



APPRAISAL REPORT



Cleveland Street Building

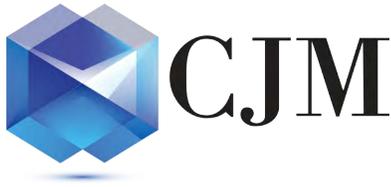
Located at:
16390 Cleveland Street
Redmond, WA 98052

Client: Andorra Ventures LLC

CJM File No. RB16-125

Date of Inspection/Value: September 19, 2016
Date of Report: October 3, 2016

Appraisal performed by
Chuck Munson, MAI, ASA, AI-GRS &
Aaron DeCollibus, Certified General Real Estate Appraiser, ASC-DCF



October 3, 2016

CJM File No.: RB16-125

Mr. Sean Miller
Andorra Ventures LLC
1416 SW Roxbury Street
Seattle, WA 98106

Re: Appraisal of the Cleveland Street Building, a 2,799 square foot commercial building located at 16390 Cleveland Street, Redmond, WA 98052

Dear Mr. Miller:

In accordance with your request, we have completed an appraisal report and formed an opinion of the market value in cash or cash equivalent terms of the fee simple interest, as defined in the addendum of this report, of the above-captioned property.

As the result of the inspection, investigation, and analyses, it is our opinion that the market value, estimated as of September 19, 2016, and subject to the assumptions and limiting conditions appearing in the addendum of this report, is as follows:

FINAL CONCLUSIONS OF VALUE

Property Component	Effective Date	Value Estimate
As Is Value	September 19, 2016	\$925,000
Value As If Presently at Stabilized Occupancy	September 19, 2016	\$1,275,000
Building Replacement Value	September 19, 2016	\$250,000

The value estimates above reflect the subject's fee simple interest. At the values above, the estimated marketing/exposure period is three to six months, more or less As Is; and three to six months, more or less, As if Presently at Stabilized Occupancy. Three extraordinary assumptions are made: 1) the subject will be renovated during the timeline anticipated and according to the plans and specifications provided to CJM, 2) the subject interior is in shell condition, per the buyer; and 3) the site is free of environmental contamination. No additional extraordinary assumptions or hypothetical conditions are used as part of this report. CJM has not previously appraised the subject. Chuck Munson, MAI, ASA, AI-GRS, and Aaron DeCollibus have provided no other services nor engaged in any activity related to the subject property in the three years preceding acceptance of this assignment.

Mr. Sean Miller
Andorra Ventures LLC
October 3, 2016

The accompanying narrative appraisal report identifies the subject property, describes the market for this type of property, and presents specific market data and analysis leading to the estimate of value cited above.

Sincerely,

CJM Investment Property Advisors



C. J. Munson
MAI, ASA, AI-GRS
1100720



Aaron DeCollibus
Certified General Real Estate Appraiser, ASC-DCF
1102324

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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

PROPERTY IDENTIFICATION	Cleveland Street Building 16390 Cleveland Street Redmond, WA 98052
SITE DESCRIPTION	
Assessor Parcel Number(s):	719880-0085
Shape, Topography & Area	The Cleveland Street Building site consists of a flat, irregular-shaped parcel with total 3,140 sq. ft., or 0.07 acres, of site area.
Access & Ingress/Egress	The subject site is located at the intersection of 164th Street NE and Cleveland Street in downtown Redmond. Access to downtown Redmond is via Redmond Way, located one block north of the subject, with SR-520, located about two miles east, provide access to the Bellevue and Seattle CBD's. The subject improvements occupy the entire site so no vehicular ingress/egress exists, although the adjacent-west site is partially open parking. Overall, access is adequate with ingress/egress non-existent.
Soils Conditions	Appear to be adequate
Utilities	Public utilities are present and service is adequate.
Zoning	Old Town
IMPROVEMENTS DESCRIPTION	
Year Built	1956/2016
Building Area	According to the King County Assessor, the Cleveland Street Building has gross building area 2,760 sq. ft. Based on the plans provided to CJM by buyer-developer Sean Miller (206-922-3954), the renovated building will have gross and rentable area of 2,799 sq. ft. Consequently, the gross and rentable building area estimated in the plans will be used estimate value.
Existing Condition	The building is currently shell space with no interior finishes. According Mr. Miller proposed renovations will include new exterior finishes, roof replacement, installation of ADA-complaint restroom, new lighting fixtures and displays, and adding a private office at the southwest corner with storage at the north end. According to Mr. Miller, the estimated renovation budget is \$235,000 with a construction timeline of 12 to 14 weeks.
Parking	No onsite parking, not uncommon for downtown Redmond. Nevertheless, the lack of onsite parking reduces the attractiveness of the improvements.

HIGHEST AND BEST USE Commercial use

VALUE CONCLUSION BY APPROACH

Income Approach \$1,275,000 (before deducting stabilization costs)

**STABILIZED OPERATING STATEMENT
Cleveland Street Building**

Category	RSF	Rate/SF/Yr NNN	Income	Expense	Comments
Rental Income:					
Cleveland Street Building	2,799	\$33.00	\$92,367		Estimated annual market rate of \$33.00 /SF, NNN
Additional Revenue:			<u>\$0</u>		
Potential Gross Rental Income:			\$92,367		
Less Vacancy & Credit Loss:				(\$4,618)	5.00% Vacancy & Collection Loss
Effective Gross Income:			<u>\$87,749</u>		
Operating Expenses:					
NNN Contingency				(\$4,387)	5.00% EGI
Structural Reserves				(\$560)	\$0.20 /SF of GBA
			\$82,801		
OAR of 6.00% to 7.00%:			\$1,175,000	\$1,375,000	Rounded to nearest \$25,000

Sales Comparison Approach \$1,125,000 to \$1,400,000 (before deducting stabilization costs)

Cost Approach NA
\$250,000 Building Replacement Value

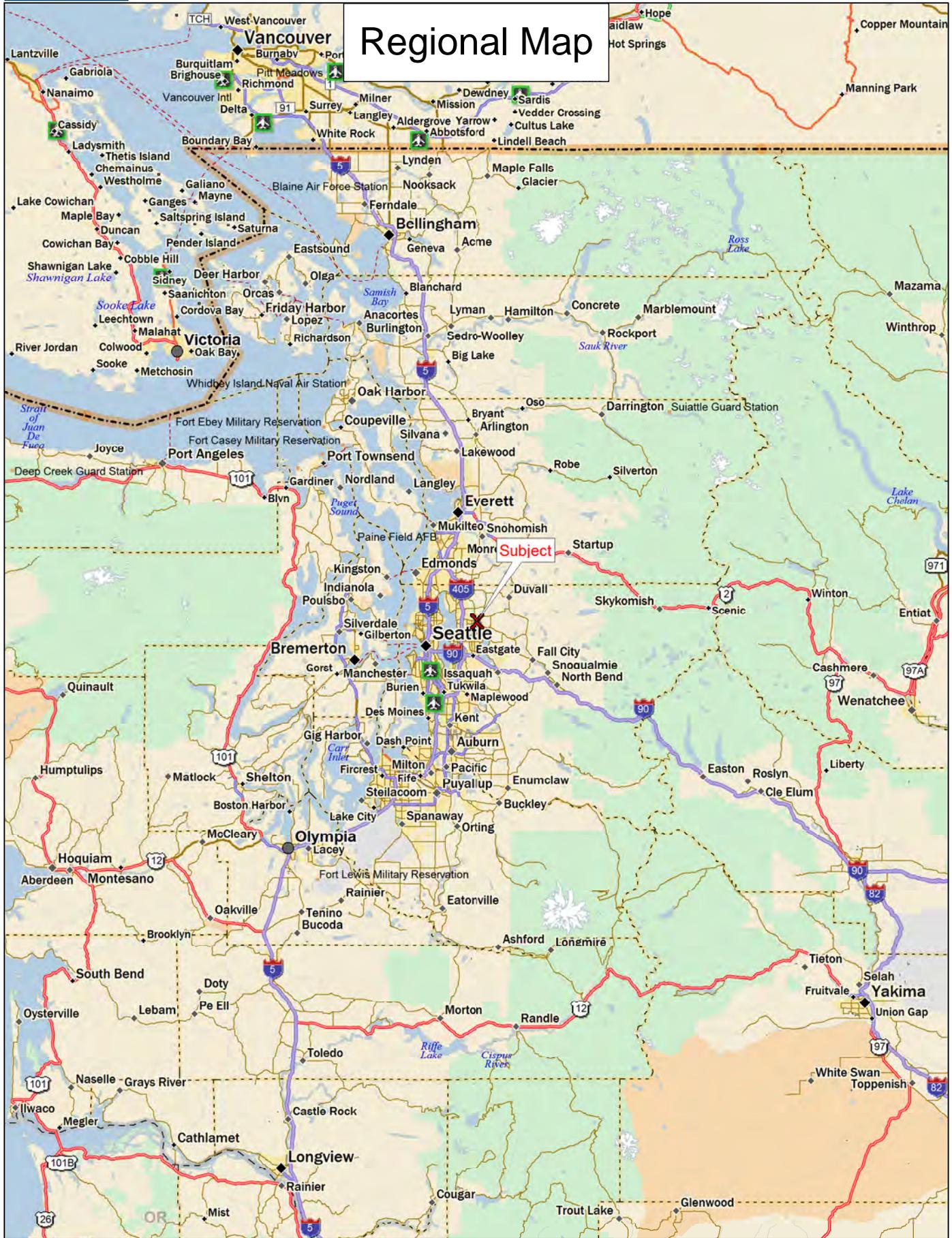
FINAL ESTIMATES OF VALUE

Property Component	Effective Date	Value Estimate
As Is Value	September 19, 2016	\$925,000
Value As If Presently at Stabilized Occupancy	September 19, 2016	\$1,275,000
Building Replacement Value	September 19, 2016	\$250,000

MARKETING/EXPOSURE TIME three to six months, As Is
three to six months, As If Presently at Stabilized Occupancy

DATE OF INSPECTION September 19, 2016

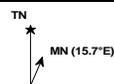
Regional Map



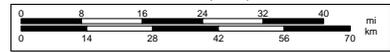
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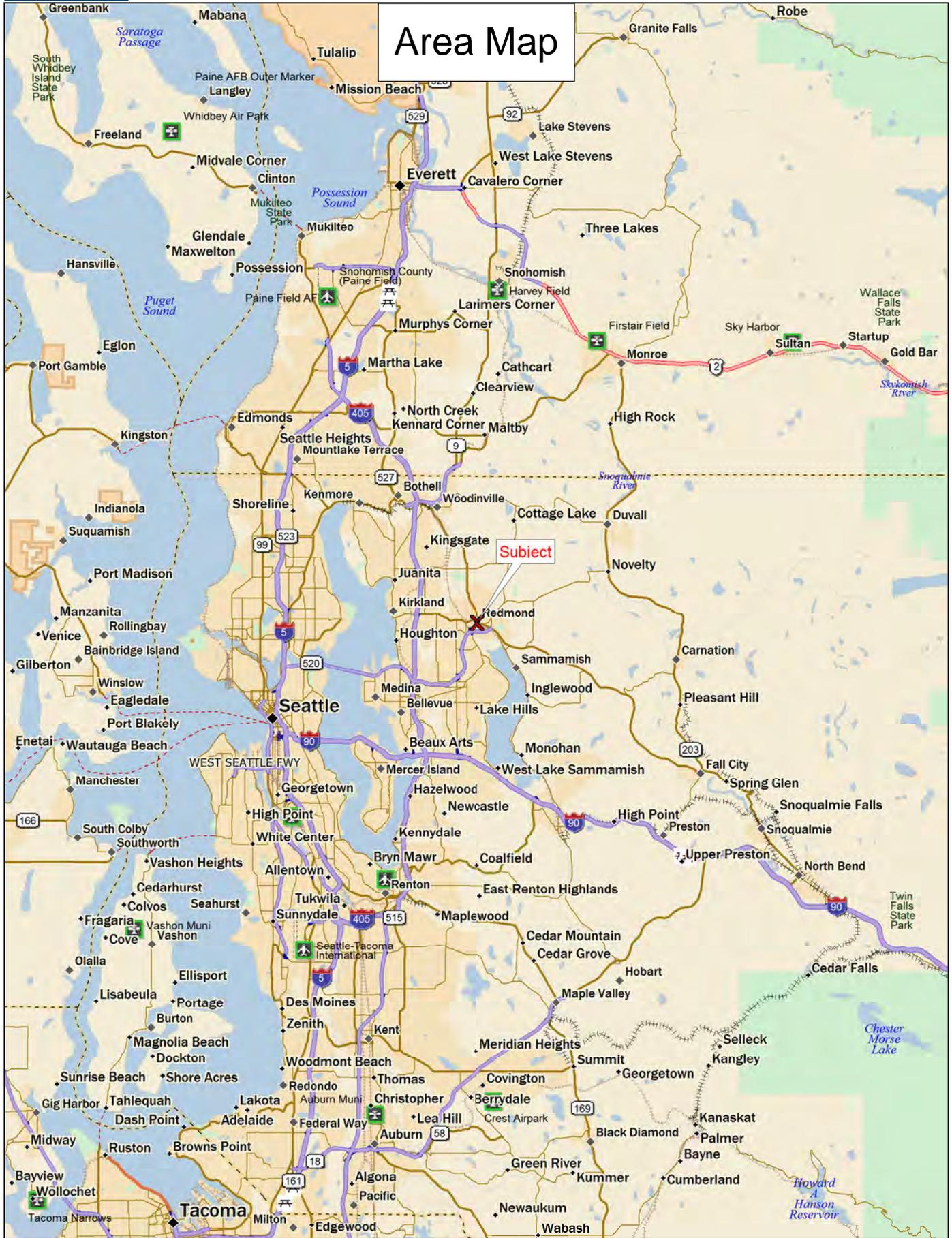
Scale 1 : 1,600,000



1" = 25.25 mi

Data Zoom 7-0

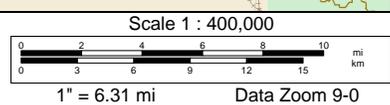
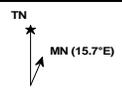
Area Map



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Photodirectional Map

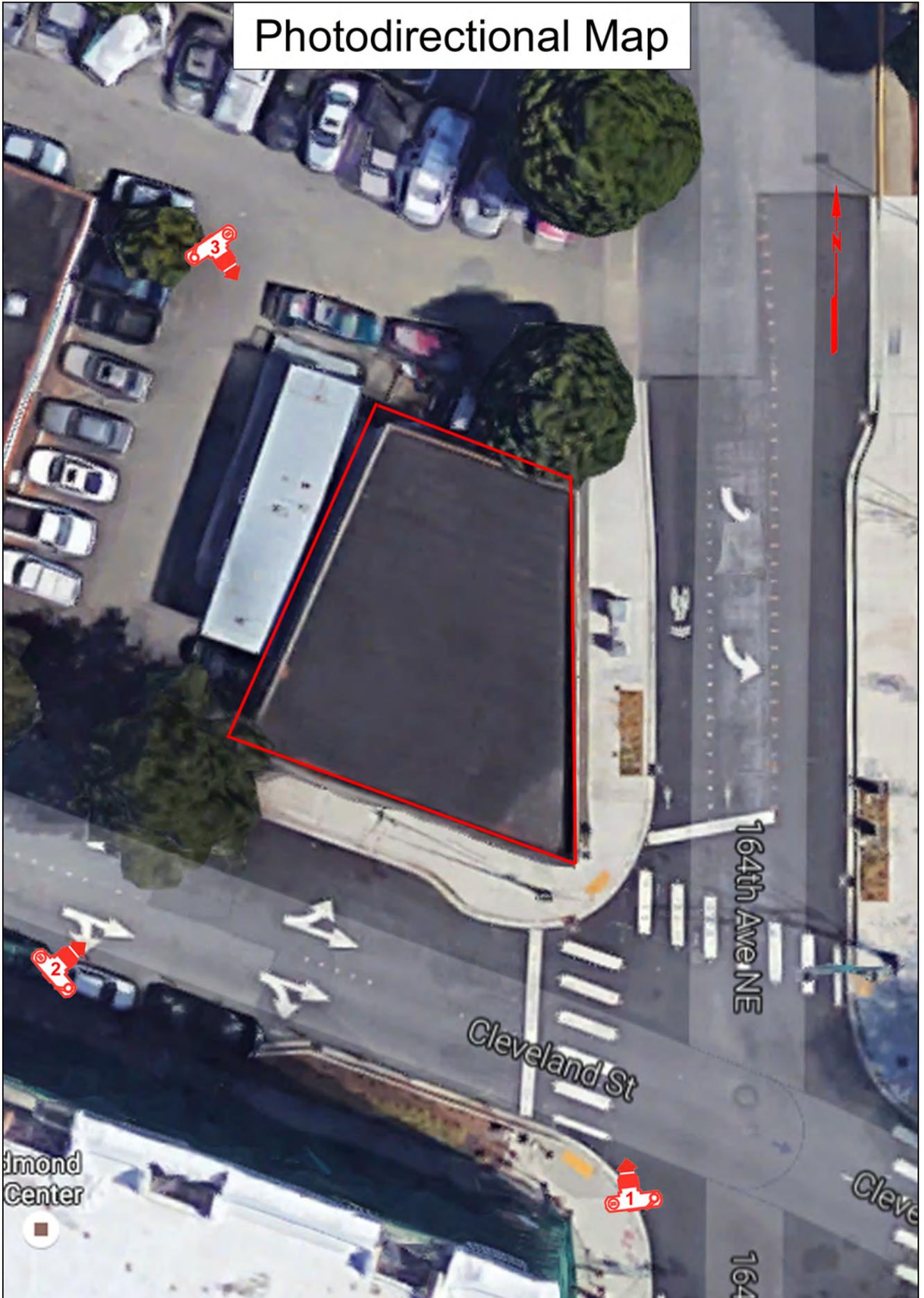


Photo 1: View north towards the Cleveland Street Building



Photo 2: View northeast towards subject from across Cleveland Street

Photo 3: Rear of Cleveland Street Building



SCOPE OF WORK

INTRODUCTION

The *Uniform Standards of Professional Appraisal Practice* (USPAP), published by the Appraisal Foundation, requires the identification and disclosure of the appraisal problem to be solved in order to determine the appropriate scope of work, as well as the type and extent of research and analysis required to develop a credible value opinion. The scope of work is acceptable when it meets the expectations of the intended user(s) of the report, as well as the overall expectations of the appraisal profession.

