SUMMARY STYLE APPRAISAL REPORT
OF THE EXISTING MIXED-USE WAREHOUSE BUILDING
LOCATED AT:
2180 MILL BAY ROAD
KODIAK, ALASKA 99615

FOR:
WELLS FARGO BANK – RETECHS DEPT.
BRETT SMITH
299 S. MAIN ST., 6TH FLOOR
SALT LAKE CITY, UTAH 84111

VALUATION DATE:
APRIL 29, 2015

FILE#15-559
RETECHS #: WF-SLC-15-010148

BY:

CLINT H. A. LENTFER, MBA
&
ADAM T. FITT
ALASKA APPRAISAL & CONSULTING GROUP, LLC
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ANCHORAGE, ALASKA 99501
907.677.1133

May 26, 2015

Wells Fargo Bank – RETECHS Dept.
ATTN: Brett Smith
299 S. Main St., 6th Floor
Salt Lake City, Utah 084111

Re: Market Value Appraisal Report – WF-SLC-15-010148
Existing Mixed-Use Warehouse Building located at:
2180 Mill Bay Road,
USS 3098, Lot 23
Kodiak, Alaska 99615

Dear Mr. Smith:

As requested, we have completed a market value appraisal of the referenced property located in Kodiak, Alaska. This is a narrative appraisal report presented in a summary style report format with the scope of the appraisal considering all necessary approaches to value.

The purpose of this appraisal report is to estimate the **"As Is"** market value of the Fee Simple Interest of the Subject property as of April 29, 2015, in accordance with the instructions provided by the client. The Subject consists of a one story, steel frame, 5,822 SF warehouse building with small office and an apartment area. The Subject building is located on a 1.25 acre site, Lot 23, USS 3098, commonly known as 2180 Mill Bay Rd. in Kodiak, Alaska. The "As-Is" & "At Stabilized Occupancy" values are concluded to be the same as the subject is an existing building, is owner occupied, and tenant occupied with good multi-tenant and owner/user characteristics, located in a stable economy.

We have gathered the necessary data, conducted the required investigation, and have made the analysis that has enabled us to form an opinion as to the market value of the subject property. The accompanying report sets forth the most pertinent data gathered, the techniques used, and the reasons leading to the opinion of value.

Based on our investigation and analysis, we have formed the opinion that, subject to the limiting conditions and assumptions contained herein, the **"AS IS"** market value of the Subject property, in the Fee Simple Interest, as of April 29, 2015, is:

EIGHT HUNDRED SEVENTY THOUSAND DOLLARS
($870,000)

There is no F, F, & E associated with the facility, and we are appraising the subject "As-Is". We have personally inspected and measured the property and, to the best of our knowledge and belief, all information and estimates of value contained in this report are true and correct. No pertinent information is knowingly or willfully withheld. The certification and limiting conditions and assumptions contained herein are an integral part of this report. The retention or use of this appraisal signifies acceptance of all limiting conditions and assumptions as specified herein. The report is intended to meet the current Uniform Standards of Professional Appraisal Practice as formulated by the Appraisal Foundation, and conforms to the Appraisal Standards for Federally Related Transactions adopted by the Office of the Comptroller of the Currency (OCC).

I hope this appraisal proves relevant to your decisions regarding the property. If you have any questions, please contact us at this office.

Respectfully Submitted,
Alaska Appraisal & Consulting Group, LLC

Clint H. A. Lentfer, AA-506

Adam T. Fitt AA-787

Certification

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

1. I have no present or prospective interest in the property that is the subject of this report. I have no personal interest or bias with respect to the parties involved with this assignment. I have no bias with respect to the property that is the subject of this report.

2. My engagement for completing this assignment is not contingent upon the development or reporting of a predetermined result. My compensation for completion of 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.

3 The reported analysis, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased, professional analysis, opinions and conclusions.

4. Clint H.A. Lentfer & Adam T. Fitt have walked through the property that is the subject of this report.

5. The appraisal assignment is not based on a requested minimum valuation or specific valuation or the approval of a loan.

6. The statements of fact contained in this report are true and correct.

7. Unless otherwise stated, this is a summary appraisal report and all necessary approaches to value were completed. The appraisal contains all information necessary to enable the reader to understand the appraiser's opinion, logic, reasoning, judgment and analysis in arriving at a final conclusion of market value. This Report sets forth all of the limiting conditions (imposed by the terms of the assignment or by the author) affecting the analysis, opinions and conclusions contained in this Report.

