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Imagery Date: 5/2/2015 48°06'26.92" N 122°34'26.64" W elev. 23 ft. eye alt. 581 ft

RENT STUDY

**COVERING
The Real Property**

**LOCATED AT
GREENBANK FARMS
765 WONN ROAD
Greenbank, Washington 98253**

**PREPARED FOR
The Port of Coupeville
765 Wonn Road
Greenbank, WA 98253**

**PREPARED BY
Ron Mount, CGA
MOUNT APPRAISAL GROUP
35648 Shangri-La Drive
Sedro Woolley, WA 98284**

**AS OF
February 17, 2017**

Subject Property



*765 Wonn Road
Greenbank, WA*



Mount Appraisal Group
Commercial Real Estate Appraisal & Consulting Services

March 3, 2017

Mr. Jan-Marc Jouas
Interim Executive Director
Port of Coupeville
765 Wonn Road
Greenbank, WA 98253

RE: The Rent Study of the three main "Barns" located at Greenbank Farms,
765 Wonn Road, Greenbank, WA 98253

Dear Mr. Jouas:

Per your request I have prepared and am pleased to transmit this Rent Study report of the referenced property. The objective of this appraisal was to develop opinions of the current market/economic rent for the subject property "As Is". The effective date of this report is February 17, 2017. The attached report sets forth the data, research, analyses, and conclusions for this Rent Study. If you have any questions or comments, please contact Ron Mount at (360) 354-8000. Thank you for the opportunity to be of service.

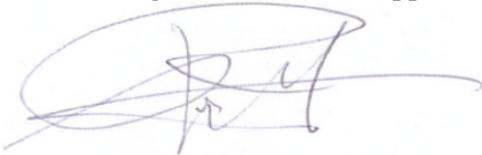
Respectfully submitted,

Ronald L. Mount
Certified General Real Estate Appraiser
Washington State Certificate: CGA #1101736, expires 06/16/17
Mount Appraisal Group

Certification

I certify that, to the best of my knowledge and belief:

- ❖ The statements of fact contained in this report are true and correct.
- ❖ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- ❖ 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.
- ❖ 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 acceptance of this assignment.
- ❖ I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- ❖ My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- ❖ 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 the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- ❖ My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- ❖ I **have** made a personal observation of the property that is the subject of this report.
- ❖ The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- ❖ The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- ❖ As of the date of this report, I **have** completed the continuing education program for Practicing Affiliate of the Appraisal Institute.



Ronald L. Mount
Certified General Real Estate Appraiser
Washington Certificate #CGA 1101736
License expires 06/16/2017

March 3, 2017

Introduction

Identification of Subject: According to the Island County Assessor's office the subject property consists of one tax parcel, identified as R23008-445-4890, and containing a total of $\pm 57,6734.40$ square feet (sf), about 13.2400 acres. The parcel is accessed via an asphalt driveway from the north side of Wonn Road. The legal description for the subject is reported as: BPT NE NE DESC: BG NECR SEC 8 N89*W ALG NLN OF NE NE 638.88' S39*E178.83' S45*E281.19' TPB N88*W611.38' S962.02' S89*E287.81' ELY ALG CUR/L 290.01' N23*W15' NELY ALG CUR/L 60.05' N849.20' TPB EX PT TO IS CO FOR RD AF#87005767 EX PT TO STATE FOR WETLANDS.

The following description is based on our observation of the property, public records, and information provided by the client and owner. The subject property improvements consist of a three two-story wood-frame buildings known on-site as Barn A, Barn B and Barn C. According to the Island County Assessor's office the three barns contains a total of $\pm 20,672$ sf of gross building area.

Subject Property



Front of Barn A



Front of Barn B



Front of Barn C



Aerial

Scope of Work

PROBLEM TO BE SOLVED

To provide the appraiser's opinion of the "As Is" market/economic rent values.

INTENDED USE AND INTENDED USER

This Rent Study report is prepared solely for my client, the Port of Coupeville for lease rate decision purposes. It is not intended for any other use or user. The appraiser's liability is limited to his client only.

Office Market Analysis

METRO AREA OVERVIEW

Supply and demand indicators for office space in Island County, including inventory levels, absorption, vacancy, and rental rates for the seven years for all classes of space are presented below. The office report function is temporarily unavailable from CBA, so we included the latest study available to the appraiser, this 2013 report.