APPRAISAL PREMISES

Property Identification

Cleveland Street Building
16390 Cleveland Street
Redmond, WA 98052

Purpose of the Appraisal

The purpose of this appraisal is to estimate as is market value.

Definition of Market Value

Market value is defined as:

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 each are acting in what they consider to be their own best interest;*
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 the normal consideration for the property sold unaffected by special or creative financing, or sales concessions granted by anyone associated with the sale.*

Source: Volume 12, Code of Federal Regulation, Part 34, Subpart C; Washington. Also appears in: Appraisal Standards Board, Uniform Standards of Professional Appraisal Practice

Client & Intended Users

Our client is Andorra Ventures LLC. The intended user of this report is Andorra Ventures, LLC. This report is intended for no other users.

Intended Use

The intended use of this appraisal is to assist in establishing market value for acquisition purposes. The report is intended for no other use.

Appraiser Independence

CJM is an independent, fee-based real estate appraisal firm. The fee charged for this appraisal is not contingent upon a minimum valuation, a specific valuation, or the approval of a loan.

Competency Statement	The individuals signing this report, as the qualifications appearing at the end of this report verify, are qualified to do this appraisal.
Warranty	CJM warrants that none of its management staff, employees, or agents has any present or prospective financial or ownership interest in the subject property or in any related property.
Prior Services	CJM has not previously appraised the subject. Chuck Munson, MAI, ASA, AI-GRS, and Aaron DeCollibus have provided no other services nor engaged in any activity related to the subject property in the three years preceding acceptance of this assignment.
Personal Property	Chattel property used to operate a commercial building, e.g., fixtures, office furniture, etc., is included in the estate appraised.
Unforeseeable Events	This appraisal does not address unforeseeable events that could impact the property improvements and/or the market conditions reflected in the analyses that follow. The forecasts, projections, and value estimates contained herein are based how on current market conditions, anticipated short-term supply and demand factors, as well as future economic conditions reflected by the expectations and perceptions of market participants. Although best efforts have been made to estimate reasonable value conclusions and marketing periods for the subject property, unforeseeable events such as natural disasters, terrorist activity, significant government interventions, or unpublished major economic indicators could impact future marketability of the subject beyond what is foreseen at the present time.
Effective Date	September 19, 2016
Property Rights Appraised	This is a valuation of the fee simple estate for the Cleveland Street Building.
APPRAISAL PROCEDURES	The following is a brief summary of the procedures utilized in the development of this appraisal, considering the relative complexity and characteristics of the property appraised, the assignment conditions, and the intended use and users of the report.
Site Visit	A careful inspection of the Cleveland Street Building site was undertaken by Aaron DeCollibus on September 19, 2016. In addition, observations of surrounding properties have been made, photographs of which are included in the report. The inspection of the site focused particularly on characteristics which most directly impact value, e.g., condition of improvements, access, and utility. Photographs appear where applicable in this report. A description of the site and improvements is included.
Comparable Property Inspections	Aaron DeCollibus inspected the properties used for comparative sales analysis.
Competing Market Analysis	Location is of great importance with respect to marketability, so in addition to a physical examination of the subject property, we have considered the economic and demographic trends of Seattle and the

Redmond market along with competitive property trends. This analysis has been pursued in an effort to accurately weigh submarket strength as well as marketability.

Population growth trends and demographic data have been derived from information provided by the WSOFM (Washington State Office of Financial Management) and ESRI (Environmental Systems Research Institute). Other data and information sources, including state and local governmental agencies, property owners, real estate agents, etc., are typically cited in the report, and phone numbers are also provided in case the reader finds a need to expand the data presented.

Purchaser Profile

Real estate has no intrinsic value; its worth depends on what someone will pay for it. An appraisal conclusion is, therefore, not an estimate of property value as much as a behavioral assessment of “typically motivated” buyers and sellers. Consequently, it is imperative to identify the purchaser profile during the appraisal effort, based on similar properties and uses. In the case of the subject’s 2,799 sq. ft. building, the most likely purchaser is an owner-user, individual investor, partnership, or LLC.

HIGHEST AND BEST USE

The highest and best use of the Cleveland Street Building property is as for Commercial use.

APPROACHES TO VALUE

Two valuation techniques, the income capitalization approach and the sales comparison approach, were used to arrive at the opinion of value appearing in the transmittal letter.

Income Capitalization Approach

After review of the above considerations, it was determined that an income capitalization approach would be both appropriate and necessary for the Cleveland Street Building valuation estimate. Sources for income and expense projections include 1) data from comparable rental properties, 2) expense comparables, 4) comparable OAR sales, and 4) input from market participants.

Sales Comparison Approach

After review of the above considerations, the sales comparison approach was developed for this assignment. Five comparable sales similar in age, condition, location, size and functional utility were selected. The sales were compared with the subject using qualitative analyses with value per square foot as the primary unit of comparison. Input from market participants familiar with the Cleveland Street Building was also considered.

Cost Approach

The cost approach is a weak means of estimating value because, among other things, the direct correlation between cost and value has been waned over decades due to rising component costs and construction requirements, as well as disparities in costs among property types, and to have accurate estimates, a person must, in some cases, know market value before even getting started. If the market value is already known, then the cost approach is irrelevant. An appraisal is tasked with simulating typical market behavior, and investors seldom use the cost approach. For these reasons, the cost approach will not be used.

Reconciliation

The conclusions from each valuation approach utilized in this assignment have been logically weighed and balanced in the reconciliation relative to the strength of each approach and the degree to which each approach is used in the marketplace.

**HYPOTHETICAL
CONDITIONS AND/OR
EXTRAORDINARY
ASSUMPTIONS**

Three extraordinary assumptions are made: 1) the subject will be renovated during the timeline anticipated and according to the plans and specifications provided to CJM, 2) the subject interior is in shell condition, per the buyer; and 3) the site is free of environmental contamination. No additional extraordinary assumptions or hypothetical conditions are used as part of this report.

REPORT COMPLIANCE

It is the intent of this report to comply with the following:

- The *Uniform Standards of Professional Appraisal Practice* (USPAP), Appraisal Foundation;
- Title XI of the *Federal Institutions Reform, Recovery, and Enforcement Act of 1989* (FIRREA);
- Title 12, Part 34 (Real Estate Lending and Appraisals) and Part 225 (Bank Holding Companies and Change in Bank Control) of the *Code of Federal Regulations* (CFR), Office of the Comptroller of the Currency;
- Appendix E of the *Commercial Real Estate and Construction Lending Comptroller's Handbook*, Office of the Comptroller of the Currency;
- *Statement of Financial Accounting Standards 157* (FAS 157), Financial Accounting Standards Board;
- Federal Deposit Insurance Corporation (FDIC) Part 12 CFR 323;
- The joint statements of policy guidelines issued by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration;
- Any additional appraisal requirements of the client.

**SCOPE OF WORK
CONCLUSION**

The relative complexity and characteristics of the property appraised, the intended use and users of the report, and the assignment conditions have all been considered above. The procedures utilized in the development of the appraisal, providing insight into the level of data and analysis leading to value estimate conclusions, have also been discussed. Again, additional discussions appear throughout the report in relevant sections, providing additional details into the scope of work pursued in the development of the appraisal.

PRIMARY MARKET AND NEIGHBORHOOD CHARACTERISTICS

INTRODUCTION

This section of the appraisal considers neighborhood trends within the subject primary market area.

AREA PROFILES

Physical Profile

Relative Location

The Cleveland Street Building site is located in downtown Redmond within northwestern King County. The City of Redmond, which encompasses about 17 square miles, is located about four-miles east of Lake Washington, five-miles northeast of Bellevue, and 11-miles northeast of the Seattle CBD. The city is bordered by Kirkland to the west, Bellevue to the southwest, and Sammamish to the southeast, with unincorporated areas of King County to the north and east. Redmond also surrounds 640-acre Marymoor Park at the north end of Lake Sammamish.



Microsoft Campus

Redmond enjoys a number of major employers. The largest by far, with almost 34,000 employees, is *Microsoft*. Other major employers are listed in the following table.

REDMOND'S TEN LARGEST EMPLOYERS

Company	Employees
Microsoft Corporation	33,792
Terex (formerly Genie Industries)	2,078
Eurest Dining Services @ Microsoft	980
Nintendo of America	942
AT&T Mobility	915
Lake Washington School District	877
Physio-Control	728
United Parcel Service	690
Honeywell	686
Aerojet	517

Source: City of Redmond, Washington

Except for the Lake Washington School District, all of the largest employers in Redmond are in the private sector.

Property Maintenance and Appearance

The Cleveland Street Building site is located in downtown Redmond, which includes a mix of older commercial buildings alongside newer mixed-use properties.



New mixed use project



Red 160 mixed-use complex

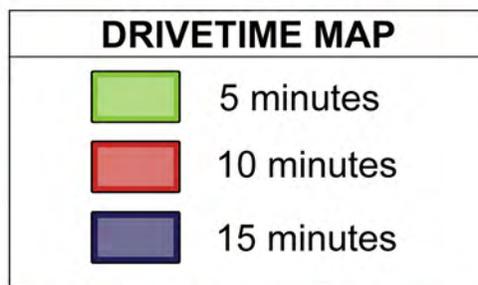
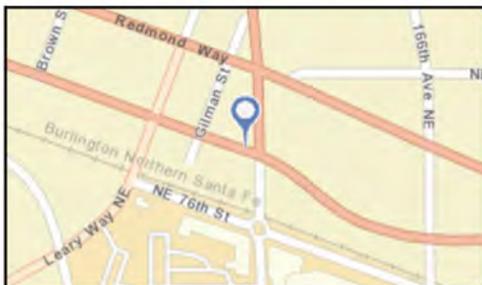
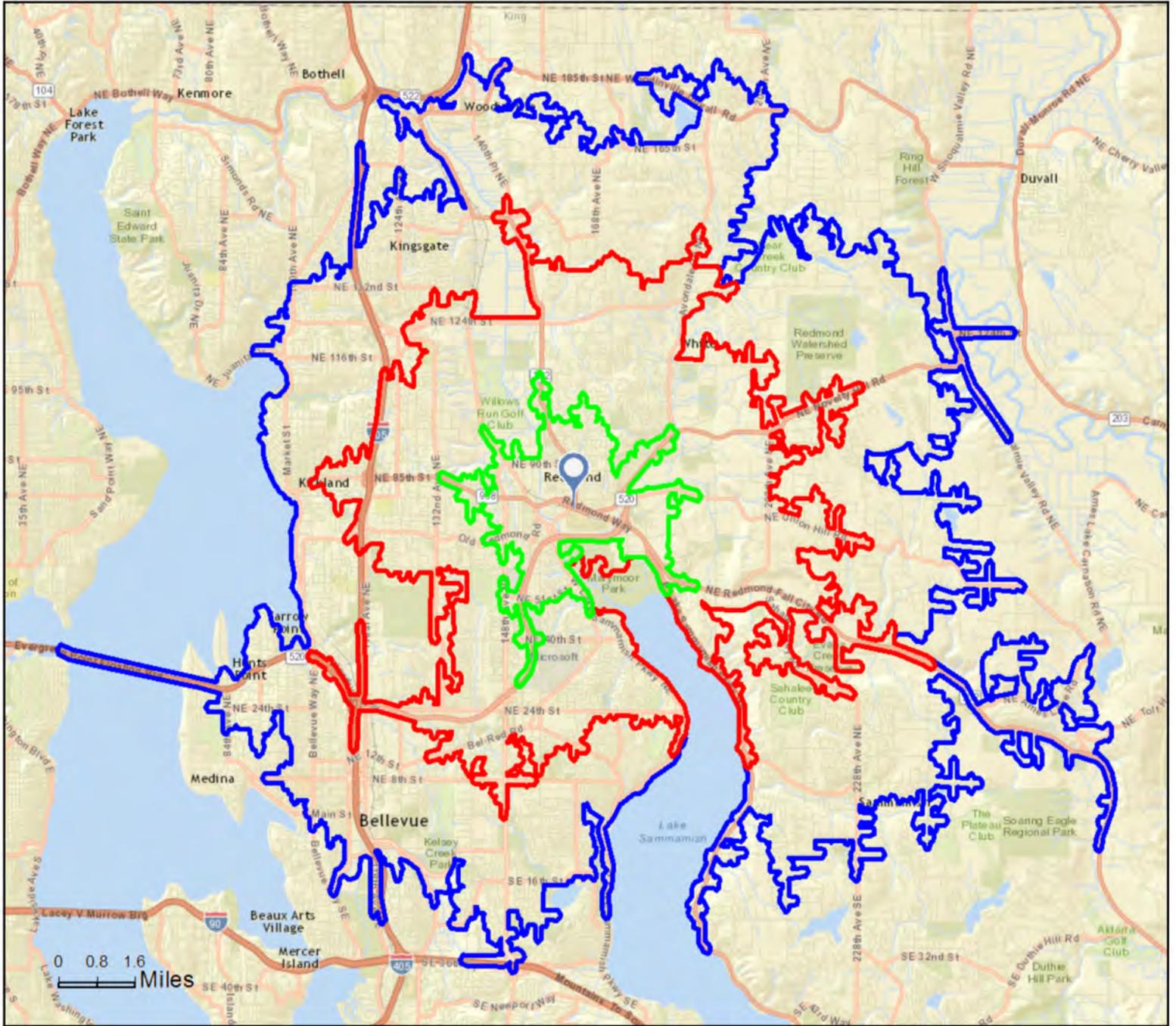
Overall, properties are average to above-average in condition and appearance.

Neighborhood Cycle

Before the recent building boom, Redmond's Downtown District hadn't changed much in years. Most high-tech employees commuted from Seattle to the Eastside because they couldn't find the quality apartment properties or the hip neighborhoods that Seattle offered. Over the past five+ years, however, downtown Redmond has become significantly more urban with the addition of many mid-rise apartment buildings which include ground-floor restaurants and shops. Based on the evidence, the neighborhood is in a period of growth.

16125
 16390 Cleveland St, Redmond, Washington, 98052
 Drive Times: 5, 10, 15 minute radii

Prepared by C. J. Munson
 Latitude: 47.67309
 Longitude: -122.12171



Neighborhood Linkages & Access

The subject neighborhood is convenient to major area freeways, employment centers, schools, shopping, medical, and recreational facilities. Within a few blocks of subject site is the Redmond Transit (bus) Center, and several major highways (SR-202, SR-520, SR-908) converge in Redmond. Overall, transportation linkages and neighborhood access appear adequate.

Governmental Profile

Zoning & Land Use Policy

The Cleveland Street Building site is located within Redmond's Downtown District, and is zoned Old Town, "an area consisting of transitional development" (The city rewrote its zoning code in 2011, and now has 39 different zoning designations.) No additional changes to local zoning and land use policies are expected in the foreseeable future.

Zoning and development regulations specific to the site will be discussed in the Site Description.

Protective Services

The City of Redmond provides police and fire protection. Protective services are adequate.

Utilities Services

The neighborhood is served by all public utilities. Utility services are adequate.

Demographic & Economic Profile

Household Demographics

Immediate area household demographics are presented in the following table.

FIVE-MINUTE DRIVE RADIUS

Category	Amount
Current Population	23,242
Population in 2000	18,109
Percentage Change	28.3%
Owner-Occupied Homes	41.0%
Renter-Occupied Homes	53.3%
Median HH Income	\$94,206
State Median HH Income	\$51,426 ¹
Median Home Value	\$441,711

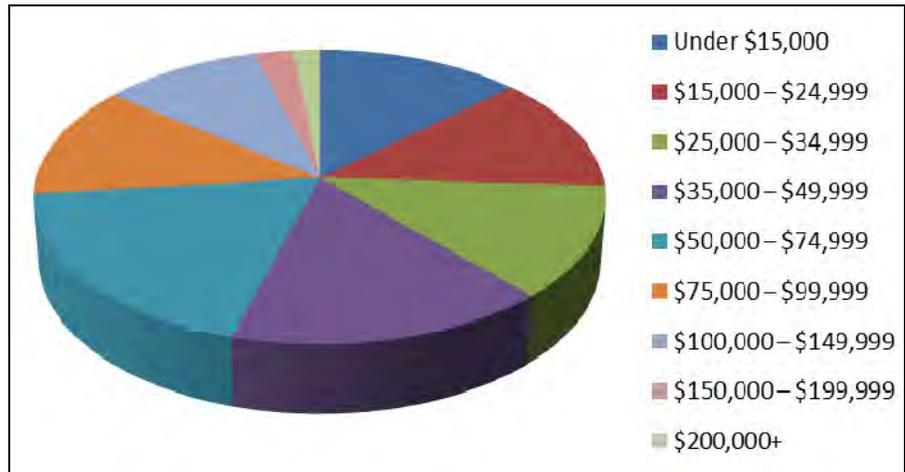
Source: ESRI

¹ As of February 2016, the most recent update

Income per Household

Neighborhood household income levels are summarized below.