8. This Report conforms with and is subject to the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.

9. My analysis, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.

10. The appraiser has the appropriate knowledge and experience required to complete the assignment competently.

11. The use of this Report is subject to the requirements of the Appraisal Institute relating to review by its authorized representatives.

12. No one provided significant professional assistance to the person signing this report, other than the undersigned, or those whose services are specifically acknowledged herein, prepared the analysis, conclusions, and opinions concerning the real estate that are set forth in this Appraisal Report.

13. Clint H. A. Lentfer and Adam T. Fitt are currently certified by the State of Alaska as General Real Estate Appraisers (Certificate No. AA-506 & AA-787 respectively).

14. The Appraisal Institute conducts a program of continuing education, and members who meet the minimum standards of this program are awarded periodic education certification. As of the date of this Report, Clint H.A. Lentfer and Adam T. Fitt have completed the requirements under the continuing education program of the Appraisal Institute.

Clint H. A. Lentfer, AA-506

Adam T. Fitt AA-787

Extraordinary Assumptions
and Hypothetical Conditions

1. This Summary Style Appraisal Report is completed with a scope of work considering all applicable/necessary approaches to value. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.

2. No value was given to any personal property in this analysis. All furniture, fixtures, inventory, and equipment not associated with the real property are specifically excluded from the values concluded in this report.

3. We have valued the real property only; no income from business operations has been included in the analysis.

4. We assume the building has no contamination. It is beyond the scope of this report to locate contamination and no environmental inspections were provided for review. We assume that there is no negative impact as it is not feasible to determine the materials used and the condition of all of the items within the existing structure. No abnormal environmental issues were observed or are assumed to exist.

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ADDENDUM:
Appraisal Order
Zoning Description
Appraiser Qualifications

SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

PROPERTY APPRAISED:	Existing Mixed-Use Warehouse Building, located at: 2180 Mill Bay Road, Kodiak, Alaska 99615.
LEGAL DESCRIPTION:	USS 3098, Lot 23
OWNER OF RECORD:	James & Janiese Stevens P.O. Box 8593, Kodiak, Alaska 99615
SALES HISTORY:	The subject building was purchased by the current owner on 7/22/2014 for $870,000. No other information was provided from this purchase and the subject was not marketed on MLS. No other sale or listing disclosed or discovered.
SITE DATA:	The improved site consists of a rectangular shaped lot measuring approximately 165' x 330', containing a total gross area of 1.25 Acres. The Subject site has approximately 165' of frontage along Mill Bay Road to the north, however it is located below street grade with no visibility off the street.
ZONING:	The subject site is zoned Business (B) by City of Kodiak. See addenda for full description.
UTILITIES:	Public electricity, telephone, water, and sewer are available to the site. A 1,000 gallon fuel oil tank is located along the north side of the building which provides fuel for heat – typical.
IMPROVEMENTS:	The site is improved with an above average quality, one-story, clear span metal warehouse/office/apartment building. The building measures 50' x 100', with a 50' x 10' office area, and a 50' x 18' second level apartment. The building was constructed in 2006, and contains a gross building area of 5,822 SF, with apartment unit and office areas.
PROPERTY RIGHTS APPRAISED:	Fee Simple Interest.
FINAL VALUE ESTIMATE :	**$870,000 – "As-Is"**

SUBJECT PHOTOGRAPHS

All photographs taken by : Clint Lentfer & Adam Fitt on 04/29/15

Front (South side)

Rear (North side)

East Side

West Side

Mill Bay Rd looking west – subject on left

Mill Bay Rd looking east–subject on right

1,000 gallon fuel oil tank

Subject site looking south – yard / parking

West side of site looking north

Yard Area/access driveway

Yard area looking east

Warehouse interior

Warehouse interior 	Mechanical room
¾ Bathroom 	Utility Sink
Restroom 	Office

Apartment Kitchen 	Apartment Bathroom
Forced air heating system 	Waste oil heating system
Warehouse Interior 	

APPRAISAL REPORT

GENERAL INFORMATION

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the "**AS IS**" market value of the Subject property, as of April 29, 2015.

INTENDED USER

The intended user of this report is Wells Fargo – RETECHS Dept. and their assigns. No other users may rely on the findings in the report.

