interest | $110,000 | | **Concluded As Is Market Value – Leased Fee** | **$3,840,000** | |

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

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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.  1. 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. 2. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment. 3. My engagement in this assignment was not contingent upon developing or reporting predetermined results. 4. 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. 5. My analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice. 6. 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. 7. No one provided significant real property appraisal assistance to the person signing this certification, unless otherwise noted. 8. 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. 9. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. 10. 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} | |

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| **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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| 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 |  |