NEIGHBORHOOD HOUSEHOLD INCOME LEVELS
Five-minute drive time



Source: ESRI

The immediate area income level and distribution is average for the broader suburban Puget Sound region, and similar to the overall state income level.

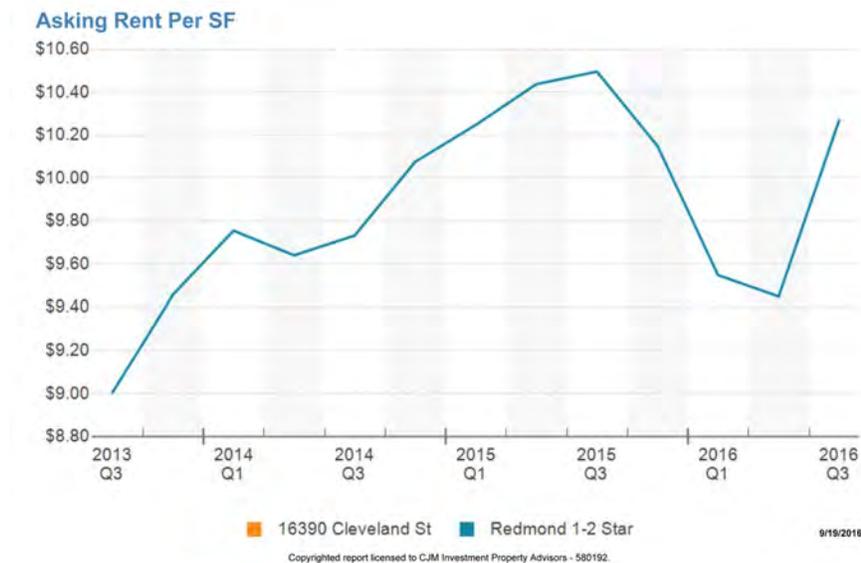
PRIMARY MARKET COMMERCIAL TRENDS

The following discussions outline rental trends, vacancy and absorption trends, operating expense trends, overall capitalization rate (OAR) and yield rate trends, and marketing trends in the primary market.

Rental Rate Trends

Competing Market Lease Rates

The subject's competing market Q3 2013 to 2016 YTD asking lease rates are summarized below¹.



¹ Per CoStar

As the chart illustrates, rates declined significantly in late 2015/early 2016, but rebounded over the past two quarters.

Rental Rate Appreciation

Kidder Mathews Q2 2016 *Seattle Retail Market Report* forecasts retail rental rates will remain steady over the near term on the Eastside.

Vacancy & Absorption Trends

Vacancy Levels

Kidder Mathews Q2 2016 *Seattle Retail Market Report* indicated King County retail vacancy of 4.0%, a decline of 20 basis points from Q1 2016.

CJM survey of nearby commercial space is summarized in the following table.

**REDMOND COMMERCIAL VACANCY SURVEY
September 2016**

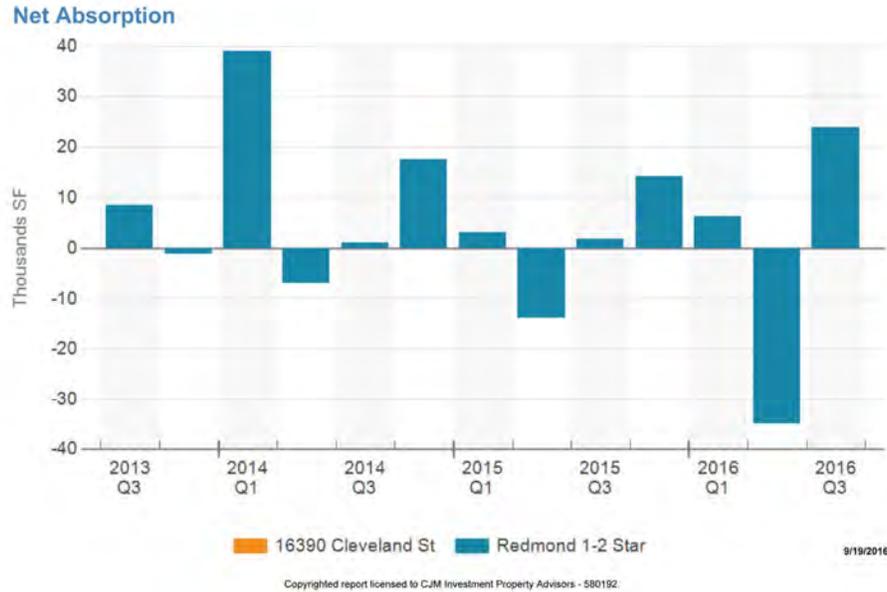
Building	Vacant SF	Total SF	Vacancy
Point Redmond, 16651 Redmond Way	1,555	13,073	11.9%
16528 Cleveland Street, Building D	2,369	8,420	28.1%
Old Town Lofts, 16161 Cleveland Street	899	6,800	13.2%
Redmond Center, 15770 Redmond Way	5,400	153,620	3.5%
Bear Creek Village, 17124 NE Redmond Way	5,225	69,743	7.5%
16005 NE Redmond Way	0	4,120	0.0%
16401 Redmond Way	0	8,554	0.0%
Subject: 16309 Cleveland Street	2,799	2,799	100%
Total	18,208	267,090	6.8%

Source: CJM

Our September 2016 CJM survey indicates a downtown Redmond commercial vacancy of near 6.8%, although this is not a complete survey of buildings in the market and, based on a general visual inspection, the actual vacancy rate is likely lower.

Absorption

Absorption for the subject's competing market, Q3 2013 to 2016 YTD, is illustrated below¹.



As the chart illustrates, over the past 12 quarters the pattern is three quarters of positive absorption followed by one quarter of negative absorption. As the graph illustrates, Q2 2016 reported negative absorption, which suggests positive absorption for the remainder of 2016. Reconciling the data, demand is adequate for commercial space.

Sales & Marketing Trends

OAR Trends

As a general basis for comparison, Realty Rates *Investor Survey* reported Q3 2016 OARs for free-standing commercial buildings ranged from 4.41% to 14.69%, with a central tendency of 8.20%, a decline of eight basis points from the previous quarter, and 14 basis points year-over-year. These figures, however, reflect the nationwide market.

Sales of small, free-standing commercial properties in Redmond over the last three years have exhibited OARs from 5.25% to 8.25%. Comparable OAR sales used later in this report indicated a range of 2.97% to 8.52%. Market participants interviewed by CJM for this report and other small commercial buildings on the Eastside indicated a narrower range of OARS from 5.00% to 7.00%.

Commercial Building Sales

We searched the Commercial MLS using the following parameters; Office, Retail, Industrial, Redmond, Active and the search produced 12 active listing. We substituted Sold, Closing date January 1, 2015 to present, which produced 17 closed sales. The evidence indicates sufficient demand for Redmond commercial buildings with, arguably, an undersupply of buildings.

¹ Per CoStar

The selected comparable buildings used later indicated a price per square foot range of \$299 to \$649 per sq. ft.

Anticipated Future Behavior Continued growth in the downtown Redmond core

CONCLUSION

The Cleveland Street Building's neighborhood is convenient to commuting routes, employment centers, as well as shopping and schools. The maintenance and appearance of neighborhood properties vary, but are generally average. The neighborhood is in a period of stabilization.

The Cleveland Street Building site has a favorable location in downtown Redmond with adequate access, frontage on commercial arterial, with vacancy in the competing market around 6.0%. All things considered, neighborhood desirability is average.

SUBJECT SITE DESCRIPTION

INTRODUCTION

This section of the appraisal report summarizes characteristics of the subject site.

IDENTIFICATION

Location

16390 Cleveland Street
Redmond (King County) WA 98052

Assessor's Parcel Number/Owner of Record

719880-0085
The owner of record is Rain City Development LLC

SITE DESCRIPTION

Shape, Topography, Area & F.A.R.

The Cleveland Street Building site is a flat, irregular-shaped parcel with total site area of 3,140 sq. ft. (0.07 acres). The improvements have 2,799 rentable square feet, indicating an F.A.R. of 0.89:1.0. Consequently, no excess or surplus land exists.

Immediately Surrounding Properties

The Cleveland Street Building site is located in the downtown Redmond commercial core with frontage on Cleveland Street, the primary northbound commercial arterial for downtown. Immediately surrounding properties are predominately commercial and retail service-oriented developments.



Adjacent-south mixed-use building



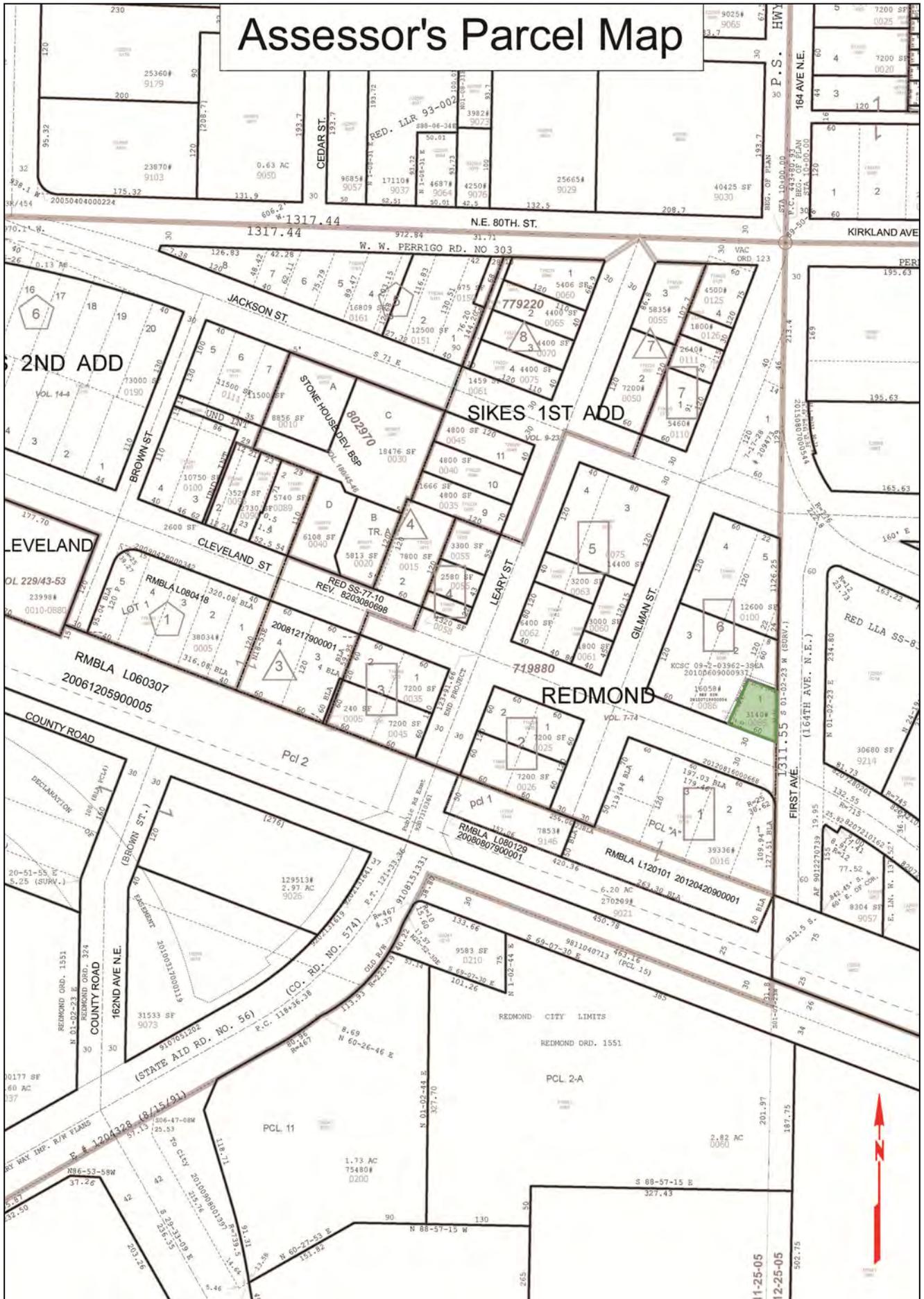
Restaurant adjacent west

The maintenance and appearance of surrounding properties vary but are generally average.

Access, Ingress/Egress

The subject site is located at the intersection of 164th Street NE and Cleveland Street in downtown Redmond. Access to downtown Redmond is via Redmond Way, located one block north of the subject, with SR-520, located about two miles east, provide access to the Bellevue and Seattle CBD's. The subject improvements occupy the entire site so no vehicular ingress/egress exists, although the adjacent-west site is partially open parking. Overall, access is adequate with ingress/egress non-existent.

Assessor's Parcel Map



Aerial Photograph



SUBJECT SITE DESCRIPTION

Frontage	64 feet on both Cleveland Street and 164th Ave NE ¹
Visibility & Exposure	Cleveland Street: 14,000 vehicles per day ² . Visibility and exposure are average for commercial use.
Excess Land Area	No excess or surplus land present
Soils Conditions	No soils report has been provided CJM. However, based on the appearance of the existing improvements and of surrounding properties, it appears that soils conditions are adequate to accommodate the existing improvements well into the future. No guarantee of this latter statement is made, however.
Utilities	Public utilities are present and service is adequate.

**LAND USE RESTRICTIONS
& ENVIRONMENTAL
LIMITATIONS**

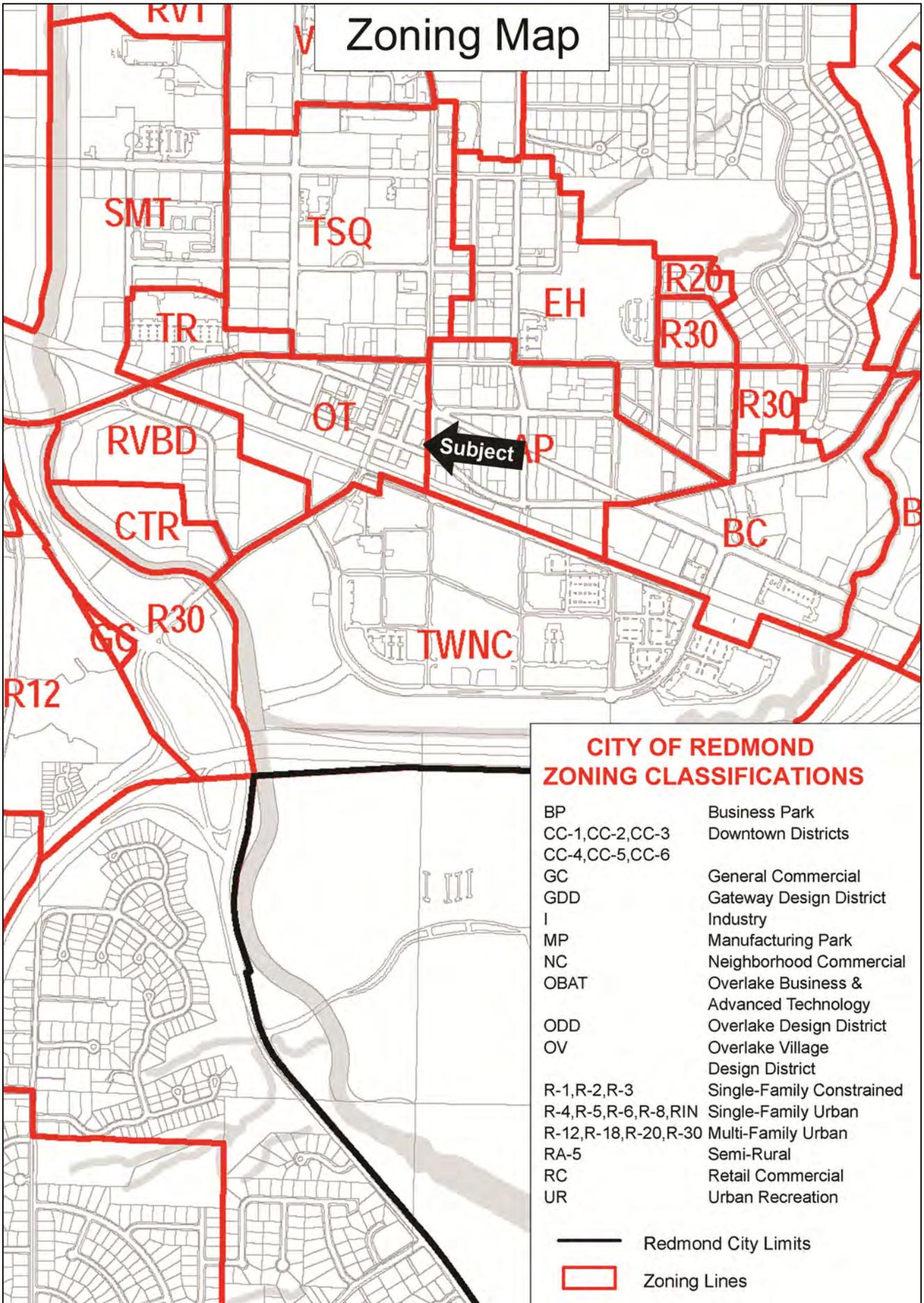
**Zoning & Land Use
Regulations**

<i>Zoning Designation</i>	The subject site is zoned Old Town (OT), an area consisting of transitional development, located between the Downtown Core and Downtown Neighborhood Districts.
<i>Permitted Uses</i>	Permitted uses include, but are not limited to, multi-family, mixed-use, general sales or services, and religious institutions.
<i>Maximum Building Height</i>	Maximum six floors with TDRs, five floors without.
<i>Maximum F.A.R.</i>	Maximum F.A.R. is 1.25 with TDRs.
<i>Legal & Conforming Use</i>	The subject is legal and conforming use.
Easements, Covenants & Restrictions	CJM was not provided a preliminary title report. CJM is not aware of any easements, covenants or restrictions negatively impacting the marketability of the Cleveland Street Building site. Typical easements on behalf of utilities service providers are also assumed.
Apparent Encroachments	There are no apparent encroachments.
Assessments and LID Expenses	To our knowledge, the site is not subject to any unusual assessments or LID expenses.