INTENDED USE OF THE APPRAISAL

It is our understanding that this appraisal report will be used by our client, Wells Fargo – RETECHS Dept., in determining the market value of the subject which will be used as collateral for a loan.

DATE OF VALUE ESTIMATE AND DATE OF INSPECTION

The date of this valuation and inspection is Aril 29, 2015.

PROPERTY RIGHTS APPRAISED

The property rights appraised are the Fee Simple Interest.

SCOPE OF APPRAISAL

To develop an opinion of value, the appraiser considered all applicable approaches to value, and the most relevant approaches were completed. The necessary research and analyses were completed to prepare the report in accordance with its intended use and the specific appraisal instructions from the client. The Subject is appraised in consideration of its highest and best use. Our analysis is presented in a summary style report format.

As part of the appraisal process, we have made a number of independent investigations and analyses. We have relied on data retained in our office files that has been compiled over time and updated regularly. We have also relied on data obtained from other sources, such as local municipalities, realty professionals, and businessmen, to determine ownership and other regulations affecting the subject property. Comparable sales data, rental data, inventory levels, and absorption rates were obtained from interviews with local businessmen, real estate professionals, and property owners.

A physical inspection of the Subject property was made by Clint H. A. Lentfer & Adam Fitt on April 29, 2015. Additional property specifics were obtained from discussions with the owner during the site inspection. The size of the improvements were concluded by a physical measurement of the improvements, supported by documentation provided to the appraiser from the client, the Kodiak Island Borough – Assessors office, and lease data.

This appraisal has been prepared *considering* all three approaches to value. The indicated values are reconciled, and a final estimate of value is developed. Adequate market data was developed to enable the appraiser to complete the assignment in accordance with the appraisal instructions and in conformance with the FIRREA requirements. No pertinent data has been knowingly omitted. Supporting documentation is retained in the appraisers file.

DEFINITION OF VALUE AND PROPERTY RIGHTS

"MARKET VALUE" is defined in the *Appraisal of Real Estate* as follows:

> "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 the definition are 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. buyer and seller are well informed or well advised, and acting in what they consider their own best interest;
> 3. a reasonable time is allowed for exposure in 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.

The term "Fee Simple Estate" is defined in The Dictionary of Real Estate Appraisal, Fourth Edition, as "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."

The term "Reasonable Exposure Time" is defined in the *Standards of Professional Appraisal Practice of the Appraisal Institute* as "the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. A

retrospective estimate based upon an analysis of past events assuming a competitive and open market."

The "As Is" value of the property is based on its current physical condition and subject to the zoning in effect as of the date of the appraisal.

The "At Completion" value considers the alterations and improvements discussed completed in a workmanlike manner.

STATEMENT OF COMPETENCY

The appraisers, Clint H. A. Lentfer & Adam T. Fitt, have completed numerous appraisals of commercial properties throughout the State of Alaska, including a number of appraisal assignments of retail & mixed use commercial facilities in Kodiak, and competing Alaskan coastal communities; and are therefore, competent to prepare this appraisal.

LIMITING CONDITIONS AND ASSUMPTIONS: Please see additional limiting conditions and assumptions that apply to this appraisal report in the addenda.

SALES HISTORY: According to the owner, supported by data from the Kodiak Island Borough and Alaska Recorders Office, the owner has been in title to the property since 7/22/2014. We were not provided a copy of a purchase and sale agreement for this transaction; however the owner indicated they paid $870,000. The subject property was not listed on MLS. No additional details were provided to the appraiser for review. No current listings of the subject have been discovered. This recent, historical arm's-length sale of the subject provides good support of a value for the subject and has been considered in our analysis.

APPRAISAL DEVELOPMENT AND REPORTING PROCESS: In preparing this appraisal, the appraiser:

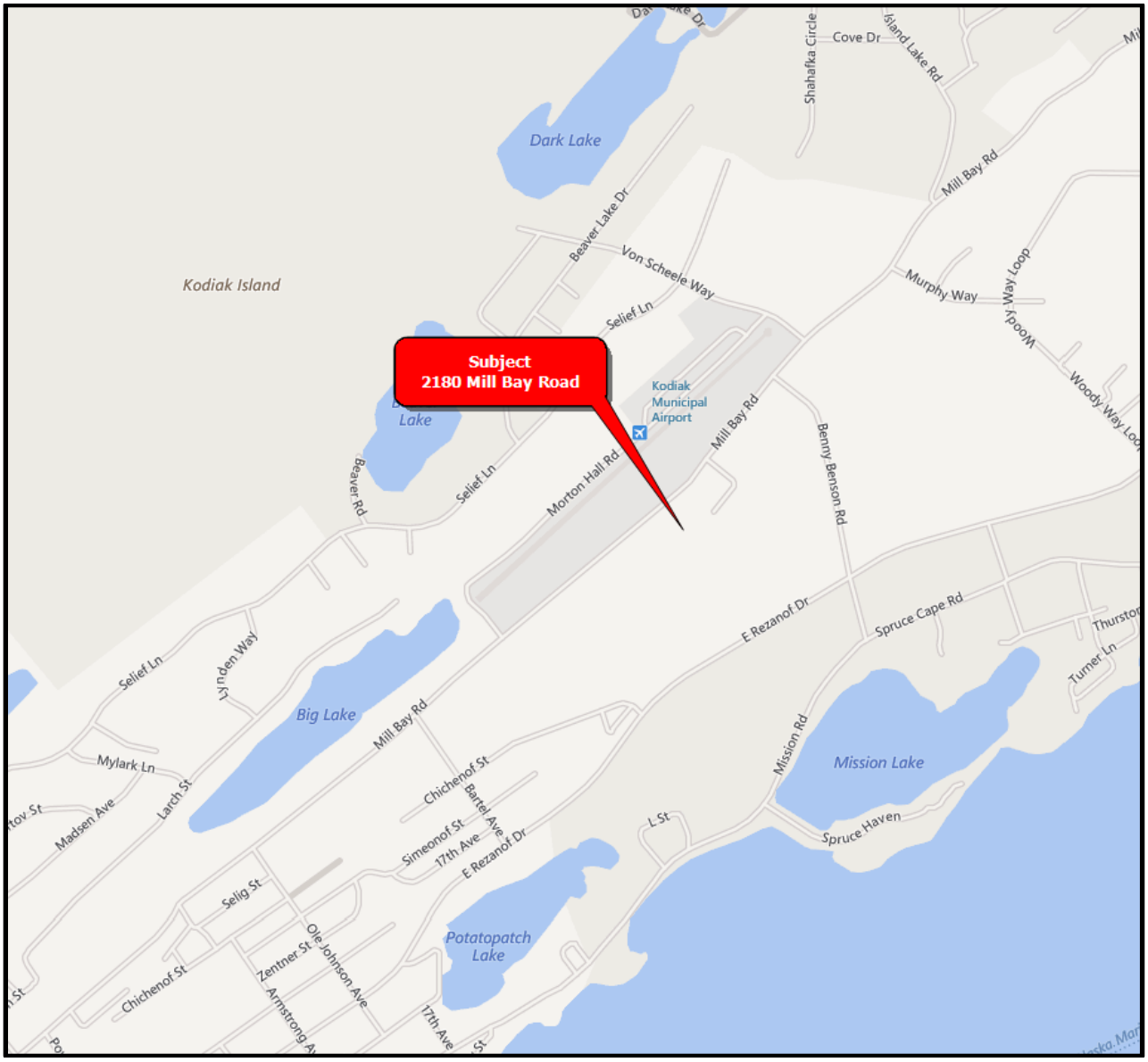
- Inspected the subject property.
- Reviewed available records, plans, plats, specs, land leases etc.
- Reviewed available cost, market and income information.
- Applied the best available approaches to arrive at an indication of value.

This summary style appraisal report is a brief recapitulation of the available data, analyses, and conclusions. Supporting data and additional records are located in the appraiser's file.