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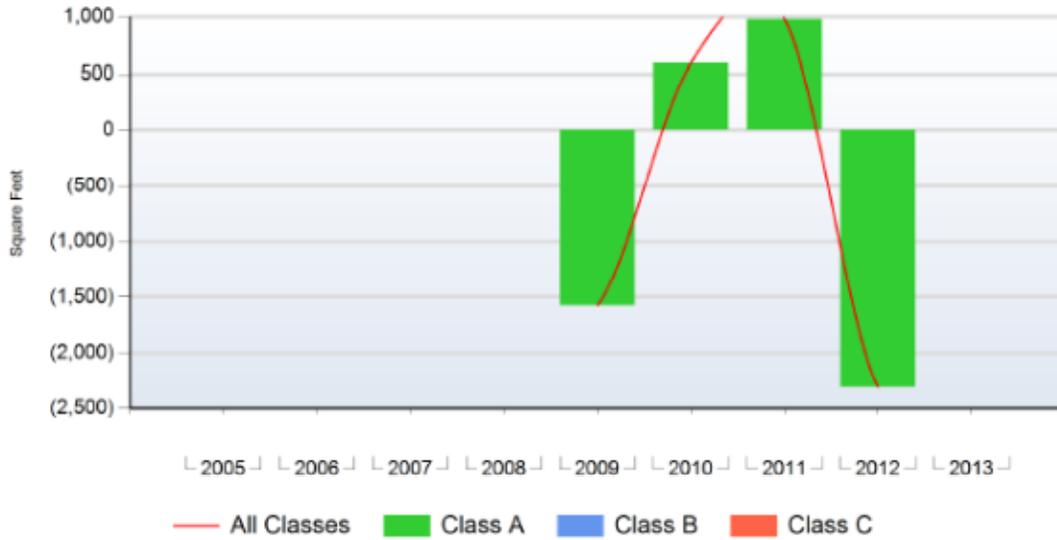
Historical Statistical Summary

Period	Office SF	No. of Bldgs	Vacant SF			Vacancy Rate			Net Absorption			Avg ^h Rent	
			Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease	Total	Direct	Sublease
2013 Q4	84,139	10	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2013 Q3	84,139	10	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2013 Q2	58,594	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2013 Q1	58,594	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2012 Q4	58,594	9	2,310	0	2,310	3.9 %	0.0 %	3.9 %	(695)	0	(695)	\$13.30	-
2012 Q3	58,594	9	1,815	0	1,815	2.8 %	0.0 %	2.8 %	0	0	0	\$14.38	-
2012 Q2	58,594	9	1,815	0	1,815	2.8 %	0.0 %	2.8 %	0	0	0	\$14.38	-
2012 Q1	58,594	9	1,815	0	1,815	2.8 %	0.0 %	2.8 %	(1,815)	0	(1,815)	\$14.38	-
2011 Q4	58,594	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2011 Q3	58,594	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2011 Q2	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	7,155	0	7,155	-	-
2011 Q1	61,040	9	7,155	0	7,155	11.7 %	0.0 %	11.7 %	(6,175)	0	(6,175)	\$15.00	-
2010 Q4	61,040	9	980	0	980	1.6 %	0.0 %	1.6 %	0	300	300	\$12.20	-
2010 Q3	61,040	9	980	300	1,280	1.6 %	0.5 %	2.1 %	0	(300)	(300)	\$12.20	\$13.80
2010 Q2	61,040	9	980	0	980	1.6 %	0.0 %	1.6 %	0	0	0	\$12.20	-
2010 Q1	61,040	9	980	0	980	1.6 %	0.0 %	1.6 %	595	0	595	\$12.20	-
2009 Q4	61,040	9	1,575	0	1,575	2.6 %	0.0 %	2.6 %	0	0	0	\$10.80	-
2009 Q3	61,040	9	1,575	0	1,575	2.6 %	0.0 %	2.6 %	0	0	0	\$10.80	-
2009 Q2	61,040	9	1,575	0	1,575	2.6 %	0.0 %	2.6 %	(1,575)	0	(1,575)	\$10.80	-
2009 Q1	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2008 Q4	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2008 Q3	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2008 Q2	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2008 Q1	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2007 Q4	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2007 Q3	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2007 Q2	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2007 Q1	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2006 Q4	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2006 Q3	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2006 Q2	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2006 Q1	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2005 Q4	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-
2005 Q3	61,040	9	0	0	0	0.0 %	0.0 %	0.0 %	0	0	0	-	-

The Island County office market contains an overall inventory of about 84,139 square feet; this has remained stable for many years, apart from a recent increase by one 25,545 sf building added to the reported inventory in 2013. There is currently a minimum amount of vacant office space available over all classes of space. Reports show about 2,310 sf of negative absorption in 2012, see below.

Prepared By: Ron Mount

Historical Absorption by Class By Year



	Class A	Class B	Class C	All Classes
2013				
2012	(2,310)			(2,310)
2011	980			980
2010	595			595
2009	(1,575)			(1,575)
2008				
2007				
2006				
2005				

New and Proposed Construction

Within the Island County submarket, the appraiser is not aware of any significant new office buildings that are planned/proposed or under construction in the subject’s submarket that are due to come online in the near future, apart from a few smaller projects.