¹ Per Pierce County GIS

² Per Costar, most recent year 2014

Zoning Map



CITY OF REDMOND ZONING CLASSIFICATIONS

BP	Business Park
CC-1,CC-2,CC-3	Downtown Districts
CC-4,CC-5,CC-6	
GC	General Commercial
GDD	Gateway Design District
I	Industry
MP	Manufacturing Park
NC	Neighborhood Commercial
OBAT	Overlake Business & Advanced Technology
ODD	Overlake Design District
OV	Overlake Village Design District
R-1,R-2,R-3	Single-Family Constrained
R-4,R-5,R-6,R-8,RIN	Single-Family Urban
R-12,R-18,R-20,R-30	Multi-Family Urban
RA-5	Semi-Rural
RC	Retail Commercial
UR	Urban Recreation

-  Redmond City Limits
-  Zoning Lines

Flood Hazard

According to FEMA panel no. 53033C-0390G dated March 30, 1998; the subject is in Zone X, The subject is outside the 500 year flood plain. The appraiser is not an expert in this matter and is reporting data from FEMA maps.

Seismic Activity

Maps prepared by the U.S. Geological Survey¹ provide seismic hazard information applicable to various geographic locations. Determining which map to use and how to apply the data given on the map requires knowing 1) how earthquake forces are measured, 2) the International Building Code, 3) the relative importance of the building on the site as determined by the USGS, and 4) the period of time over which the seismic risk should be measured. CJM is not an expert in these matters. If seismic activity potential is a matter of concern, an expert in the field should be consulted.

Hazardous Waste

Based on a visual inspection of the subject property, there does not appear to be any hazardous waste. There is no refuse in the area and the likelihood that the subject property was used as a dumping ground in the past is minimal. The conclusions of value and highest and best use within this report are contingent upon the absence of hazardous waste or site contamination.

Other Environmental Concerns

The site does not appear to have any archeological significance and there appears to be no threatened aquifers, endangered species, etc. CJM does not guarantee that there are no additional environmental concerns, but only that none were evident during visual inspection. Again, no guarantee of this statement is made, and it is recommended that a professional environmental assessment firm be retained if the status of the Cleveland Street Building site in this regard is questioned.

External Obsolescence

No external obsolescence was noted.

CONCLUSION AND MARKETABILITY

Summary of Characteristics

The Cleveland Street Building site totals 3,140 square feet, or 0.07 acres, and is located in the commercial core of downtown Redmond. The subject site is flat, irregular in shape, with average access and adequate visibility and exposure for general commercial use. All public utilities are available and there do not appear to be any easements, covenants or restrictions, which would negatively impact the marketability of the site. Based on zoning allowances, the improvements are a legal, conforming use.

Marketability

Site desirability is average when weighing its location, zoning, topography, and access.

¹ <http://earthquake.usgs.gov/hazards>

IMPROVEMENT DESCRIPTION

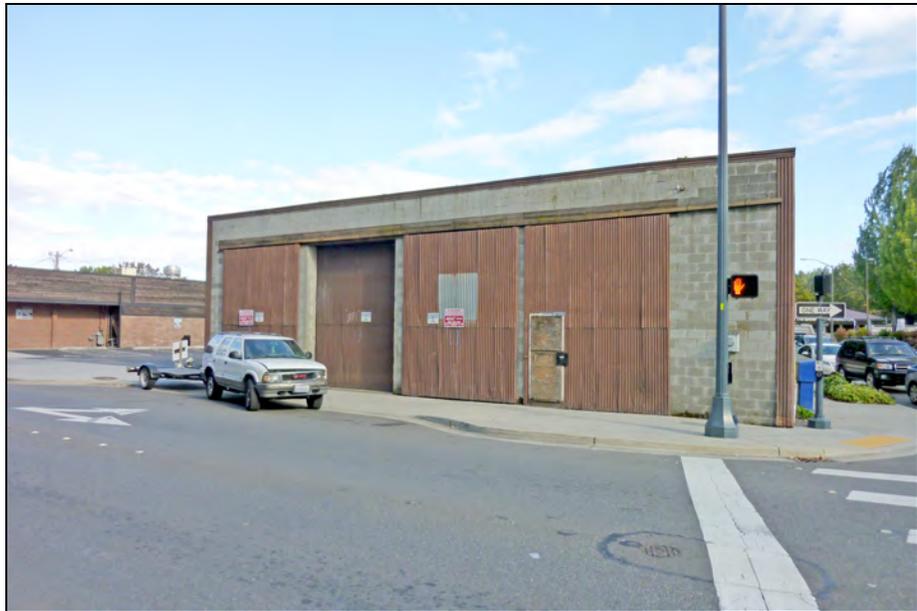
INTRODUCTION

This section of the report summarizes the Cleveland Street Building's improvements.

PHYSICAL CHARACTERISTICS

General Overview

According to the King County Assessor, the Cleveland Street Building has gross building area 2,760 sq. ft. Based on the plans provided to CJM, the renovated building will have rentable area of 2,276 sq. ft. with a 523 sq. ft. enclosed storage area (this area could be readily transformed into rentable square footage at little cost). Consequently, the total renovated gross and rentable building area is 2,799 sq. ft., and will be the amount used to estimate value.



Cleveland Street Building

The building is currently shell space with no interior finishes. According to buyer-developer Sean Miller (206-922-3954), proposed renovations will include new exterior finishes, roof replacement, installation of ADA-complaint restroom, new lighting fixtures and displays, and adding a private office at the southwest corner with storage at the north end. According to Mr. Miller, the estimated renovation budget is \$235,000 with a construction timeline of 12 to 14 weeks.

The Cleveland Street Building's improvements are discussed below.

Year Built

1956, renovated 2016

Foundation & Frame

Concrete foundation, wood framing

Exterior Finish

Cedar siding and stucco

IMPROVEMENT DESCRIPTION

<i>Roof</i>	Flat, torchdown
<i>Clear Height</i>	18 feet
<i>Grade Level & Dock High Doors</i>	1 grade level door
<i>Windows & Doors</i>	Standard
<i>Interior Finishes</i>	Standard
<i>HVAC</i>	None
<i>Insulation/Soundproofing</i>	Insulation/soundproofing are assumed to be adequate and meet code.
<i>Sprinkler</i>	None
<i>Security</i>	No additional security system beyond standard locks
Parking	No onsite parking
Functional Utility	Based on the proposed renovations, the subject building will have has adequate functional utility for general commercial use.
Condition	Average
Chronological, Effective, & Economic Age	Chronological life is 60 years, effective age, upon completion of renovations, is new, with economic life estimated at no less than 30 years.
Chattel Property	Chattel property is included in value estimates since these items are not typically excluded by purchasers and sellers when executing sales of commercial buildings in the subject market area.
Americans with Disabilities Act (ADA) Compliance	Title III of the Americans with Disabilities Act (ADA) prohibits discrimination on the basis of disability by private entities in places of public accommodations, and requires that places of public accommodations and commercial facilities be designed, constructed and/or altered in order to be readily accessible to, and usable by, persons with disabilities. Section 36.304 of the ADA requires a place of public accommodation to remove architectural and communication barriers where such removal is readably achievable. Cleveland Street Building is at grade level and appears to conform to ADA. However, the extent to which the ADA applies to the Cleveland Street Building is not determined in this report.
Renovation Timeline	Again, Cleveland Street Building buyer estimates total renovations costs of approximately \$235,000 with an expected completion date of 12 to 14 weeks. Based on the proposed renovations and current condition of the building, the proposed renovation timeline is reasonable.

Marketability

The Cleveland Street Building is competitive in terms of its location, condition and functional utility. Based on characteristics described earlier, competitiveness with other commercial buildings should be average.

CONCLUSION

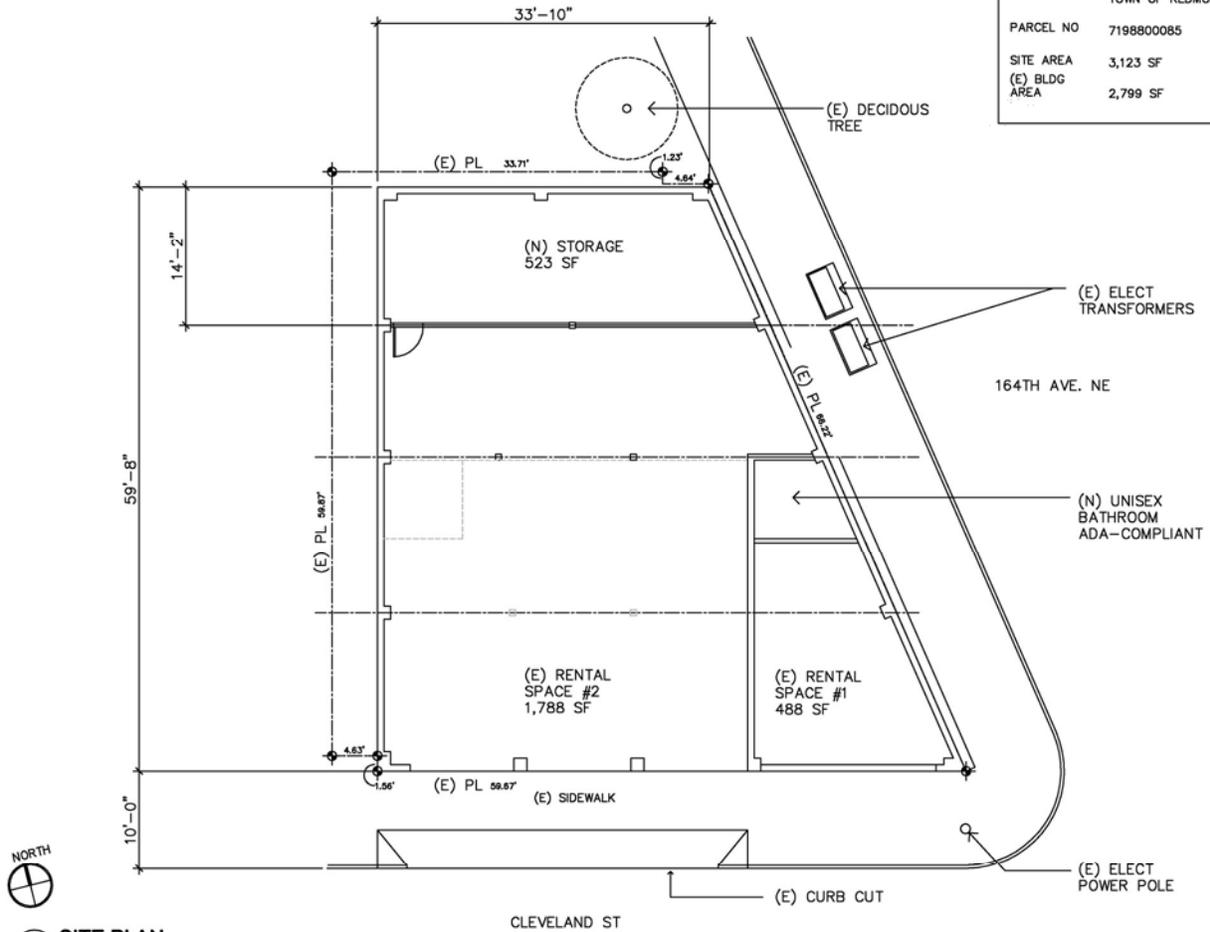
The Cleveland Street Building is a single-story commercial building located in downtown Redmond. The renovated building has gross and rentable area of 2,799 sq. ft. with no onsite parking. Upon completion of renovations, the building will be average in condition and appeal with adequate functional utility for general commercial use. Appeal to the market is average based on the location, functional utility and condition.

Purchaser Profile

The purchaser profile is an owner-user or investor/developer.

Floor Layout

LEGAL DESCRIPTION	POR LOTS 1 AND 2 BLOCK 6 TOWN OF REDMOND
PARCEL NO	7198800085
SITE AREA	3,123 SF
(E) BLDG AREA	2,799 SF



1 SITE PLAN
1"=10'-0"

SUBJECT HISTORY

INTRODUCTION

The *Subject History* includes a discussion of the sales history, assessed value, property taxes, and probable immediate future activity.

HISTORY

Date Of Construction

1956 with renovations proposed

Transaction History

Andorra Ventures, LLC is under contract (an assignment from another buyer) to purchase the Cleveland Street Building for \$900,000, equivalent to \$288 per square foot. The purchase price relative to the concluded estimate of value is discussed in the *Reconciliation* section.

Assessed Value & Property Tax Summary

The 2016 assessed value and taxes are summarized in the table below.

2016 ASSESSED VALUE & PROPERTY TAX SUMMARY

Assessed Value:	Tax Year 2016
Parcel 719880-0085	
Land:	\$292,900
Improvements	<u>\$23,500</u>
Total	\$316,400
Tax Rate/\$1,000	<u>\$9.64</u>
2016 Total Taxes	\$3,063

Source: King County records

As of the writing of this report, first half taxes are paid.

PROBABLE IMMEDIATE FUTURE ACTIVITY

Complete purchase and commence with renovations

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HIGHEST & BEST USE

INTRODUCTION

The concerns of the highest and best use analysis are 1) the use which is legally permissible, 2) the most likely/physically possible use, 3) the use which is most financially feasible and, ultimately, 4) the use which maximizes productivity, specifically income productivity. The four considerations are not isolated but are, rather, overlapping and to varying degrees inseparable.

THE FOUR HIGHEST & BEST USE CRITERIA

Legally Permissible Uses

The subject site is zoned Old Town (OT), an area consisting of transitional development, located between the Downtown Core and Downtown Neighborhood Districts.

Based on the legally permissible uses, the subject is a legal, conforming use.

Most Likely & Physically Possible Use

The Cleveland Street Building, upon renovation, will have average functional utility and appeal. Demand for commercial buildings in the immediate neighborhood is adequate and vacancies are low. As improved, the most likely, physically possible use of the subject is for commercial use. Recent sales of commercial buildings in the Cleveland Street Building's competing market indicate adequate investment demand, and support continued commercial use for the foreseeable future.

Were the site vacant, based on the subject's land use designation, surrounding improvements, present improvements, and market conditions, commercial development would be most likely.

Financial Feasibility Discussion

Based on our inspection on September 19, 2016, the property is vacant, but scheduled for renovations with the buyer an owner-user. If the site were vacant, feasibility of new commercial construction would be questionable and a prudent investor would most likely wait for economic demand to increase before beginning a new project. As proposed, the subject could accommodate a variety of business such as retail, personal services, or office tenants.

Productivity Maximization

The Cleveland Street Building, upon renovation, will be in adequate condition to produce income well into the future. Again, the subject building has total gross and rentable area of 2,799 sq. ft. Productivity maximization is therefore judged to be optimized by general commercial use. The typical purchaser profile for the subject is an investor, owner-user, or a developer.

HIGHEST & BEST USE CONCLUSION

Highest & Best Use As Effectively Vacant

Commercial use

Highest & Best Use As If Improved As Proposed

Commercial use

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INCOME CAPITALIZATION APPROACH

INTRODUCTION

An investor purchasing income-producing real estate, like a small hospitality facility, is essentially exchanging a sum of present dollars for the right to receive an anticipated future income stream. Consequently, from an investor's viewpoint, the perceived value of a particular property is directly correlated with its earning potential; the higher the earnings, the higher the value, or potential sales price will be.

Again, the Cleveland Street Building is currently vacant with the buyer intending to occupy the building upon completion of the renovations, estimated at \$235,000, or about \$75/sq. ft.