Regional / State Location Map

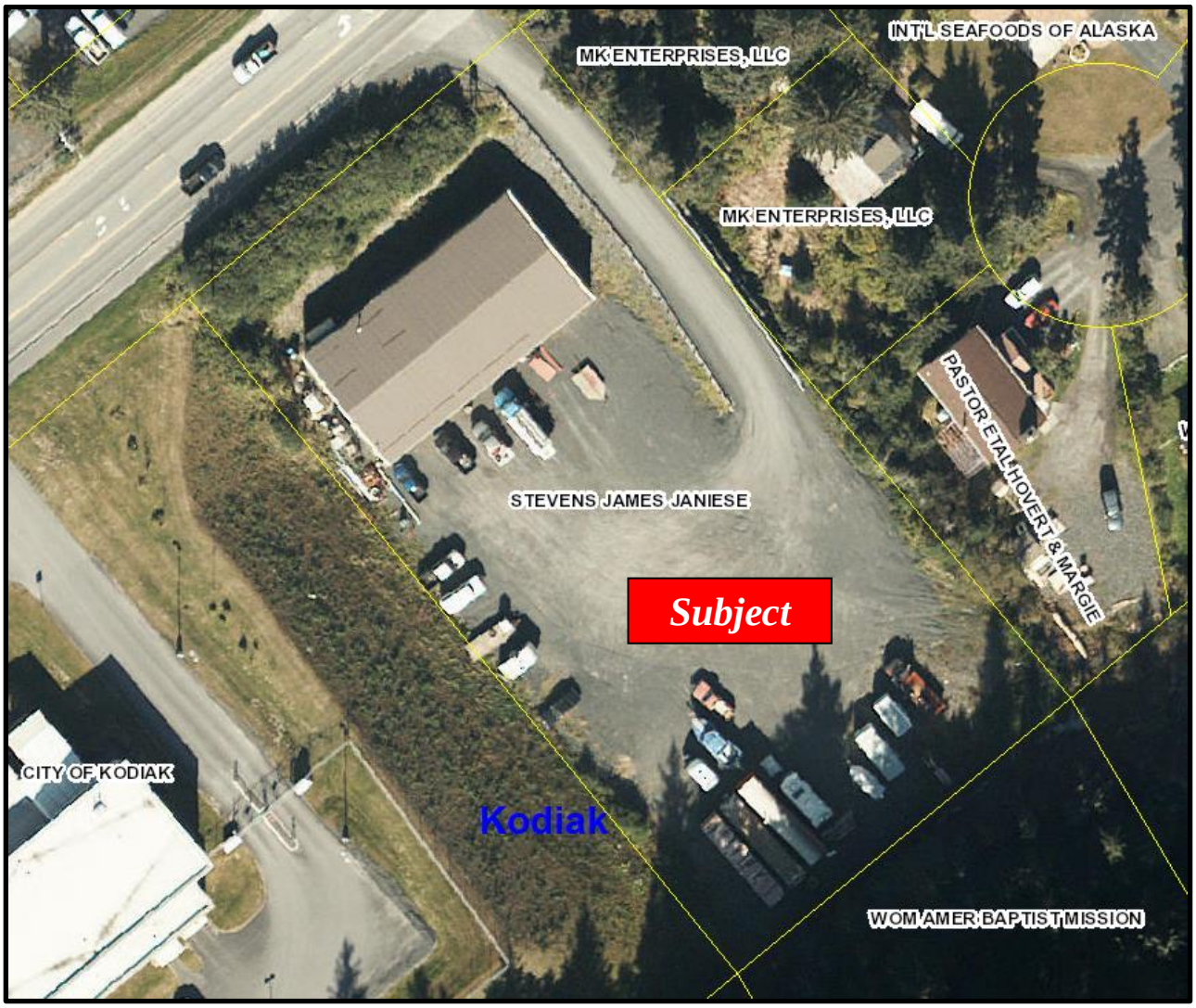
Location Map

Neighborhood Location Map



Aerial 1

Aerial 2


INT'L SEAFOODS OF ALASKA
MK ENTERPRISES, LLC
MK ENTERPRISES, LLC
PASTOR ET AL HOVERT & MARGIE
STEVENS JAMES JANIESE
Subject
CITY OF KODIAK
Kodiak
WOM AMER BAPTIST MISSION

SUMMARY OF PROPERTY APPRAISED

The property that is the subject of this report is situated along the south side of Mill Bay Road across the street from the Kodiak Municipal Airport, considered a favorable location for commercial warehouses in the Kodiak market due to its central location. The subject is northeast of downtown Kodiak and has direct access from Mill Bay Road, and is surrounded by similar style, type and utility commercial buildings along the arterials. The subject consists of a one-story steel frame, steel skin, three tenant, three bay warehouse building with (3) 14' x 16' overhead doors, a small office area, and second level, 822 SF apartment built in 2006. The foundation consists of a concrete slab floor with concrete footers, vinyl windows and metal core exterior doors. Unit 1 has approximately 1,620 SF, which includes a small office area, units 2 & 3 have approximately 1,500 SF each.