Vacancy Rate Trends

The market has generally weakened over the last five years, although has recently began reversing that trend. The current overall direct vacancy rate is estimated to be negligible. Generally speaking, the local office market throughout the North Puget Sound area began suffering major rent and vacancy declines in the 3rd Quarter of 2008. Vacancy rates are expected to decrease steadily over the next five years before stabilizing in the 3% to 5% range by 2015.

Rental Rate Trends

According to the above table, the current effective rental rate is \$13.30 per square foot. Rental rates have trended fairly flat over the last 6 years. With a few exceptions, the average rates have bounced between about \$11/sf to \$14/sf for the past 5 years. The

weighted average rental rate is forecast to move upward slowly for each of the next five years before stabilizing around \$15.00 per square foot by year-end 2015.

Demand Analysis

The submarket tends to attract smaller companies. The probable space user of the subject is a small local user. Given past and current trends in the submarket, the likelihood of increased demand for office space in the short term is cautionary. Prospects for the longer term are marked with reserved optimism. Accordingly, the submarket, which currently has 1% vacancy, should stabilize to a 3% to 5% vacancy level in approximately twelve to eighteen months. This will be taken into account in the valuation section of this report, particularly in projecting the absorption of vacant space.

OFFICE MARKET OUTLOOK AND CONCLUSIONS

Supply and demand factors in the region for the short term are expected to be improving. Rental rates are expected to increase slowly over the next couple of years. Over the long run, employment growth in the region should foster absorption of excess supply both in the overall region and in the submarket. As noted, it is likely that the supply and demand will require several years to achieve equilibrium. Until then, the subject is likely to face a competitive market much like the peer group subset identified above. The vacancy rate is therefore estimated at 5% and the rental rate is estimated to be in the range of \$10.00 - \$14.00 per square foot on a triple net (NNN) basis, and \$12.00 - \$16.00 per square foot on a modified gross basis.

ECONOMIC PROFILE OF THE SUBJECT PROPERTY

The subject property consists of two separate complexes, the first property is known as the Greenbank Farms, while the second property is known as the Coupeville Wharf. We will analyze Greenbank Farms first. For our purposes, the Greenbank Farms property consists of three “Barns”, which house various office and retail tenants. The table on the following page is the rent roll supplied by the client. As detailed on the rent roll, the existing rents range from \$0.50/sf for storage space, up to \$0.75/sf for ground-floor retail space. Typical lease terms in the subject sub-market are either Triple Net (NNN) leases or Modified Gross (MG) leases. On a NNN lease in addition to the Base Rent, the tenant pays its prorata share of property taxes, property insurance and maintenance costs. On MG leases the property owner is responsible for most operating expenses, while the tenants pay their pro-rata share of the minor maintenance and repairs applicable only to their own unit. The tenants are responsible for their own utility expenses in both lease types.

Greenbank Farm	Space	Sq Feet	Rent	¢ / sq ft
Artworks Gallery	Retail	1080	705.00	0.65
	Storage	100	50.00	0.50
	Total	1180	755.00	
Raven Rocks	Retail	940	625.00	0.66
Schouten Gallery	Retail	870	623.00	0.72
	Studio	100	75.00	0.75
	Total	970	698.00	
Stonefelt Cheese Shop	Retail	1155	870.00	0.75
WCLT	Office	2753		
	Storage	130		
	Total	2883	1,710.00	0.59
The Wine Shop	Retail	465	345.00	0.74
	Storage	195	105.00	0.54
	Total	660	450.00	
Whidbey Pies Barn A	Retail	800		
	Storage	560		
	Total	1360	640.00	0.47
Whidbey Pies Barn B	Retail	1520		
	Storage	500		
	Total	2020	823.00	0.41

MARKET RENTAL ESTIMATE

In an effort to best reflect the subject properties, on the following pages I have presented the best office and retail rent comparables I could find, followed by the best warehouse rentals available.

SUMMARY OF COMPARABLE RENTALS - OFFICE/RETAIL - FREELAND						
Rental #	Name & Address	Lease Date	Sq. Ft.	Lease Terms	\$ Per Sq. Ft.	NNN Charges
1	Layton Building 1690 Layton Ave Freeland	12/22/16	1,856	NNN	\$12.60	\$4.20
2	Bluewater Building 5548 Myrtle Ave Freeland	01/27/16	679	MG	\$13.25	
3	Solaris Building 5525 Freeland Ave Freeland	12/15/14	1,250	NNN	\$12.00	\$1.10
4	Freeland Business Center 1796 Main St Freeland	08/01/13	1,926	NNN	\$9.02	\$2.88
5	Freeland Center 1638 W. Main St Freeland	10/15/15	511	MG	\$13.20	
6	Freeland Medical Cntr 5492 Harbor Freeland	03/01/13	1,445	NNN	\$16.56	
7	Freeland Professional Center 1832 Scott Rd Freeland	10/22/14	1,196	NNN	\$10.80	\$2.40
8	Harbor Center Plaza 1635 Main St Freeland	11/11/2011	11,597	MG	\$7.73	
L1	Freeland Business Center 1796 Main St Freeland	Asking	1,497	MG	\$6.41	
L2	Bluewater Building 5548 Myrtle Ave Freeland	Asking	1,200	MG	\$13.80	
L3	Freeland Professional Center 1832 Scott Rd Freeland	Asking		NNN	\$12.00	\$2.40
L4	Hanson Building 1689 Main St Freeland	Asking	1,000	MG	\$14.40	
L5	Freeland Medical Clinic 1705 Main St Freeland	Asking	2,000	NNN	\$10.80	\$1.32
			MIN		\$7.73	\$1.10
			MAX		\$16.56	\$4.20
			MEAN		\$11.90	\$2.65
			MEDIAN		\$12.30	\$2.88