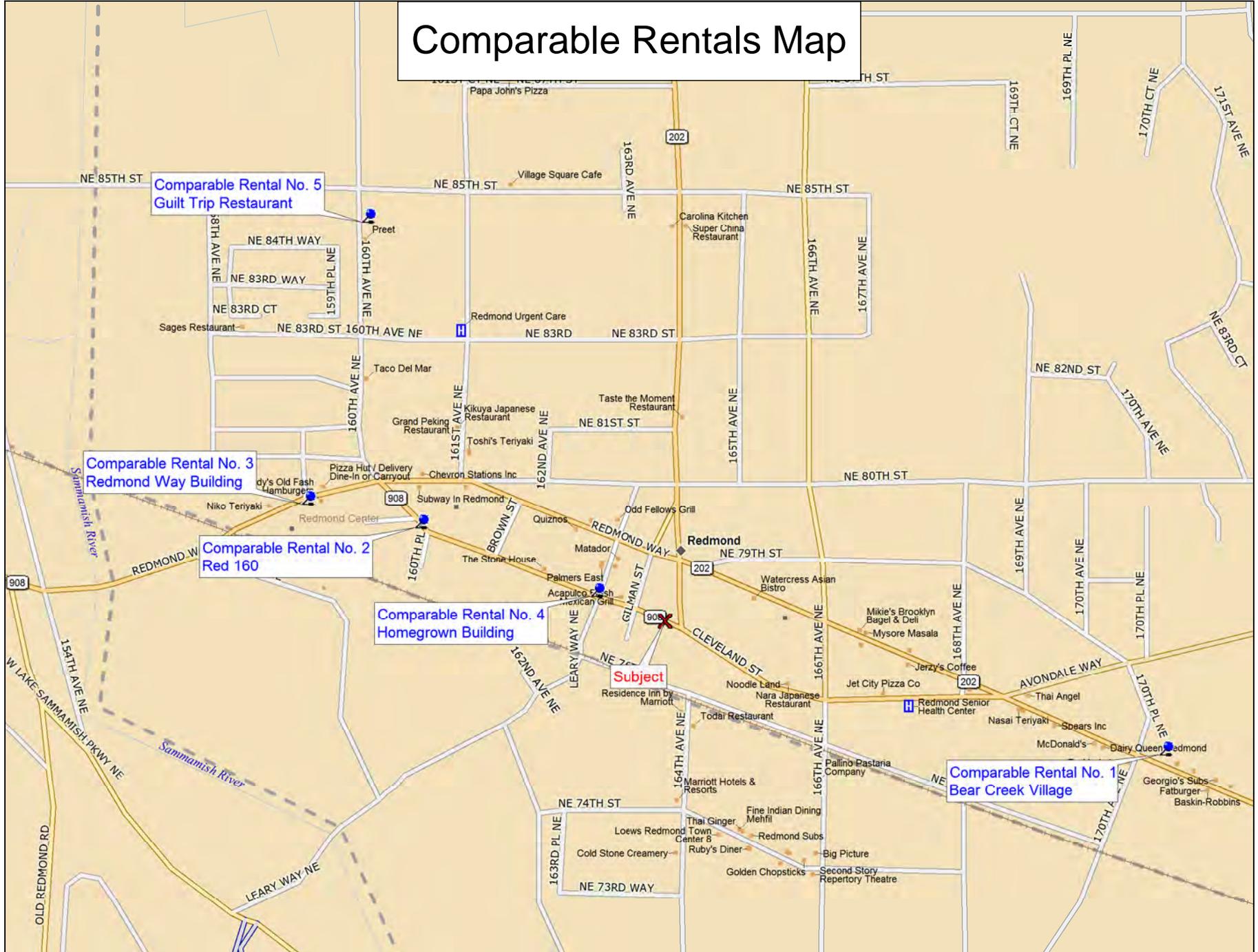
Comparable Commercial Rental Rate Analysis

The following tables summarize comparable rental properties representative of the subject's market area.

In the selection of comparable commercial rentals, focus was placed on units available in downtown Redmond similar in condition, frontage, exposure, and availability of off-street parking. The five properties ultimately selected were chosen because of their comparability and adequacy of data available.

The comparable rentals are shown on the following locator map.

Comparable Rentals Map



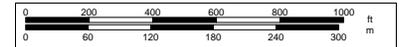
Data use subject to license.

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www.delorme.com



Scale 1 : 7,200



1" = 600.0 ft

Data Zoom 14-7

COMPARABLE COMMERCIAL RENTAL SUMMARY

No.	Location	Year Built/ Ren	Leased Area	Lease Date	Frontage/ Exposure¹	Annual Lease Rate/SF	Comments/Verification
1	Bear Creek Village 17220 Redmond Way Redmond, WA	1978	1,190	May 13, 2016	989 feet 35,000 ADT	\$45.00 NNN	Multi-tenant, Safeway-anchored retail center located at east end of downtown Redmond. Annual NNN expenses are estimated at \$6.40/sq. ft. Steven Olsen, JSH Properties, 425-455-0500
2	Red 160 16015 Cleveland Street Redmond, WA	2010	1,947	October 6, 2015	~500 feet 17,900 ADT	\$35.00 NNN	Newer, mixed-use, two-building complex located at west end of downtown Redmond. Annual NNN expenses are estimated at \$5.35 per sq. ft. Cameron Kent, Ewing and Clark, 206-838-7737
3	Redmond Way 15935 Redmond Way Redmond, WA	1978	1,720	February 16, 2015	172 feet 30,000 ADT	\$24.00 NNN	Single-story, multi-tenant commercial building located mid-block and located outside the downtown core. Annual NNN expenses are estimated at \$4.08 per sq. ft. Parking ratio of 1.9 stalls per 1,000 RSF. Brian Kenworthy, Kidder Mathews, 206-799-4545
4	Homegrown Building 7841 Leary Way NE Redmond, WA	1911/2015	2,797	January 12, 2015	61 feet 14,000 ADT	\$33.00 NNN	Renovated commercial building located in central downtown Redmond. John Booth, Wallace Properties, 425-455-9976
5	Guilt Trip Restaurant 8440 160th Ave NE Redmond, WA	1990	2,120	January 1, 2014	100 feet 9,000 ADT	\$21.62 NNN	Mixed-use commercial building located on northwest periphery of downtown Redmond. Parking ratio of 5.5 stalls per 1,000 RSF. CJM Files
S	Cleveland Street Building 16390 Cleveland Street Redmond	1956/ 2016	2,799 RSF	NA	~130 feet² 14,000 ADT	NA	Single-story commercial building with no off-street parking and proposed renovations. No onsite parking.

¹ Per CoStar

² Subject's combined frontage feet

Comparable Rental No. 1

Comparable Rental No. 1 is the 175,253 square foot Bear Creek Village. The comparable is a Safeway-anchored retail center located at the east end of downtown Redmond. The nine-building complex is well-maintained with good exposure and adequate parking for general commercial use.

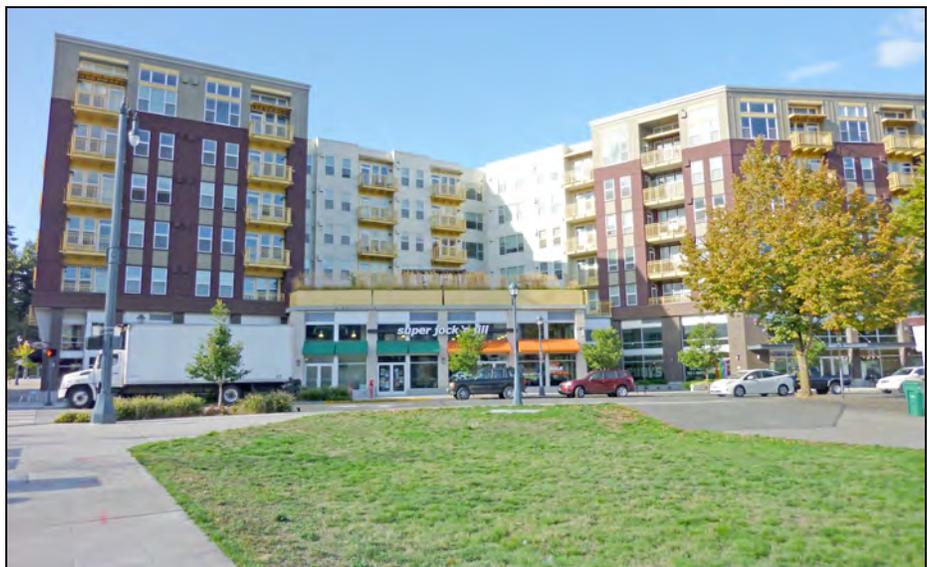


Bear Creek Village

Bear Creek Village leased 1,190 sq. ft. on May 13, 2016 with an annual lease rate of \$45.00/sq. ft., NNN. The comparable's superior exposure, parking, and anchor-tenant indicates a Cleveland Street Building annual market rate less than \$45.00/sq. ft., NNN.

Comparable Rental No. 2

Comparable Rental No. 2 is mixed-use Red 160, constructed in 2010. The comparable unit is ground floor commercial space in the 2010-built Red 160 apartment complex. The building is well-maintained with good exposure and adequate off-street parking for the commercial space.



Red 160

Red 160 leased 1,947 sq. ft. on October 6, 2015 at an annual lease rate of \$35.00/sq. ft., NNN. The superior exposure, frontage and parking of the comparable indicate a Cleveland Street Building annual market rate less than \$35.00/sq. ft., NNN.

Comparable Rental No. 3

Comparable Rental No. 3 is the Redmond Way building, a 4,990 square foot building constructed in 1978. The comparable is a free-standing, multi-tenant building located mid-block and outside the downtown core. The building is average in condition and appeal with adequate exposure for general commercial use and a parking ratio of 1.9 stalls per 1,000 RSF.



Redmond Way

Redmond Way leased 1,720 sq. ft. on February 16, 2015 at an annual rate of \$24.00/sq. ft., NNN. Balancing the comparable's superior exposure and parking with the subject's superior specific location, renovated condition and corner visibility, a Cleveland Street Building annual market lease rate higher than \$24.00/sq. ft., NNN, is concluded.

Comparable Rental No. 4

Comparable Rental No. 4 is the Homegrown Building. The comparable is a free-standing, single-story commercial building located in the heart of downtown Redmond and less than one block west of the subject. The recently renovated building is average in condition and appeal with good exposure for commercial use, but, like the subject, has no off-street parking.



Homegrown Building

Homegrown Building leased 2,797 sq. ft. on January 12, 2015 with the annual asking rate at \$33.00/sq. ft., NNN. The comparable and the subject are generally similar; consequently, a Cleveland Street Building annual lease rate similar to \$33.00/sq. ft., NNN, is concluded.

Comparable Rental No. 5

Comparable Rental No. 5, Guilt Trip Restaurant, is a 3,836 square foot two-story, multi-tenant mixed-use commercial building located mid-block on the northwest periphery of downtown Redmond. The ground floor commercial space is occupied by the Guilt Trip Restaurant and the unit is average in condition and appeal with adequate exposure and parking for commercial use.



Guilt Trip Restaurant

Guilt Trip Restaurant lease 2,120 sq. ft. on January 1, 2014 with the annual asking rate at \$21.62/sq. ft., NNN. Balancing the subject's superior exposure, renovated condition, and improved market conditions with the Guilt Trip's superior parking, a Cleveland Street Building's annual market lease rate higher than \$21.62/sq. ft., NNN, is concluded.

MARKET RENTS DISCUSSION

Rental Rate Adjustments The Cleveland Street Building consists of a single-story commercial building with total rentable area of 2,799 sq. ft.

Rent and characteristics for the comparable units, discussed earlier, is summarized in the following table.

COMPARABLE RENTALS QUALITATIVE SUMMARY

	Subject	Rental No. 1	Rental No. 2	Rental No. 3	Rental No. 4	Rental No. 5
Name	Cleveland Street Building	Bear Creek Village	Red 160	Redmond Way	Homegrown Building	Guilt Trip Restaurant
Year Built/Renovated	1956/2016	1978	2010	1978	1911/2015	1990
Lease Date	NA	May 13, 2016	October 6, 2015	February 16, 2015	January 12, 2015	January 1, 2014
Leased Amount (SF)	2,799	1,190	1,947	1,720	2,797	2,120
Annual NNN Lease Rate	NA	\$45.00	\$35.00	\$24.00	\$33.00	\$21.62
Qualitative Category						
Market Conditions				+	+	+
Location				+		
Condition				++		+
Frontage		-	-	-		
Exposure		-	-	-		+
Visibility				+		
Parking Ratio		-	-	-		-
Anchor Tenant		-				
Annual NNN Lease Rate/SF		<\$45.00	<\$35.00	>\$24.00	~\$33.00	>\$21.62

Based on the previous discussions, the Cleveland Street Building annual lease rate should be higher than \$24.00, less than \$35.00, and similar to \$33.00 per sq. ft., NNN.

Market Participant Comments

Cameron Kent (Ewing & Clark, 206-838-7737), listing broker for Comparable Rental No. 2, Red 160, suggested downtown Redmond annual rental rates are generally in the mid-\$30.00 per sq. ft., NNN.

Market Rental Rate Conclusion

\$33.00 /sq. ft., NNN

Reconciling the comparable rentals discussion with Mr. Kent's comment, a Cleveland Street Building annual market lease rate of \$33.00 per sq. ft., NNN, is concluded and will be used to estimate value.

POTENTIAL RENTAL INCOME**\$92,367**

Multiplying the concluded annual market rental rate of \$33.00 /sq. ft., NNN, by the subject's 2,799 rentable square feet produces annual potential rental income of \$92,367.

Deductions from Potential Rental Income*Vacancy Estimate*

4.00% of PGI or \$3,695

Kidder Mathews Q2 2016 *Seattle Retail Market Report* indicated King County retail vacancy of 4.0% while our own survey of submarket competing buildings, as well as discussions with local leasing agents and a review of Commercial MLS data indicated the immediate surrounding area's vacancy rate is approximately 6.8%.

We are tasked with simulating typical market behavior, and buyers of small commercial buildings similar to the subject generally use a vacancy and collection loss totaling 5.00%. Considering the current submarket vacancy, as well as the subject's location relative to the competing market, a rate of 4.00% will be assumed, considering that 1) vacancy is hypothetically estimated in perpetuity and may not align with present market vacancy levels or actual occupancy, and 2) collection loss is estimated separately. This vacancy level, again, assumes market rental rates.

Multiplying the vacancy contingency of 4.00% by the potential rental income produces annual vacancy loss of \$3,695, with a separate collection loss contingency below.

Delinquency & Bad Debt

1.00% of PGI or \$924

Loss in income due to delinquency and bad debt usually ranges from 0.50% to 1.50% of scheduled gross rental income. A delinquency/bad debt estimate no greater than 1.00% of potential gross rental income is assumed equivalent to \$924 annually.

Total Deductions from Potential Gross Rental Income

5.00% of PGI, or \$4,618

Combined the vacancy and collection loss estimate is 5.00%, equivalent to \$4,618 of gross potential income.

Effective Gross Rental Income Estimate**\$87,749**

Deducting the above projections for income loss due to vacancy and delinquency/bad debt from the previous potential gross rental income estimate generates an effective gross rental income estimate of \$87,749.

EXPENSE ESTIMATES & NET OPERATING INCOME**Operating Expenses**

Again, for our analysis, we are assuming tenants pay all operating expenses except replacement reserves for major structural components and a miscellaneous contingency. This is typical at competing properties.

Management Most triple net leases provide for management expense reimbursement. Reimbursable expenses can include management fees whether the landlord contracts with a management company or the landlord performs the management service. In conformity to typical market behavior, management expense is reimbursable.

Miscellaneous Expense Contingency 5.00% of EGI, or \$4,387
 This contingency category is for ownership expenses such as utilities and insurance for vacant space and miscellaneous expenses not covered by the triple net leases. A contingency of 5.00% of effective gross income or \$4,387 per year is used.

Structural Reserves \$0.20 per sq. ft., or \$560
 When structural reserves are collected, these expenses typically range from \$0.15 to \$0.30 per sq. ft. per year. Considering the age and condition of the renovated building, an estimate of \$0.20 per sq. ft. for the Cleveland Street Building is estimated.

An estimate of \$0.20 per sq. ft. of gross building area indicates an annual expense of \$560, equivalent to 0.64% of EGI.

Total Operating Expenses \$4,947

The estimated operating expenses amount to \$4,947 , or \$1.77 per sq. ft. of gross building area, and 5.64% of EGI. For reference, similar small commercial buildings CJM has recently appraised are presented below.

OPERATING EXPENSE COMPARABLES

Address/Name	RSF	Operating Exp per RSF	Operating Exp as % of EGI
1011 Milton Way, Milton	7,100	\$0.48 RSF	5.36%
1003 Bristol Ave SW, Lakewood	4,260	\$1.00 RSF	7.15%
2016 NW Market Street, Seattle	4,100	\$1.80 RSF	6.43%
Cleveland Street Building	2,799	\$1.77 RSF	5.64%

The expense comparables add support to the subject’s estimated subject operating expenses indicating the conclusions are reasonable.

Net Operating Income \$82,801

Subtracting the total expenses of \$4,947 from the total effective gross income of \$87,749 indicates a net operating income of \$82,801 .