Individual heat to units 1 only via an individual oil fired forced air units, with a waste oil burner in unit 1. Units 2 & 3 are not heated. Unit 1 has a ¾ bath in the warehouse area, a ½ bath in the office area, and a full bath in the upper level one bedroom apartment that is heated via hot water baseboard heat. The office area is approximately 380 SF and has two small office areas with laminate floors and sheetrock walls. The second level apartment is accessed via an interior stairwell next to the office entry to Unit 1. The apartment area totals approximately 822 SF and consists of a kitchen, small living area, full bath and bedroom, providing additional utility to the subject building. The overall quality and condition of the subject are considered to be above average / good for the Kodiak mixed-use warehouse / office / apartment market.

The improvements are physically located near the northern portion of the site, allowing the majority of the yard area to the south for storage and vehicle operation, with the access road off Mill Bay road down to the site along the eastern edge of the site. The total GBA is approximately 5,822 SF. The subject has multi-tenant characteristics, with a total of three rental bays and a two bedroom apartment located over the office area of the westernmost unit. All units have separate access and 14' x 16' manual, foam core overhead garage doors. The subject can be briefly summarized as follows:

Legal Description: USS 3098, Lot 23, Kodiak Recording District, State of Alaska.

Address: 2180 Mill Bay Road, Kodiak, Alaska 99615.

Owner: James and Janiese Stevens, P.O. Box 8593, Kodiak, Alaska 99615

Exposure Time: Exposure time is the estimated length of time the property being appraised would have been on the market and listed for sale *prior* to the effective date of the market value estimate. Considering existing economic conditions and current supply and demand factors, a reasonable exposure time would be between 6 to 9 months.

Marketing Period: The marketing period is the estimate of time it might take to sell the property at its market value immediately subsequent to the date of appraisal. In this case, the Subject is an above average quality, steel frame warehouse building located in a predominantly business oriented area northeast of downtown Kodiak, Alaska. The locational attributes are considered to be above average. In our opinion, the Subject is located in a market where the outlook for commercial properties should remain stable into the foreseeable future. Considering all factors, we believe that a reasonable marketing time for the Subject is 6 to 8 months.

Assessed Valuation and Taxes: The assessed valuation for the subject is as follows:

USS 3098, Lot 23 – ID # 16287 – 1.25 acre site

Year	Land	Improvements	Total Value	Taxes
2012	$188,300	$353,300	$541,600	$6,905.41
2013	$188,300	$353,300	$541,600	$6,905.41
2014	$188,300	$353,300	$541,600	$6,905.40

The 2014 taxes are reportedly paid in full. 2015 tax assessments have not been released as of the date of the appraisal. No special assessments were noted or disclosed.

Easements: Neither an as-built survey nor a site plan was provided for review. No restrictions were noted or discovered by the appraiser at the time of inspection. According to USS 3098, there no easements or restrictions limiting development. The improvements are located towards the northern portion of the site, with gravel area along the south side. A title report was not provided with this assignment.

Environmental Issues: To our knowledge, there has been no historical use of the site involving hazardous materials, etc.; and none were observed at the time of inspection. We observed no potentially hazardous building materials. The site is generally level and has a significant amount of fill on site, with no wet areas observed. For purposes of this analysis, we assume the property is **not** contaminated. If any portion of the property is contaminated, the value concluded in this report would need to be adjusted to reflect the cost to cure. The parcel is not located in a wetlands area, or in an area classified as a flood hazard area.

Personal Property, Fixtures, and Intangible Items: The Subject is an existing warehouse / commercial building with a small office area, and an apartment. No personal property, fixtures, inventory or intangible items are included in this analysis. All furniture, fixtures, inventory, and equipment not associated with the real property, are specifically excluded from the values concluded in this report.

Handicap Access: The Americans with Disabilities Act (ADA) of 1990 places certain requirements on public and private buildings to provide accessibility to commercial facilities and various information about those facilities. The regulations for ADA Title III

do not require the removal of barriers to accessibility in existing commercial facilities, but they do require compliance in the event of alteration or new construction. In any event, it is beyond the scope of the appraiser's expertise, as well as the scope of this appraisal assignment, to evaluate the Subject's compliance with any applicable ADA requirements. Should the Subject require changes to satisfy the Act, the cost of those changes would be classified as curable functional obsolescence. We did not note any ADA handicap modifications during our inspection.