Comp.R-1 This property is an office building located at 1690 Layton Ave in Freeland. The project was built in 1995 and contains a total of $\pm 3,896$ square feet. As detailed in the above table the very recent lease of 1,856 sf Suite A is at \$12.60/sf, with NNN reimbursements at \$4.20/sf. Lease started 01/01/17.



Comp.#2 & L2- This property is an office building on an up-sloping lot located at 2248 Myrtle Avenue, Freeland, and is known as the Bluewater Building. The project was built in 2008 and contains a total of $\pm 7,200$ square feet on 3 floors. The building has a good blend of medical and professional office uses. As detailed in the above table the very recent lease is at \$13.25/sf, on a MG (Modified Gross) basis. Another 1,200 sf space is currently being offered at \$13.80 MG.



Comp.#3- This property is a mixed-use office/industrial building comprised of 3 adjoining buildings on an up-sloping lot located on Freeland Avenue. The project was built in 2006 and contains a total of $\pm 10,000$ square feet in 5 spaces. Most of the units have at least a small finished area in front. The total finished area is $\pm 1,835$ square feet, or about 18% overall. As detailed in the above table the lease is at \$12.00/sf, with NNN reimbursements at \$1.10/sf. The Lease started 12/15/14.



Comp.#R4 &L3- This property is known as the Freeland Business Center and is a mixed-use office/industrial building located at 1796 Main Street, Freeland. This property consists of a 13,303 square foot mixed-use office/industrial building. This rental is a 8/1/13 lease at \$9.02/sf NNN for “shell” office space. The NNN charges were estimated at \$2.88/sf. There is currently 2 upstairs office spaces totalling 1,497 sf with an asking rate of \$6.41/sf on a MG basis. They also leased 1,900 sf of warehouse space at \$0.50/sf NNN with all tenant

improvements being paid by new tenant.



Comp.#R-5 This property is known as the Freeland Center and is a small office/retail building located at 1638 Main St, Freeland. The building was built in 1992 and contains about 5,015 sf of rentable area. As detailed in the above table this lease rate is at \$13.20/sf on a Modified Gross basis. This listing was withdrawn on 10/15/15.



Comp.#R-6 This property is known as the Freeland Medical Center and is a small office building located at 5492 Harbor St. The building was built in 1992 and contains about 5,015 sf of rentable area. As detailed in the above table this lease rate is at \$16.56/sf on a Modified Gross basis. Current asking rent is \$12/sf on a NNN basis.



Comp.#R-7 & L-3 This property is known as the Freeland Professional Center and is a 3 building office/retail complex located at 1832 Scott Rd. The buildings were built in 2000 and contains 4,000 sf of rentable area each. As detailed in the above table this lease rate is at \$10.80/sf on a NNN basis. Current asking rent is \$12/sf on a NNN basis. NNN reimbursements estimated at \$2.40/sf.



Comp.#8- This property is comprised of three older office/retail buildings located about two blocks west of the subject at 1635 E. Main St. The buildings were built in 1930 and contain about 11,597 sf, and sits on a 70,567 sf (1.62 acres) commercially zoned corner site, producing a land-to building ratio of 6.1:1. This property is a November 2011 sale. At the time of the sale the property was generating about \$89,640, or \$7.73/sf.



Comp.#L4- This property is located at 1689 Main Street, at the NE/c of the intersection of Highway 532 & Harbor Ave, Freeland, and consists of an older office/retail building built in 1964 with a total rentable area of about 2,279 sf. Currently asking rent for a 1,000 sf recently renovated former doctor's office is \$1,200/mo, or \$14.40/sf on a MG basis.



Comp.#L5 This property is known as the Freeland Medical Clinic and is a small office/retail building located at 1705 Main St. The building was built in 1976 and renovated in 1996, and contains about 3,610 sf of rentable area. As detailed in the above table this lease rate is at \$10.80/sf on a NNN basis for a 2,000 sf office space. This listing actually expired 4/8/16 with the space not leased.