OVERALL CAPITALIZATION RATE SELECTION

Introduction Two methods are used to generate a realistic overall capitalization rate: 1) investor surveys, and 2) comparable sales extractions.

Investor Surveys 4.50% to 8.00%

As a general basis for comparison, Realty Rates *Investor Survey* reported Q3 2016 OARs for free-standing commercial buildings ranged from 4.41% to 14.69%, with a central tendency of 8.20%, a decline of eight basis points from the previous quarter, and 14 basis points year-over-year. These figures, however, reflect the nationwide market.

Comparable Sales 2.97% to 8.52%

Sales volume of comparable commercial buildings in the Redmond area has been modest requiring an expansion of the search area to the Eastside market area. A list of OAR comparables was compiled, and from that list the five apparent best comparable sales were selected based on date of sale, location, condition, tenant mix, and for reflecting (apparent) typical investor motivation, and subsequently inspected to insure adequate physical conformity.

OVERALL CAPITALIZATION RATES

No.	Designation/ Location	Year Built	Sale Date	Total Rentable SF	Sale Price	OAR
1	Leega Tofu House 3411 184th Street SW, Lynnwood	1987	June 19, 2015	4,990	\$2,200,000	6.20%
2	Redmond Center 7625 170th Ave NE, Redmond	2002	June 23, 2016	5,396	\$3,500,000	6.11%
3	85 Redmond Place 8460 164th Ave NE, Redmond	1987	February 1, 2016	8,666	\$2,725,000	6.00%
4	Pickering Place Building 1435 11th Ave NW, Issaquah	1996	August 14, 2015	9,912	\$2,992,000	8.52%
5	Bis on Main Building 10213 Main Street, Bellevue	1928	November 18, 2015	6,052	\$4,000,000	2.97%

Source: CBA, Loopnet

Leega Tofu House

Address: 3411 184th Street SW
 City: Lynnwood
 Year Built: 1987
 RSF: 4,990
 Date of Sale: June 19, 2015
 Effective Sale Price: \$2,200,000

Contact: Chin Cho, buyer
 Information held back by request

OAR: 6.20%





Redmond Center

Address: 7625 170th Ave NE
City: Redmond
Year Built: 2002
RSF: 5,396
Date of Sale: June 23, 2016
Effective Sale Price: \$3,500,000

Contact: Chesil Thye, Keller Williams Realty, 253-848-5304

OAR: 6.11%

85 Redmond Place

Address: 8460 164th Ave NE
City: Redmond
Year Built: 1987
No. of Units: 8,666
Date of Sale: February 1, 2016
Effective Sale Price: \$2,725,000

Contact: Brian Liebsohn, Linc Properties, 425-455-1122

OAR: 6.00%



Pickering Place Building

Address: 1435 11th Ave NW
City: Issaquah
Year Built: 1996
RSF: 9,912
Date of Sale: August 14, 2015
Effective Sale Price: \$2,992,000

Contact: Dean Altaras, NAI Puget Sound, 425-586-5613

OAR: 8.52%



Bis on Main Building

Address: 10213 Main Street
 City: Bellevue
 Year Built: 1928
 RSF: 6,052
 Date of Sale: November 18, 2015
 Effective Sale Price: \$4,000,000

Contact: Dean Altaras, NAI Puget Sound, 425-586-5613

OAR: 2.97%



Overall capitalization rates (OARs) among the comparable sales range from 2.97% to 8.52%, with a central tendency of 5.96%. The high end of the range is set by a distressed sale while the low end is set by a well-located property in downtown Bellevue. Based on local and regional sales activity, with input from local market participants, an overall capitalization rate for the Cleveland Street Building is a range from 6.00% to 7.00%. Relative risk is average.

Reconciliation of Overall Rates 6.00% to 7.00%

Based on the preponderance of evidence, and the Cleveland Street Building’s relative risk, an overall capitalization rate range of 6.00% to 7.00% is a reasonable expectation.

DIRECT CAPITALIZATION TECHNIQUE INDICATION OF VALUE \$1,275,000

Capitalizing the net operating income estimate of \$82,801 by the previously concluded OAR range of 6.00% to 7.00% produces an estimated building value range of \$1,175,000 to \$1,375,000 equivalent to \$420 to \$491 per sq. ft. With no reason to emphasize one end of the range over the other, a stabilized value estimate of \$1,275,000, or \$456 /sq. ft. is concluded.

The stabilized operating statement appears below.

**STABILIZED OPERATING STATEMENT
Cleveland Street Building**

Category							Annual Totals
Potential Gross Commercial Income							
Subject Building	2,799	sf @	\$33.00	/sf/YR	NNN	=	\$92,367
					Total	=	\$92,367
Less: Vacancy & Collection Loss							
Vacancy Contingency			4.00%	PGI	=		\$3,695
Collection Loss Contingency @			<u>1.00%</u>	PGI	=		\$924
Total Income Deductions			5.00%	PGI	=		<u>\$4,618</u>
Effective Gross Commercial Rental Income:							<u>\$87,749</u>
Operating Expenses							
			<u>\$/RSF</u>	<u>% EGI</u>			<u>Amount</u>
NNN Vacancy Contingency			\$1.57	5.00%			\$4,387
Structural Reserves			<u>\$0.20</u>	<u>0.64%</u>			\$560
Total Deductions			\$1.77	5.64%			<u>\$4,947</u>
Net Operating Income:							\$82,801
				Estimated at	OAR	7.00%	\$1,175,000
						6.00%	\$1,375,000

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SALES COMPARISON APPROACH

INTRODUCTION

The sales comparison approach is a method of estimating the market value of the subject by comparing it with similar properties. A premise of the sales comparison approach is that the market will determine the price for the property being appraised in the same manner that it determines the value of comparable competitive properties. Essentially, the sales comparison approach is a systematic procedure for carrying out comparative shopping.

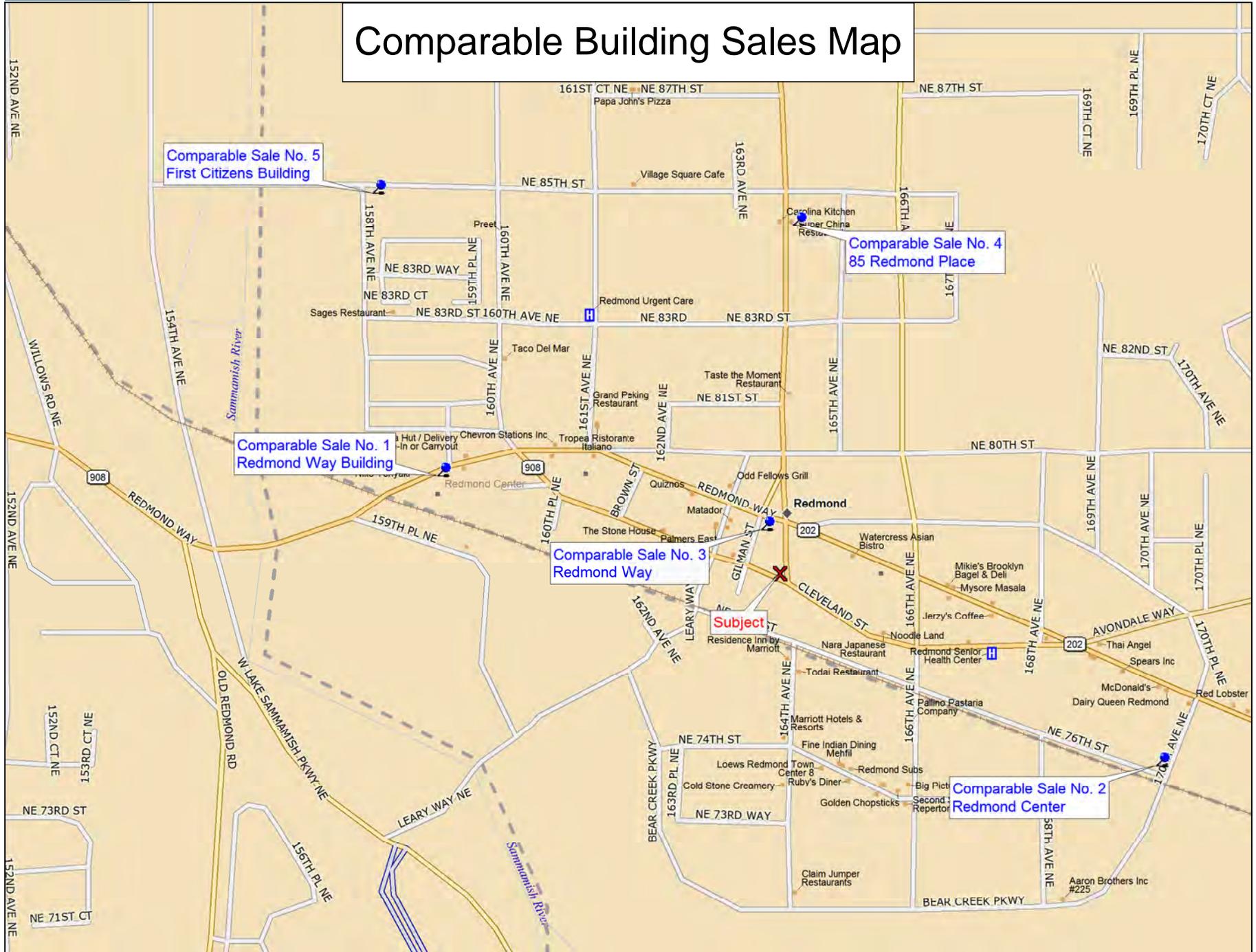
This section of the report describes the building sales used for comparison, analyzes each sale in relation to the subject, and concludes with a value estimate based on value per square foot. The search focused on sales in the immediate Redmond area.

COMPARABLE BUILDING SALES SUMMARY

A search for sales produced five comparable properties that were purchased within the past 29 months and are similar to the subject in location, size, condition and functional utility. The comparables are evaluated on a qualitative basis relative to the subject. In conformity with typical market behavior, price per square foot is the primary unit of comparison.

The location of each comparable sale is identified on the map found below. Following the map is a summary table that lists relevant property data and the details of each sales transaction.

Comparable Building Sales Map



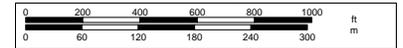
Data use subject to license.

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www.delorme.com



Scale 1 : 8,000



1" = 666.7 ft

Data Zoom 14-6

COMPARABLE COMMERCIAL BUILDING SALES SUMMARY

No.	Property/ Location	Year Built	Sale Date	Building RSF	Frontage/ Exposure¹	Eff. Sale Price	Price/ SF	Comments/Verification
1	Redmond Way 15935 Redmond Way Redmond	1978	February 8, 2016	4,990	172 feet 30,000 ADT	\$1,950,000	\$391	Single-story, multi-tenant commercial building located at the center of downtown Redmond. Parking ratio of 1.9 stalls per 1,000 RSF. Brian Kenworthy, Kidder Mathews, 206-799-4545
2	Redmond Center 7625 170th Ave NE Redmond	2002	June 23, 2016	5,396	118 feet 28,000 ADT	\$3,500,000	\$649	Well-maintained, multi-tenant commercial building with parking ratio of three stalls per 1,000 RSF. Chesil Thye, Keller Williams Realty, 253-848-5304
3	Redmond Square Market 16389 Redmond Way Redmond	1920/ 2010	June 1, 2016	7,280	91 feet 12,900 ADT	\$2,985,000	\$410	Recently renovated, former liquor store. Parking ratio of about four stalls per 1,000 RSF. Michael Azose, Azose Commercial Properties, 425-643-8400
4	85 Redmond Place 8460 164th Ave NE Redmond	1987	February 1, 2016	8,666	152 feet 15,000 ADT	\$2,725,000	\$314	Multi-tenant commercial building with parking ratio of 2.4 stalls per 1,000 RSF. Brian Liebsohn, Linc Properties, 425-455-1122
5	First Citizens Building 15801 85th Street Redmond	1990	April 18, 2014	8,521	177 feet 7,000 ADT	\$2,550,000	\$299	Former bank with parking ratio of 4.2 stalls per 1,000 RSF. Ben Norbe, Kidder Mathews, 253-722-1410
S	Cleveland Street Building 16390 Cleveland Street Redmond	1956/ 2016	NA	2,799 RSF	~130 feet² 14,000 ADT	NA	NA	Single-story commercial building with no off-street parking and proposed renovations.

¹ Per CoStar

² Subject's combined frontage feet

Comparable Sales Discussion

In the discussions that follow, we will compare and contrast the five comparable sales in the table on the previous page with the Cleveland Street Building.

Comparable Building Sale No. 1

Comparable Building Sale No. 1 is the 4,990 sq. ft. Redmond Way, built in 1978. The comparable is a free-standing, multi-tenant building located at the west end of downtown Redmond. The building is average in condition and appeal with adequate exposure for general commercial use and a parking ratio of 1.9 stalls per 1,000 RSF. Annual NNN expenses are estimated at \$4.08 per sq. ft.



Redmond Way

The Redmond Way sold on February 8, 2016 for a price equivalent to \$391/sq. ft. Balancing the comparable's superior exposure with the subject's superior renovated condition and corner visibility, a Cleveland Street Building value equal to or higher than \$391/sq. ft. is concluded.

Comparable Building Sale No. 2

Comparable Building Sale No. 2, Redmond Center, is a 5,396 sq. ft. building constructed in 2002. The comparable is a low-rise, multi-tenant commercial building located at the east end of downtown Redmond. The building is well-maintained with good exposure for commercial use and a parking ratio of about three stalls per 1,000 RSF. Tenants include Starbucks and Sprint.



Redmond Center

The Redmond Center was sold on June 23, 2016 for a price equivalent to \$649/sq. ft. Based on the comparable's superior location and parking characteristics, a Cleveland Street Building value of less than \$649/sq. ft. is concluded.

*Comparable Building Sale
No. 3*

Comparable Building Sale No. 3 is a 7,280 sq. ft. commercial building constructed in 1920. The comparable is a free-standing commercial building located in downtown Redmond with frontage on westbound Redmond Way. The 2010-renovated building is average in condition and appeal with good exposure for commercial use and off-street parking.



Redmond Square Market

Redmond Square Market sold on June 1, 2016 for a price equivalent to \$410/sq. ft. With most weight given to the subject's superior condition, upon renovation, and marginally superior exposure, a Cleveland Street Building value of equal to or higher than \$410/sq. ft. is concluded.

Comparable Building Sale No. 4

Comparable Building Sale No. 4 is 85 Redmond Place. The comparable consists of two, single-story commercial buildings with frontage on a well-travelled arterial in downtown Redmond. The buildings are average in condition with good exposure, but below-average parking, for commercial use. Tenants are a mix of local service businesses.



85 Redmond Place

The comparable building sold on February 1, 2016 for a price equivalent to \$314/sq. ft. The subject's superior location within the downtown core, renovated condition, and corner visibility indicate a Cleveland Street Building value higher than \$314 per sq. ft.

Comparable Building Sale No. 5

Comparable Building Sale No. 5 is the former First Citizens Building. The comparable building is a two-story, single-tenant former bank located on the northwest periphery of downtown Redmond. The building is located on a local arterial with below-average exposure for retail use but has a parking ratio of 4.2 stalls per 1,000 RSF. According to the broker, the building had deferred maintenance of about \$80,000 at the time of sale.



First Citizens Building

First Citizens Building sold on April 18, 2014 for a price equivalent to \$299 per sq. ft. Again, the improved market conditions and superior condition of the subject indicate a Cleveland Street Building value higher than \$299 per sq. ft.

Adjustment Summary

The adjustment grid found on the following page summarizes the differences between the Cleveland Street Building and the seven comparable sales, as described above. Superior characteristics of the subject, relative to the comparable sales, are indicated with plus signs (+) and inferior characteristics are indicated with minus signs (-).

QUALITATIVE ADJUSTMENT SUMMARY TABLE

Category	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5
Name	Cleveland Street Building	Redmond Way	Redmond Center	Redmond Square Market	85 Redmond Place	First Citizens Building
Date of Sale	NA	February 8, 2016	June 23, 2016	June 1, 2016	February 1, 2016	April 18, 2014
Year(s) Built	1956/2016	1978	2002	1920/2010	1987	1990
Rentable Square Footage	2,799	4,990	5,396	7,280	8,666	8,521
Sales Price/DU	NA	\$391	\$649	\$410	\$314	\$299
Qualitative Adjs:						
Market Conditions						++
Location w/in Downtown Core					+	+
Access to Linkages						
Condition/Appeal		++		+	+	+
Frontage		-	-	-	-	-
Visibility		+			+	+
Exposure		-	--	+		+
Parking Characteristics		-	-	-	-	-
Value Potential:		≥\$391	<\$649	≥\$410	>\$314	>\$299

The previous discussion suggests a subject value higher than equal to or higher than \$391, but less than \$649/sq. ft., with emphasis towards the lower end of the range.

VALUE CONCLUSION

\$1,125,000 to \$1,400,000

With most weight given to the comparable sales discussion, a subject value range of \$400 to \$500 per square foot is reconciled. Multiplying the Cleveland Street Building's 2,799 sq. ft. by the estimated value range produces a market value estimate of \$1,125,000 to \$1,400,000 (rounded).

The *Cost Approach* follows.

INSURABLE REPLACEMENT ANALYSIS

INTRODUCTION

Purchasers of existing commercial buildings in the Puget Sound market typically do not employ the cost approach when formulating offers. We do not employ the Cost Approach unless the appraised property is proposed or new. Again, the Cleveland Street Building South Building was completed in 1956; consequently, the Cost Approach to value is not used.

INSURABLE REPLACEMENT COST

Andorra Ventures LLC has requested an estimate of the building replacement value to determine feasibility of the proposed renovations.

Direct Building Costs

\$210,000

In order to develop a Cleveland Street Building replacement value, three comparable warehouse/commercial buildings CJM recently appraised, and their direct construction costs, are presented in the following table.

Direct Cost Comparables

Building	Building Gross SF	Direct Cost Per SF
Tusco Warehouse, Orcas Island	10,250	\$52
South End Garden Park, Tacoma	12,450	\$101
Chinook Lumber Store, North Bend	18,000	\$150

Source: CJM Files

The Chinook Lumber Store and the South End Garden Park are generally superior in appeal and functional utility indicating a subject direct cost estimate less than \$101/sq. ft. is most likely. For additional support, BuildingJournal.com's cost estimator was used with the following parameters; 1) Building Type-Warehouse, 2) Location-Seattle, and 3) Lump sum value new. The resulting estimated direct building cost range is \$50 to \$80 per sq. ft.

Reconciling the cost comparables and the BuildingJournal.com estimated ranges, a direct cost estimate towards the lower end of the cost comparable range, \$75 /sq. ft., is concluded. The direct cost per sq. ft. estimate produces a direct building cost total of \$210,000 (rounded) for the 2,799 square-foot building.

Contingency

3.00% of direct costs, or \$6,300

A contingency of 3.00% of direct costs, equivalent to \$6,300, is included to cover any unexpected cost overruns.

Contractor Profit Margin

7.50% of direct costs, or \$15,800

Contractor's profit margin is estimated at 7.50% of total preliminary direct cost estimate, equivalent to \$15,800.

Sales Tax \$20,800

Sales tax is estimated at 9.60% of the hard costs and contingency estimated above.

**INSURABLE
REPLACEMENT VALUE** **\$250,000**

The sum of the above individual costs amounts to a Cleveland Street Building replacement value of \$250,000 (rounded) or \$89 /sq. ft.

The *Reconciliation* section follows.

RECONCILIATION & FINAL ESTIMATES OF VALUE

INTRODUCTION

The two valuation techniques employed in this assignment are summarized below, followed by the value estimate considered the most realistic, along with estimated exposure and marketing periods.

VALUE ESTIMATES

Value Indications Summary by Approach

The conclusions from each approach to value are summarized in the following table.

SUMMARY OF VALUE CONCLUSIONS

Technique	Date	As if Presently Stabilized
Income Approach	September 19, 2016	\$1,275,000
Sales Comparison Approach	September 19, 2016	\$1,125,000 to \$1,400,000
Cost Approach	September 19, 2016	NA

A discussion of 1) the accuracy and adequacy of data and analyses, 2) strengths and weaknesses of each approach, and 3) market perception of a) approaches and b) techniques in those approaches, will be discussed below.

Discussion of Approaches

Accuracy and Adequacy of Data and Analyses

The *Income Capitalization Approach* used extensive data and analyses when estimating market rent and expense levels. The projections of income and expenses were based on rental comparables, as well as typical market behavior and input from knowledgeable brokerage and management personnel.

In the *Sales Comparison Approach*, recent comparable sales of similar market area buildings were used to estimate market value. As a consequence, the accuracy and adequacy of data and analyses in the *Sales Comparison Approach* is considered satisfactory.

The *Cost Approach* does not simulate typical investor behavior so it was not employed in this assignment.

Strengths and Weaknesses

The *Cost Approach* was not used because it has the lowest credibility of the three approaches because of the weak correlation between reproduction costs and market value—particularly for properties that are more than a few years old. Because investors would not utilize the *Cost Approach* when evaluating the subject, we have not utilized the *Cost Approach* in this analysis.

The *Sales Comparison Approach* emphasized the Value Per Square Foot Technique, which is the technique widely used by purchasers of commercial buildings in the Redmond/Eastside market. At present, the purchaser profile for such buildings as the subject could be an

owner-user or investor. Investors typically use the sales comparison approach as a test of reasonableness for the income capitalization approach.

The *Income Capitalization Approach*, which can more specifically analyze a commercial property's income and expense potential, is commonly used to establish a framework of value for a property. This valuation approach usually does the best job of estimating the present value of future benefits where relatively sophisticated market participants are involved.

Market Perception of Approaches and Techniques

With respect to estimating the value of commercial buildings similar to the Cleveland Street Building, the market perception is that the income capitalization approach, which most closely reflects typical investor behavior, provides the best indication of market value. The sales comparison approach is sometimes considered by investors and is used a test of reasonable for the income capitalization approach in this report. The cost approach is given little or no consideration by investors for existing buildings in the present economy and, again, was used to ascertain a building replacement value estimate.

Preliminary Value as if Presently Stabilized

\$1,275,000

Again, the value concluded in the *Income Capitalization Approach* is \$1,275,000, while the value range estimated in the *Sales Comparison Approach* is \$1,125,000 to \$1,400,000. The *Income Approach* provides the greatest strength in terms of an accurate reflection of subject value potential, while conforming to typical investor behavior when attempting to estimate the present value of future benefits. As a result, the best indication of Cleveland Street Building market value, as if presently stabilized, is \$1,275,000, or \$456 /sq. ft.

Estimate of As Is Value

Again, the Cleveland Street Building is vacant with renovations proposed by the buyer for owner-user occupancy. In order to arrive at the as is value, a deduction for renovations and lease-up costs, were the building available for lease, are discussed below.

Deductions for Renovation & Stabilization Costs

Estimated Renovation Costs

\$235,000

Again, the buyer of the Cleveland Street Building property, Sean Miller, has estimated about \$235,000 in renovations to prepare the building for his group's use.

The renovations include the following:

- Upgrades to plumbing, HVAC, and lighting totaling \$58,000
- Roof replacement totaling \$30,000
- Exterior façade repairs and renovations totaling \$35,000
- Interior renovations including building out a private office, \$40,000

- Additional items include lighting fixtures, displays, signs, and permit fees estimated at \$70,000

Mr. Miller's estimated construction timeline is 12 to 14 weeks.

Overall, the shell of the interior is in adequate condition and, based on the limited renovations proposed by Mr. Miller, the Cleveland Street Building should be available for occupancy on or about December 1, 2016.

Lost Rental Revenue \$23,000

Assuming a three month lease-up period after construction completion, lost rental revenue is estimated at \$23,000¹ (rounded).

Lost NNN Reimbursements \$4,000

Smaller commercial buildings CJM recently appraised reported monthly NNN expense reimbursements ranging from \$3.00 to \$6.00/sq. ft. (\$0.25 to \$0.50 per sq. ft. per month) Based on the renovated condition of the subject, a monthly NNN reimbursement of \$0.50/sq. ft. is estimated, resulting in lost NNN reimbursements of \$4,000 (rounded).

Lease Commissions \$23,000

Based on the concluded annual market rental rate of \$33.00/sq. ft., and assuming a five year lease with lease commissions of 5.00% of the total lease value, lease commissions are estimated \$23,000 (rounded).

Preliminary Estimate of Stabilization Costs **\$285,000**

Adding the lease-up costs with the estimated construction budget yields preliminary stabilization costs of \$285,000.

Entrepreneurial Incentive **20% of preliminary costs, or \$75,000**

A knowledgeable market participant would require compensation for risk taken in stabilizing the Cleveland Street building. Based on conversations with commercial developers throughout the Puget Sound region, typically anticipate gross profit ranging between 10% and 30% of total market value. In this analysis, we have assumed a developer's gross profit margin of 20%, equivalent to \$75,000 (rounded).

Total Stabilization Costs **\$360,000**

Adding the entrepreneurial incentive of \$75,000 to the preliminary stabilization costs yields a total stabilization cost estimate of \$360,000, equivalent to \$129 per sq. ft.

¹ \$33.00/SF/Yr = \$2.75/SF/Mon
\$2.75/SF x 2,799 SF x 3 months

Final Estimate of As Is Value **\$925,000**

Deducting the stabilization costs from the preliminary estimate of value yields an as is value estimate of \$925,000, or \$330/sq. ft.

Summary of Estimates of Value

The following table summarizes the concluded estimates of value.

Property Component	Effective Date	Value Estimate
As Is Value	September 19, 2016	\$925,000
Value As If Presently at Stabilized Occupancy	September 19, 2016	\$1,275,000
Building Replacement Value	September 19, 2016	\$250,000

The values reflected the subject's fee simple estate.

Replacement Value vs. Estimated Renovation Costs

Again, the building replacement value is estimated at \$250,000 while Mr. Miller's estimated renovation costs are \$235,000. Based on the evidence, renovation of the building is warranted.

Purchase Price vs. Estimate of As Is Value

Again, the Cleveland Street Building has a pending sale price of \$900,000, equivalent to \$288/sq. ft. According to the Seth Bailey, a business partner of the buyer, Sean Miller, the \$900,000 purchase price was based on as-if completed broker opinion of value in conjunction with the renovation cost estimate. As Mr. Bailey stated, "with the BPO valuation [around \$1,300,000], and after calculating our expenses, we felt pretty comfortable that \$900,000 was a fair price."

Based on the sale conditions, the subject purchase price is reasonable. Again, our estimate of value is based on the evidence discussed throughout the report and is adequately supported by the market comparables.

Marketing/Exposure Time **Three to six months, more or less**

The exposure period is the estimated length of time the subject property would have been offered on the market prior to a hypothetical sale at market value on the effective date of the appraisal. The marketing period is an estimate of the time it might take to sell a property at the estimated market value during the period immediately following the effective date of the appraisal.

The selected comparable building sales exhibited exposure and marketing periods of approximately one month to over one year on the market. Considering the comparables exposure and marketing periods, and the above value estimate, the anticipated exposure and marketing periods for the Cleveland Street Building property if it were offered for sale on the open market at the value indicated above.

At the above value estimate the anticipated exposure and marketing periods for the subject are estimated at three to six months, more or less.

The certification, definitions, and *Assumptions and Limiting Conditions* appear on the following pages.

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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;

C. J. Munson and Aaron DeCollibus 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;

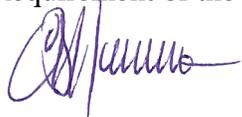
The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute;

I have made a personal inspection of the property that is the subject of this report;

no one provided significant real property appraisal assistance to the person signing this certification;

the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives; and

as of the date of this report, both C. J. Munson and Aaron DeCollibus have completed the continuing education program of the Appraisal Institute and the Standards and Ethics Education Requirement of the Appraisal Institute.



C. J. Munson, MAI, ASA, AI-GRS



Aaron DeCollibus, Appraiser, ASC-DCF

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APPENDIX

Definition of Highest and Best Use

Highest and best use is defined as:

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. Alternatively, the probable use of land or improved property—specific with respect to the user and timing of the use—that is adequately supported and results in the highest present value.

Source: Appraisal Institute., *The Dictionary of Real Estate Appraisal*, 5th Ed. (Chicago: Appraisal Institute, 2010), 93.

Definition of Fee Simple Estate

Possession of a title in fee establishes the interest in property known as the fee simple estate—*i.e.*, *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.*

Source: Appraisal Institute, *The Appraisal of Real Estate*, 14th Ed. (Chicago: Appraisal Institute, 2008), 111.

Owners in fee simple may choose to improve or not to improve their property. They may also retain ownership or transfer property title by selling the property or giving it away. They may also lease the property to a leaseholder, or tenant, over a defined period of time. This latter act creates the leased fee, or lessor's (landlord's), estate and the leasehold, or lessee's (tenant's), estate.

Definition of Leased Fee Estate

Again, the leased fee estate is the lessor's or landlord's, estate. A leased fee estate is *an ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of lessor (the leased fee owner) and leased fee are specified by contract terms contained within the lease.*

Source: Appraisal Institute, *The Appraisal of Real Estate*, 12th Ed. (Chicago: Appraisal Institute, 2001), 83.

See also Appraisal Institute, *The Appraisal of Real Estate*, 14th Ed., 114.

There is a misconception that the concepts of fee simple interest and leased fee estate are identical if market rent and contractual rent are identical. Implicit in the prior definition of fee simple estate above is the fact that if the right of use and occupancy is conveyed by lease to another, then absolute ownership unencumbered by any other interest or estate ceases to exist during the term of conveyance. No mention is made of relative rental levels being either a necessary or sufficient condition for the creation of either estate.

Definition of Leasehold Estate

The right held by the lessee to use and occupy real estate for a stated term and under the conditions specified in the lease.

Source: Appraisal Institute, *The Appraisal of Real Estate*, 14th Ed. (Chicago: Appraisal Institute, 2008), 114.

Definition of Marketing Time

The reasonable marketing time is:

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 an appraisal.

Source: Appraisal Institute., *The Dictionary of Real Estate Appraisal*, 5th Ed. (Chicago: Appraisal Institute, 2010), 121.

Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal. The reasonable marketing time is a function of price, time, use and anticipated market conditions such as changes in costs, availability of funds, and labor force; not an isolated estimate of time alone. It can be appropriate for an appraisal to discuss the impact of price/value relationships on marketing times and contrast different potential prices and the associated marketing time with the reasonable marketing time at the estimate of market value.

Definition of Gross Building Area

The gross building area is:

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 region.

Source: Appraisal Institute., *The Dictionary of Real Estate Appraisal*, 5th Ed. (Chicago: Appraisal Institute, 2010), 90.

Definition of Rentable Area

Rentable area is:

For office 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.

Source: Appraisal Institute., *The Dictionary of Real Estate Appraisal*, 5th Ed. (Chicago: Appraisal Institute, 2010), 167-168.

Where a load factor is utilized, it is hypothetically possible for effective rentable area to exceed actual gross floor area. For example, a gross floor area may be 40,000 square feet. From this is deducted elevators, stairs, risers, and ducts, having a total of 3,000 square feet, with a consequent usable area of 37,000 square feet. The usable area of 37,000 square feet is then multiplied by a factor of 1.25 to obtain a hypothetical rentable area of 46,250 square feet. This example is provided on page 364 of John Robert White, MAI, CRE, Editor, *The Office Building*.

Definition of Usable Area

Usable area is:

- 1) *For office buildings, the actual occupiable area of a floor or an office space; computed by measuring from the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining useable areas, and to the inside finished surface of the dominant portion of the permanent outer building walls...*
- 2) *The area that is actually used by the tenants...*

Source: Appraisal Institute., *The Dictionary of Real Estate Appraisal*, 5th Ed. (Chicago: Appraisal Institute, 2010), 203.

Definition of Market Area

Market area is:

The geographic or locational delineation of the market for a specific category of real estate, i.e., the area in which alternative, similar properties effectively compete with the subject property in the minds of probable, potential purchasers and users.

Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 3rd Ed. (Chicago: Appraisal Institute, 2001), 220, and Appraisal Institute, *The Appraisal of Real Estate*, 13th Ed. (Chicago: Appraisal Institute, 2008), 55.

While *The Dictionary of Real Estate Appraisal*, 5th Edition, is in circulation, we still prefer the 3rd Edition definition as reiterated in *The Appraisal of Real Estate*, 13th Edition.

Definition of Effective Rent

Gross rents less the loss from rental concessions, excess tenant improvement costs over normal building standards, and miscellaneous costs such as moving expenses, lease buy-outs or assumptions, or other enticements.

Source: John Robert White, MAI, CRE, Editor-in-Chief, *The Office Building* (Chicago: a joint publication of AI, BOMA, ASREC, etc., 1993), 161.

Definition of Equilibrium Vacancy Rate

The “frictional” vacancy level which occurs in theory when there is neither an upward pressure on rents due to strong competition among tenants, nor a downward pressure on rents due to strong competition among owners for tenants.

Source: John Robert White, MAI, CRE, *ibid*

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ASSUMPTIONS AND LIMITING CONDITIONS

1. No legal questions are considered such as title, encumbrances, ownership, etc. The property is appraised in fee simple estate as though free and clear of all encumbrances, except as specifically noted within this report. No responsibility is assumed for matters legal in character or nature or matters of land survey or of any architectural, structural, mechanical or engineering nature.

The legal description, site and improvement measurements are assumed to be correct as used in this report as furnished by the client, his designee, or as derived by the appraiser.