MARKET RENTAL RATE CONCLUSION-OFFICE/RETAIL - FREELAND

All of the above detailed rentals are in Freeland. The Freeland Office market is generating rental rates of \$7.73/sf to \$16.56/sf. Throwing out the outliers, high and low, produces a significantly more narrow range of \$9.02/sf to \$13.25/sf with a central tendency at \$11.81/sf, and an overall median of \$12.30/SF. Additionally, the listings run from \$6.41/sf to \$14.40/sf. Throwing out the outliers, high and low, produces a significantly more narrow range of \$10.80/sf to \$13.80/sf with a central tendency at \$12.20/sf, and an overall median of \$12.00/SF. Based on these results, an economic rent of \$12/sf NNN would seem reasonable for the retail space and \$10/sf NNN for the second floor office space.

In an effort to broaden our market research I have researched office and retail lease in the South Whidbey Island markets of the Bayview, Langley and Clinton areas.

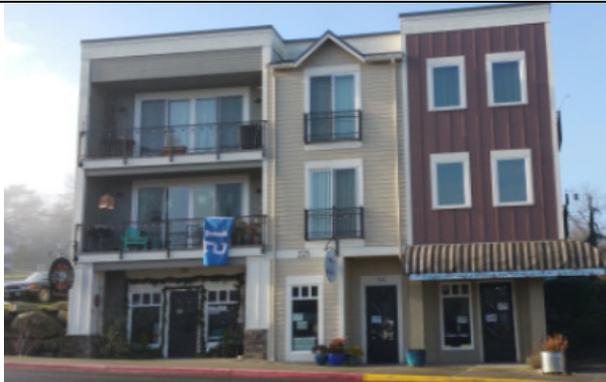
SUMMARY OF COMPARABLE RENTALS - OFFICE/RETAIL - SOUTH WHIDBEY

Rental #	Name & Address	Lease Date	Sq. Ft.	Lease Terms	\$ Per Sq. Ft.	NNN Charges
1	Greenbank Retail 25171 SR 525 Greenbank	05/03/16	2,103	MG	\$10.27	
2	225 Anthes Ave 225 Anthes Ave Langley	04/16/15	2,306	MG	\$13.20	
3	former Whidbey Telecom 6348 Frost Ave Clinton	04/08/15 03/23/16	2,000 1,520	NNN NNN	\$13.80 \$12.00	\$3.20 \$3.20
4	Clinton Union Building 8898 SR 525 Clinton	04/08/15	3,089	NNN	\$12.00	\$1.75
5	Clinton Retail 9289 SR 525 Clinton	09/05/16	5,735	FSG	\$12.00	
6	Bayview Corner 5603 Bayview Road Langley	Retail Office	7,143 1,563	NNN NNN	\$13.32 \$10.72	
7	Gemkow Building 2815 Howard Rd Langley	Retail Office	4,683 2,375	NNN NNN	\$14.40 \$12.00	\$2.37 \$2.37
8	Bayview Shopping Center 2821 Howard Rd Langley	Current	30,109	NNN	\$11.28	
9	Bayview Center 14596 SR 525 Langley	07/22/16	3,760	NNN	\$9.25	\$1.68
			MIN		\$9.25	\$1.68
			MAX		\$14.40	\$3.20
			MEAN		\$12.02	\$2.43
			MEDIAN		\$12.00	\$2.37



Comp.#1- This property represents a recent sale of a 3-unit office/retail complex located on SR 525 in Greenbank, about ½ mile SW of the subject. The three buildings were built in 1968 and contain a total of ±2,103 sf. There are two tax parcels containing a site area of ±1.23 acres, producing a land-to-building ratio of about 25.1:1. This property represents a May 2016 sale. This sale could easily be viewed as a land sale, producing a price of \$3.78/sf. Overall the property is

considered slightly superior in location and inferior in all other respects compared to the subject. The gross income was reported at \$10.27/sf.



Comp.#2- The retail portion of this property consists of two street-level units, with residential above. The building is located in downtown Langley at 225 Anthes Avenue. This building was built in 2009 and contains about 1,015 sf in Unit 101, and 1,291 sf in Unit 102. Unit 102 was leased on 4/16/15 at \$1.10/sf/mo, or \$13.20/sf/yr, on a MG basis. Overall, this property is considered superior to the subject in all respects.



Comp.#3- This property is a small 2-story office/retail building that is the former home of Whidbey Telecom Computer Solutions and is located in Clinton near the ferry, about ½ block north of SR 525, at 6348 Frost Avenue. This building was built in 1996 and contains about 3,520 sf, and sits on an 11,792 sf commercially zoned site. There are two recent leases, 2,000 sf leased on 4/8/15 at \$13.80/sf; and 1,520 sf located on the 2nd floor walk-up leased on 3/23/16 at \$12.00/sf. NNN lease

reimbursement was estimated at \$3.20/sf. Overall, this property is considered inferior to the subject in all other respects.



Comp.#4- This property is a small 2-story office/retail building known as the Clinton Union Building that is the former home of restaurants and coffee shops as well as offices on the 2nd floor, and is located in Clinton near the ferry at 8898 Hwy 525. This building was built in 1972 and contains about 6,327 sf, and sits on a 16,200 sf commercially zoned site. The recent lease covers the main floor retail space of about 3,089 sf leased on 4/8/15 at \$12.00/sf. NNN lease reimbursement was estimated at \$1.75/sf. Overall, this property is considered inferior to the subject in location, and similar in all other respects, except its superior highway location.



Comp.#5- This property is known as Bayview Corner, and is a small 2-story office/retail building and is located at 5603 Bayview Road, (Bayview) Langley. This building was built in 1964 and contains about 12,743 sf, and sits on about an acre commercially zoned site. The current retail leases run from \$0.84/sf to \$1.25/sf, with an overall average of \$13.37/sf for ground-floor retail space. The second floor walk-up office space runs from \$0.83/sf to \$0.95/sf, with an overall average of \$10.72/sf. All leases are on a NNN basis. They are currently asking \$12.00/sf NNN for a second floor walk-up office space. The overall average is \$12.60/sf NNN.



Comp.#6- This property is a small office/retail building known as the Gemkow Building and is located at 2815 Howard Road, (Bayview) Langley. This building was built in 2008 and contains about 7,058 sf, of which about 4,683 sf is ground-floor retail space, and about 2,375 sf is 2nd-floor walk-up office space. Current leases run \$14.40/sf retail and \$12/sf office. All leases are NNN, with NNN reimbursement running \pm \$2.37/sf.



Comp.#7- This property is a large retail center known as the Bayview Shopping Center and is located 2821 Howard Road, (Bayview) Langley, at the intersection of Howard Road and (14485) SR 525. This 2-building was built in 1973 and contains about 30,109 sf, and sits on a tax parcel totalling 1.6 acres. Current retail rental rates run from \$0.80/sf to \$1.17/sf, NNN, with an overall average of \$0.94/sf/mo, and \$11.31/sf/yr. All leases are NNN.



Comp.#8- This property is a small 1-story office/retail building located in Bayview at 14596 SR 525 (Langley). This building was built in 1978 and contains about 2,800sf, of which is 2,000sf of newly renovated office/retail space, along with about 800sf of industrial space. Additionally, there is a 960sf storage/garage type building. The total 3,760 sf, and sits on an 11,721 sf commercially zoned site. They recently leased the entire 3,760 sf on 7/22/16 at \$9.25/sf. NNN lease reimbursement was estimated at \$1.68/sf. Overall, this property

is considered inferior to the subject in all respects, except its highway location.



Comp.#L1- This property is a small 1-story 2-building retail center located in Clinton near the ferry at 9289 Hwy 525. These buildings were built in 1973 and contain about 4,505 sf on the main building, and about 1,230 sf on the secondary building. The center sits on a 3 acre commercially zoned site. The center recent offered 5,735 sf for lease, with an asking price of \$12.00/sf on a Gross basis. This listing would

translate into something around \$10/sf NNN. This listing was withdrawn on 9/5/16. Overall, this property is considered inferior to the subject in all other respects, except its highway location.

MARKET RENTAL RATE CONCLUSION-OFFICE/RETAIL – SOUTH WHIDBEY

All of the above detailed rentals are in South Whidbey. The South Whidbey office and retail market, although very limited in terms of supply, appears to be pretty narrow in terms of rental rates, generating rental rates of \$9.25/sf to \$14.40/sf. Throwing out the outliers, high and low, produces a significantly more narrow range of \$10.27/sf to \$13.80/sf with a central tendency at \$12.02/sf, and an overall median of \$12.00/SF. Based on these results, an economic rent of \$12/sf NNN would seem reasonable for the retail space and \$10/sf NNN for the second floor office space.

As an additional analysis tool, we have decided to use a Sensitivity Analysis using a relativity index. In weighting of each comparable property's unit value indications a reliability rating, or Quality Index (QI) is assigned to each value, which is an ordinal scale weighting between 1 (lowest) to 10 (highest). These values are given higher reliability scores, with more weight (QI) given to the most similar comparables, and lower scores given to the remaining comparables. The active listings are given very little weight since they are merely asking prices. The results of this analysis indicate weighted average unit values. The following table details the appraiser's value conclusions based on the above analysis:

Sensitivity Analysis								
Comp. No.		\$/SF	Comp Score			Comp Score		
			QI Office	Office (\$/SF x QI)	Weighted Office \$/SF	QI Retail	Retail (\$/SF x QI)	Weighted Retail \$/SF
1	Layton Building	\$12.60	5	\$63.00		3	\$37.80	
2	Bluewater Building	\$13.25	6	\$79.50		3	\$39.75	
3	Solaris Building	\$12.00	3	\$36.00		3	\$36.00	
4	Freeland Business Center	\$9.02	6	\$54.12		5	\$45.10	
5	Freeland Center	\$13.20	6	\$79.20		6	\$79.20	
6	Freeland Medical Cntr	\$16.56	4	\$66.24			\$0.00	
7	Freeland Professional Center	\$10.80	8	\$86.40		8	\$86.40	
8	Harbor Center Plaza	\$7.73	8	\$61.84		6	\$46.38	
1	Greenbank Retail	\$10.27	8	\$82.16		8	\$82.16	
2	225 Anthes Ave	\$13.20	4	\$52.80		8	\$105.60	
3	former Whidbey Telecom	\$13.80		\$0.00		7	\$96.60	
	former Whidbey Telecom	\$12.00	7	\$84.00			\$0.00	
4	Clinton Union Building	\$12.00	7	\$84.00		8	\$96.00	
5	Bayview Corner	\$13.32		\$0.00		8	\$106.56	
	Bayview Corner	\$10.72	8	\$85.76			\$0.00	
6	Gemkow Building	\$14.40		\$0.00		7	\$100.80	
	Gemkow Building	\$12.00	7	\$84.00		6	\$72.00	
7	Bayview Shopping Center	\$11.28		\$0.00		6	\$67.68	
8	Bayview Center	\$9.25	4	\$37.00		4	\$37.00	
					v			v
Mean		\$11.97	91	\$1,036.02	\$11.38	96	\$1,135.03	\$11.82

Conclusion:

The appraiser analyzed 16 reasonably similar comparables located in the subject's submarket. Based on the above Sensitivity Analysis where we weighted the various comparables based on their overall similarity to the subject, the indicated economic rent for the subject's office space is \$11.38/sf, while the indicated market rent for the subject's

retail spaces is \$11.82/sf. Our initial analysis placed the subject's office space at \$10/sf, and the subject's retail space at \$12/sf. It is our opinion these analysis effectively brackets the subject's space. In other words, it is our opinion the current economic rent for the subject's office space is in the \$10/sf to \$11.38/sf range, while the current economic rent for the subject's retail space is in the \$11.82/sf to \$12/sf range.

A number of factors can affect the economic rent for individual spaces, including: location and exposure within the project, fit and finish of the interior space, functional layout, lighting, windows, view, ceiling height, individual amenities like bath(s) and the finishes within the bath(s), kitchen, reception area, distance to parking, customer parking, entrance, landscaping surrounding the space, etc...How the space is being used often affects the economic rent as well.

Having now established the market rent for the subject's office and retail spaces, the following rents represent warehouse space similar to that found in the subject. I was not able to located many really similar warehouse space in the Freeland/South Whidbey sub-market. However; rental rates for warehouse space throughout the North Puget Sound area is pretty similar, both historically and currently. The biggest determining factor typically deals with the amount and quality of finished space, coupled with yard size, ceiling height, loading docks, etc. Typical leases in these areas are on a MG basis. Industrial space in Northern Snohomish, Skagit, Whatcom and Island Counties typically runs in the \$0.45/sf/mo to \$0.65/sf/mo range. To illustrate that point I have included a couple of tables detailing industrial/storage space rents in the North Puget Sound. Following the rental tables I have detailed the local storage spaces I discovered.

COMPARABLE RENTALS SUMMARY

Rental #	Name & Address	Lease Date	Sq. Ft.	\$ Per Sq. Ft.	NNN Expenses \$/SF	Lease Terms
1	Walnut St Bus Park 1645 S Walnut St Burlington	4/1/16	6,200	\$0.58	\$0.10	NNN
2	Hinton Bldg 2400 Riverside Dr Burlington	3/30/16	17,186	\$0.73	\$0.19	NNN
3	Pease Rd Whs 465 Pease Rd Burlington	2/16/16	6,368	\$0.47	\$0.06	MG
4	Cascade 1500 Port Dr Burlington	12/4/15	3,981	\$0.55	\$0.12	NNN
5	Walnut St Bus Park 1645 S Walnut St Burlington	11/15/15	14,868	\$0.60	\$0.10	NNN
6	Pease Rd Whs 351 Pease Rd Burlington	6/17/15	10,000	\$0.40	\$0.17	NNN
7	Pacific Dr 1415 Pacific Dr Burlington	Active Listing	15,312	\$0.75	\$0.14	NNN
8	Cascade 1590 Port Dr Burlington	Active Listing	7,872	\$0.59	\$0.15	NNN
			MIN	\$0.40	\$0.06	
			MAX	\$0.75	\$0.19	
			MEAN	\$0.58	\$0.13	
			MEDIAN	\$0.59	\$0.13	