2. The appraiser has inspected, as far as possible by observation, the land and any improvements; however, it was not possible to personally observe conditions beneath the soil or hidden structural or toxic materials which would render it more or less valuable. No responsibility is assumed for any such conditions or for any engineering expertise to discover them. All mechanical components are assumed to be in operable condition and status standard for properties of the subject type. Conditions of heating, cooling, ventilating, electrical, and plumbing equipment are considered commensurate with the condition of the balance of the improvements unless otherwise stated. No judgment may be made by me as to adequacy of insulation, type of insulation, or energy efficiency of the improvements or equipment which are assumed standard for subject age and type. The appraiser does not warrant against problems arising from soil conditions.
3. Unless otherwise stated in this report, the existence of hazardous material, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances, such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials, may affect the value of the property. The 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. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them. The client is urged to retain an expert in this field, if desired.
4. If the appraiser has been supplied with a termite inspection, survey or occupancy permit, no responsibility or representation is assumed or made for any costs associated with obtaining same or from any deficiencies discovered before or after they are obtained. No representation or warranties are made concerning obtaining the above-mentioned items.
5. All information as found in data provided by others and relied upon in this appraisal has been reasonably checked and is deemed to be reliable. If any errors or omissions are found, the appraiser reserves the right to modify the conclusions reached. The appraiser similarly reserves the right to modify the analyses, conclusions or any value estimate in the appraisal report if there become known facts pertinent to the appraisal process which were unknown when the report was finished.
6. The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization; and the value shown for either may or may not be its correct Fair Market Value. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.
7. Possession of this report or any copy thereof does not carry with it the right of publication nor may it be used for other than its intended use; the physical report(s) remain the property of the appraiser for the use of the client, the fee being for the analytical services only.
8. This appraisal is to be used only in its entirety, and no part is to be used without the whole report. All conclusions and opinions concerning the analysis, as set forth in the report, were prepared by the appraiser whose signature appears on the appraisal unless indicated as review appraiser. No change of any item in the report shall be made by anyone other than the appraiser, and the appraiser and firm shall have no responsibility if any such unauthorized change is made.

9. The bylaws and regulations of the Appraisal Institute require each member and candidate to control the use and distribution of each appraisal report; except as provided, the client may distribute copies of this appraisal report in its entirety to such third parties as he may select. However, selective portions of this appraisal report shall not be given to third parties without the prior written consent of the appraiser.

Neither all nor any part of this appraisal report shall be disseminated to the general public by use of advertising media, public relations, news, sales, or other media for public communication without the prior written consent of the appraiser.

10. Employment to make this appraisal does not require testimony in court unless mutually satisfactory arrangements are made in advance. If testimony or deposition is required because of any subpoena, the client shall be responsible for any additional time, fees, and charges, regardless of issuing party.
11. The liability of **CJM Investment Property Advisors**, and employees is limited to the client only and to the fee actually received by the appraiser. Further, there is no accountability, obligation or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions. In the case of limited partnerships or syndication offerings or stock offerings in real estate, clients agree that, in case of lawsuit (brought by lender, partner, or part-owner in any form of ownership, tenant, or any other party) any and all awards, settlements of any type in such suit, regardless of outcome, client will hold appraiser completely harmless in any such action. Acceptance of or use of this appraisal report by client or any third party constitutes acceptance of the above conditions.
12. The appraisal is based on the premise that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report. Improvements proposed, if any, as well as repairs required, are considered for purposes of this appraisal to be completed in good and workmanlike manner according to information submitted or considered by the appraiser. In cases of proposed construction, the appraisal is subject to change upon inspection of property after construction is completed. This estimate of Market Value is as of the date shown, as proposed, as if completed and operating at income levels shown and projected in the appraisal.

It is assumed that the property which is the subject of this report will be under prudent and competent ownership and management, neither inefficient nor superefficient.



The following pages contain:

- **Appraiser Qualifications**
- **Engagement Contract**
- **Additional Exhibits and Information for Reference**

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QUALIFICATIONS OF CARL J. MUNSON, MAI, ASA, AI-GRS

EXPERIENCE SUMMARY

Mr. Munson has held positions in real estate appraisal, development, marketing, and financing. Appraisal work for purposes of real estate acquisition, financing, estate valuation, just compensation, and dissolution has been conducted since 1971. Development work has included apartments, an office building, and residential subdivisions. Market studies have been prepared leading to most profitable development as well as determining the feasibility of renovation and remodeling, or conversion, of existing commercial or multi-family projects. Market and feasibility studies for commercial and multifamily developments have been conducted since 1977. Experience in financing has included residential, multifamily, and commercial developments. Mr. Munson was voted Appraiser of the Year for 2014 by the Seattle Chapter of the Appraisal Institute.

EDUCATION SUMMARY

B. A., Western Washington University, Bellingham, Washington.

Basic Principles of Appraising: An overview of the valuation process including fundamental, economic and valuation assumptions, basic appraisal techniques, the three approaches to value, and appraisal ethics.

Income Capitalization Approach Introduction: Introduction to direct capitalization, basic cash equivalency, yield capitalization, financial functions, and discounted cash flow analysis.

Advanced Income Capitalization: cursory review of information studied in course 1-B, summarized above, with subsequent detailed analysis of practical applications for financial functions, cash equivalency, discounted cash flow analysis, etc.

Urban Appraisal Practices: This class involved advanced analyses and application of cash-flow forecasting, risk analysis, development feasibility, financial alternatives, and tax considerations.

Case Studies: Dissection of individual sample valuation cases dealing with, among other topics, valuation of leased interests, present value calculations, various forms of depreciation, and sales comparison analyses.

Standards of Professional Appraisal Practice - USPAP: Study of the statements appearing in, underlying reasons behind, and consequences of violation of the *Uniform Standards of Professional Appraisal Practice* (USPAP) of the Appraisal Standards Board of the Appraisal Foundation.

Standards of Professional Appraisal Practice - Ethics: Study of the statements appearing in, underlying reasons behind, and consequences of violation of *The Code of Professional Ethics* of the Appraisal Institute.

Highest & Best Use and Market Analysis: Supply and demand theory; market studies; marketability studies; feasibility analysis; highest and best use analysis.

General Appraiser Market Analysis and Highest & Best Use: Primary and secondary data collection, fundamental demand forecast, inferred demand projection, market delineation, marginal demand, segmentation, etc. Emphasis of retail and office market analyses. I have taken this course twice.

Advanced Applications: Case studies of complicated appraisal problems dealing with income producing properties. Also included economic trend and market demand analysis, competing investments, and appropriate yield rate selection.

Small, Mixed-Use Properties: Review of alternative appraisal techniques, potential short comings to be avoided, purchaser profile and case studies applicable to valuation of small, mixed-use, income-producing properties.

Separating Real and Personal Property From Intangible Business Assets: Endeavored to show how to separate business assets values from total assets including real and personal property.

Allocating Components in Going Concern Appraisals: Methodologies for estimating value contributions of going concern components, i.e., real estate, FF&E, and intangible items, and references for additional sources when valuing specific types of going concerns.

Review Theory - General: Fundamentals of appraisal review with a focus on the process used to develop and report opinions of appropriateness and credibility in appraisal reports.

Supervisory Appraiser/Trainee Appraiser Course: Focused on USPAP requirements that affect appraiser supervisors.

FEASIBILITY AND MARKET STUDIES

Apartments
Condominiums

Office Space
Residential Subdivisions

TYPES OF PROPERTIES APPRAISED

Apartments
Automobile Dealership Facilities
Condominiums
Convenience Stores
Cross-dock Truck Terminals
High Tech Buildings

Hospitality Facilities
Marinas
Medical Office Buildings
Office Buildings
Office/Warehouses

Residential Subdivisions
Restaurant Properties
Retail Facilities
Self-Storage Facilities
Shopping Centers

ADDITIONAL QUALIFICATIONS

Certified General Real Estate Appraiser, State of Washington
State Certified General Appraiser, State of Oregon
Certified General Real Estate Appraiser, State of California

Expert witness testimony, Washington Superior Court

CLIENTS HAVE INCLUDED

AEGON USA Realty Advisors
American Marine Bank
AmericanWest Bank
Amresco
Archon
Bank of America
Bank of Bellevue
Bank of the Northwest
Bank of the Pacific
Bank United
Bank of Washington
Bank of the West
Banner Bank
Base Capital
Bay Mortgage
BMC Capital
Boeing Employees Credit Union
Boston Private Bank & Trust
Business Bank of Skagit County
Cascade Bank
Cascade Mortgage Co.
Cathay Bank
Centennial Bank
Central Pacific Bank
Charter Private Bank
Chevron USA
CIT Small Business Lending Corp.
City Bank
City National Bank
City of Bellingham
City of Everett
City of Kirkland
City of Oak Harbor
City of Shoreline
City of Tukwila
Clackamas County Bank
Coastal Community Bank
Cohen Financial
Colonial Bank
Columbia Bank
Commerce Bank
Community Financial Corp.
Continental Wingate Capital
Cornerstone Realty Advisors
Countrywide Commercial R.E. Financing
Covenant Mortgage

Cowlitz Bank
Crossland Mortgage
East West Bank
EF & A
Enterprise Bank
Evergreen Bank
FBI
Farmers and Merchants Bank
Farmers Bank of China
First Citizens Bank
First Community Bank
First Heritage Bank
First Horizon
First Independent Bank
First Mutual Bank
First Nationwide Bank
First Savings Bank
First Sound Bank
First Union National Bank
Fortune Bank
Franklin Bank
Frontier Bank
GMAC
General Bank
Gibraltar Savings
Glacier Real Estate Finance
Hanover Financial
HomeStreet Bank
Horizon Bank
Housing Capital Company
InterBusiness Bank
International Commercial Bank of China
Ironstone Bank
JP Morgan Chase Bank
KeyBank
King County, Real Property Division
Kitsap Bank
Lend Lease
Lutheran Brotherhood
Merchants Bank
Metropolitan Federal Savings Bank
Midfirst Bank
Mt. Rainier National Bank
National Bank of Renton
National Bank of Tukwila
NorthStarBank

Northwest Business Bank
Northwest International Bank
Omega Funding LLC
PACE Realty Advisors
Pacific Capital Bank
Pacific Consulting Group
Pacific Continental Bank
Pacific Crest Savings Bank
Pacific Life Insurance Company
Pacific Northwest Bank
Peoples Bank
Pierce Commercial Bank
Pioneer Bank
Preferred Funding
PremierWest Bank
Prudential Mortgage Capital Co.
RBC Builder Finance
Rainier Pacific Bank
Regal Financial Bank
River Bank
Riverview Community Bank
Safeco
Safeguard Mortgage
Schiro Financial
Seattle Savings Bank
Skagit State Bank
Snohomish County Fire District 14
Sound Community Bank
Summit Savings
Umpqua Bank
United Commercial Bank
United Security Bank
University Federal Savings
U. S. Bancorp
Viking Community Bank
Wachovia Corporation
Washington Business Bank
Washington Federal Savings Bank
Washington Square Capital
Washington Trust Bank
Wells Fargo
West Coast Bank
Westsound Bank
Whidbey Island Bank
Wilmington Trust Company (Delaware)
WMF / Huntoon, Paige

STATE LICENSES





Business, Consumer Services & Housing Agency
BUREAU OF REAL ESTATE APPRAISERS
REAL ESTATE APPRAISER LICENSE

Carl J. Munson

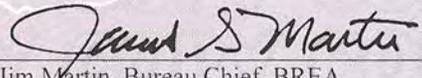
has successfully met the requirements for a license as a residential and commercial real estate appraiser in the State of California and is, therefore, entitled to use the title:

“Certified General Real Estate Appraiser”

This license has been issued in accordance with the provisions of the Real Estate Appraisers' Licensing and Certification Law.

BREA APPRAISER IDENTIFICATION NUMBER: AG 027121

Effective Date: July 7, 2015
Date Expires: July 6, 2017


Jim Martin, Bureau Chief, BREA

3022584

QUALIFICATIONS OF AARON D. DECOLLIBUS, CANDIDATE FOR DESIGNATION, APPRAISAL INSTITUTE

EXPERIENCE SUMMARY

Mr. DeCollibus is a graduate of Pepperdine University's Graziadio School of Business and Management. Prior to joining CJM, Mr. DeCollibus worked as a commercial real estate broker specializing in office and industrial tenant representation. Mr. DeCollibus has over close to 15 years of experience in the real estate industry as an investor and broker.

EDUCATION SUMMARY

Pepperdine University, M.B.A, Finance
Macalester College, B.A., History

Business Practices and Ethics: An introduction of the professional practice requirements and an overview of the Code of Professional Ethics of the Appraisal Institute.

Uniform Standards of Professional Appraisal Practice (USPAP) Update: Focuses on recent changes to USPAP requirements for ethical behavior and competent performance by appraisers.

Appraisal Principles & Procedures: A comprehensive introduction to the history, terminology, methods and purpose of Real Estate appraisal along with the theory and concepts behind the three approaches to value.

Advanced Income Capitalization: Builds on the topics covered in the general income approach classes with advanced topics including complex lease structures, property valuation techniques (reversions, property model applications, and supporting the discount rate), complex mortgage instruments and the effects of leverage, and investor motivations, including measures and types of risk, measures of return, and income tax consequences.

Advanced Market Analysis and Highest & Best Use: Introduces the Level C marketability study using fundamental demand analysis to study multiple property types and the physical and economic effects on communities and real estate.

General Appraiser Income Approach I & II: The theory and applicability of the Income Capitalization Approach are reviewed along with the theory and concepts behind yield capitalization formulas.

General Appraiser Site Valuation & Cost Approach: Fundamentals of site valuation, estimation of current improvement cost, and various methods of recognizing and measuring accrued depreciation.

General Sales Comparison Approach: Detailed discussion of property comparability, techniques to gather proper data and sort appropriately. Quantitative and qualitative comparison elements are examined.

General Market Analysis and Highest & Best Use: Primary and secondary data collection, fundamental demand forecast, inferred demand projection, market delineation, marginal demand, segmentation, etc. Emphasis on multi-family and office market analysis.

General Review Theory: Fundamentals of the appraisal review process. Course covers topics such as developing opinions of completeness, appropriateness and credibility of the report.

Going Concerns & Multidisciplinary Appraisals: Detailed discussion on the components of going concern properties, the embedded intangibles and the applicable valuation methods the components.

PROFESSIONAL AFFILIATIONS

Certified General Real Estate Appraiser, State of Washington
State Certified General Appraiser, State of Oregon
Certified General Real Estate Appraiser, State of California
Licensed Washington Real Estate Designated Broker
Member, International Right of Way Association
Argus DCF Software Certified

STATE LICENSES



PL-630-159 (R/6/13)





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1530 140th Ave NE, Suite 200
Bellevue, Washington 98005

CONTRACT FOR APPRAISAL SERVICES

File No.: RB16-125

CJM, herein referred to as the "Appraiser," and Andorra Ventures, LLC, herein referred to as the "Client," hereby agree and contract as follows:

I. Contract Work

The Appraiser will appraise the commercial property located at 16390 Cleveland Street, Redmond, WA, APN 719880-0085. The Appraiser will provide the Client with an electronic copy of an appraisal report no later than September 28, 2016 or three (3) weeks from receipt of the signed contract and payment, whichever is later.

The intended use of the appraisal is to estimate As Is market value. This appraisal cannot be used for any other purpose than the stated purpose.

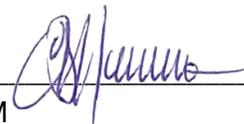
II. Contract Sum

The Appraiser will perform the services outlined above for a fixed fee of \$4,000.00 due before any services are performed. If court testimony is required, the additional charge is \$250 per hour.

III. Termination

In the event the appraisal services are stopped by the Client at any time, the Appraiser's fee shall be calculated according to the proportion of work completed on the appraisal assignment prior to the Client's request to stop, with a minimum cancellation fee of \$500. The remainder shall be reimbursed.

I will develop and report these services in conformity with and subject to the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.

BY 
CJM

DATE September 7, 2016

BY 

DATE September 7th 2016

Mr. Sean Miller
Andorra Ventures LLC
1416 SW Roxbury Street
Seattle, WA 98106
sean@origins.sale
206-551-1309

Check here to request hard copies (up to three).

requested: 2

LEGAL DESCRIPTION

4 LEGAL DESCRIPTION OF PROPERTY SITUATED IN UNINCORPORATED _____ COUNTY OR IN CITY OF Redmond
Street Address (if property is improved) 16390 Cleveland Street

The South 60 feet of Lot 1, Block 6, as measured along the Westerly line of said Lot Town of Redmond, according to the plat thereof recorded in Volume 7 of Plats, page 74, records of King County, Washington

5	Is this property currently	YES	NO
	Classified or designated as forest land? Chapter 84 33 RCW	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Classified as current use land (open space, farm)	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Purchase Agreement

Scott Hensrude(the "Seller"), of the assignment of the purchase and sale of 16390 Cleveland St Redmond WA executed on 6-1-16 between Scott Hensrude and Raincity Development LLC, Woodinville, Washington, does hereby assign and transfer to Andorra Ventures LLC (the "Buyer"), of 10638 Bermuda, Cedar Hills, Utah 84062, the following property.

PROPERTY: option to purchase and the assignement of the purchase and sale of 16390 Cleveland st Redmond WA

DESCRIPTION: Legal REDMOND TOWN OF S 60 FT TGW POR LOTS 1 & 2
BLOCK 6 SD ADD PER KC COURT CASE# 09-2-03962-3SEA REC#
20100609000937

AMOUNT: \$900,000.00

for a TOTAL AMOUNT OF \$900,000.00

The above property is sold on an "AS IS" basis. The Seller makes no warranties, express or implied (except as specifically stated in this document).

This transfer is effective as of: TBD.

The property is now located at 16390 Cleveland ST, Redmond, Washington 98053, and all of such property is in the possession of RainCity Development LLC.

This Purchase Agreement shall be signed by Scott Hensrude and by Sean Miller on behalf of Andorra Ventures LLC.