SUMMARY OF COMPARABLE RENTALS

Rental #	Name & Address	Lease Date	Rentable		\$ Per Sq. Ft.	Triple Net	Lease Terms
			Area (SF)	Finished Sq. Ft.		Charges/SF	
1	59th Ave NE 18935 59th Ave NE Arlington	2/2/2016	11,000	3,000	\$6.00	\$1.44	NNN
2	192nd St NE 5950 192nd St NE Arlington	5/29/2015	18,076	1,576	\$5.88	\$1.56	NNN
3	192nd St NE 5950 192nd St NE Arlington	5/29/2015	17,248	1,248	\$5.88	\$1.56	NNN
4	Pacific Industrial 14800 40th Ave NE Marysville	5/26/2015	10,800	0	\$6.36	\$2.64	NNN
5	Norpoint Shooting 8620 172nd St. NE Arlington	9/1/2014	18,375	0	\$7.51	\$0.77	MG
	MIN				\$5.04	\$0.00	
	MAX				\$7.51	\$2.64	
	MEAN				\$6.11	\$1.29	
	MEDIAN				\$5.94	\$1.44	



Comp.# 1- This property represents an office/warehouse located at 1715 Main Street, in Freeland. The building was built in 1989, and contains ±16,576 sf. The site area is ±3.55 acres. The owner recently leased about 3,840 sf of industrial space for \$6.88/sf MG. This property is considered slightly superior to the subject's storage spaces overall.



Comp.#2- This property represents an active listing on an office/warehouse for sale located at 1751 NE Goldie Rd, in Oak Harbor, about 25 miles north of the subject. The building was built in 1976 and remodeled in 1995, and contains $\pm 9,049$ sf. There are four buildings within this complex, with the following leases completed within the last year: Suite A1Ws leased 1,439 sf at \$0.63/sf; Suite A2 leased 3,031 sf at \$0.61/sf; Suite A3 leased 7,181 sf at \$0.51/sf. There is also an active listing of Suite A1E for 5,054 sf at \$0.64/sf.

MARKET RENTAL RATE CONCLUSION - WAREHOUSE

As discussed above, most average quality well-located industrial buildings are currently generating rental rates in the \$0.45/sf to \$0.65/sf range. The subject storage space is mostly in an older center with a good but more remote location; therefore, it is our opinion the current economic rental rate for the subject's warehouse space is \$0.50/sf/mo (\$6.00) on a Modified Gross basis.

PROFESSIONAL QUALIFICATIONS OF RONALD L. MOUNT

EXPERIENCE:	Ron Mount has been a full-time independent commercial fee appraiser since 1989, with over twenty-five years of extensive experience in appraisal consulting. Mr. Mount owns the Mount Appraisal Group firm (2006-Present). Mr. Mount's diverse background includes general and special-purpose real estate appraisals, litigation support, portfolio valuations, investment analysis, and condemnation appraisals. These involve appraisals and consulting for financing, workouts, litigation support, sale, purchase, lease negotiations, and investment analysis. Clients served include various financial concerns, law and public accounting firms, private and public agencies, pension and advisory companies, investment firms and the general public.
PROFESSIONAL ACTIVITIES:	Member: <ul style="list-style-type: none"> • National: Appraisal Institute – Practicing Affiliate • Local: Appraisal Institute – Seattle Chapter, North Sound Branch • Licensed: Washington Certified General Appraiser – License #1101736, expires 6/16/2017
EDUCATION:	<ul style="list-style-type: none"> • Blue Ridge Community College, Flat Rock, N.C. • University of Hawaii at Hilo, Kealahou Campus • 1A-1, Real Estate Appraisal Principles, (08/89 Challenged) • 1A-2, Real Estate Appraisal Procedures (08/89 Challenged) • 1B-A, Capitalization Theory & Techniques - Part A, (08/89) • 1B-B, Capitalization Theory & Techniques - Part B, (08/89) • 2-3, Standards of Professional Practice, (7/91) • CCIM Institute: CI 101, (01/00) • LGC: Standards of Professional Practice - Parts A & B, (9/01) • McKissok: Developing/Growing Appraisal Practice, (06/07) • 2006 National USPAP Update Course (06/07) • Valuation of Detrimental Conditions, (06/07) • Appraisal of Nursing Facilities, (06/07) • 2004 USPAP update (02/08) • UASFLA (Yellow Book), (04/09) • WSDNR: Forestland Road Cost Obligations, (04/09) • Condemnation Appraising, (07/09) • Appraisal Review, General (11/09) • Business Practices and Ethics (05/10) • Subdivision Valuation (06/10) • USPAP Update (10/10) • IRWA #403 Easement Valuation (04/11) • ASFMRA - Appraisal Review Under UASFLA (Yellow Book) (04/11) • Loss Prevention Program for Appraisers (07/11)

	<ul style="list-style-type: none">• USPAP Update, (01/12)• Site Valuation and the Cost Approach (05/13)• Real Estate Finance Statistics and Valuation Modeling, (06/13)• Agricultural Special Use (Seminar), 07/13• USPAP Update, (01/14)• Fundamentals of Going Concern (Webinar), (07/14)• Regression Modeling (Webinar), (10/14)• USPAP Update (01/16)• Valuation of Conservation Easements (09/16).
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