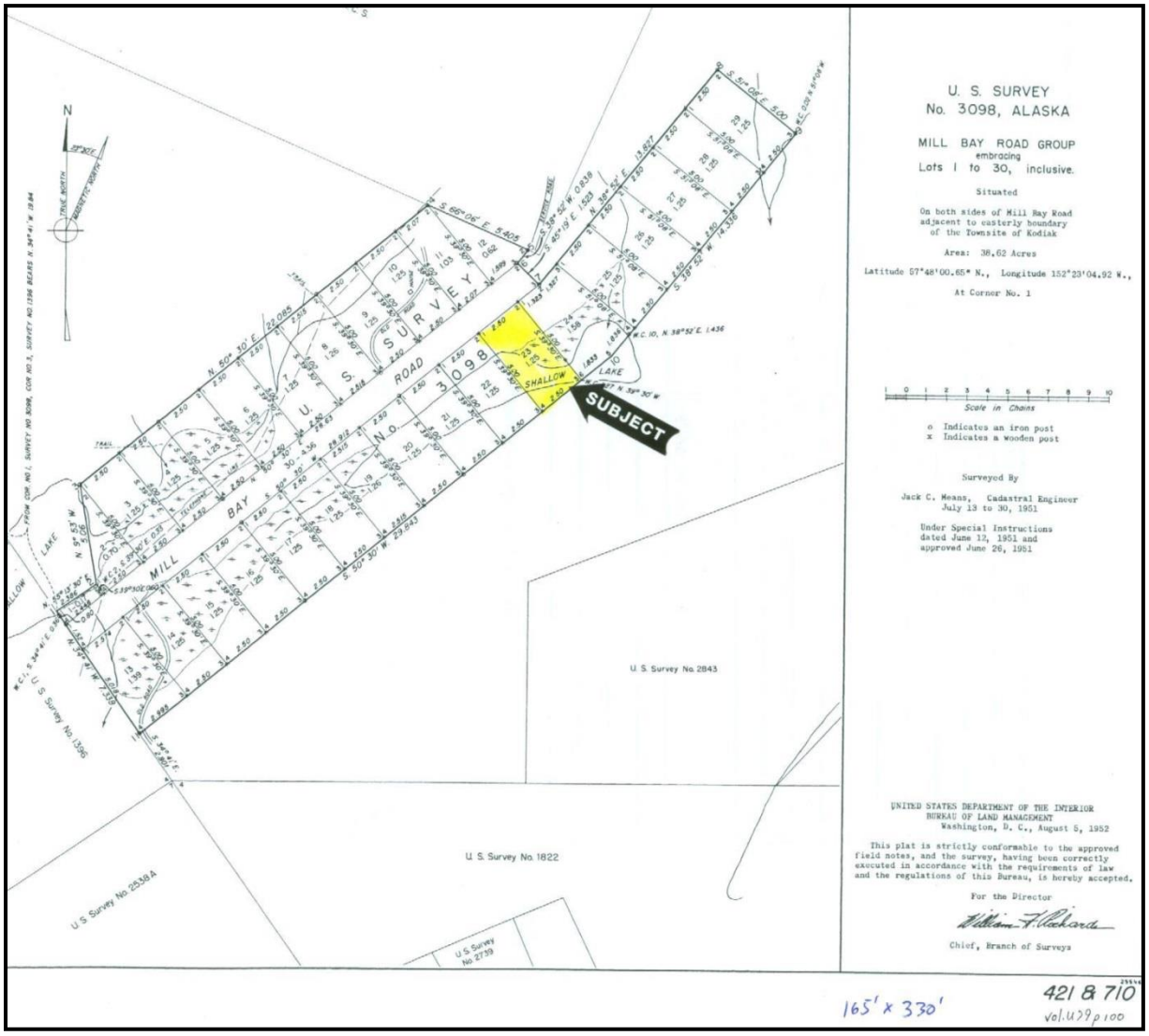
Current Leases: Unit 1 (1,620 SF) is owner occupied with a portion of the office area (240 SF) also owner occupied. The owner and Anderson Performance share a restroom within the office area. Unit 1 is the owner's warehouse area and includes a ¾ bathroom and the mechanical room. Unit 2, and about 140 SF of office area, and a portion of the subject's gravel site is leased by Anderson Performance for a total of $2,300 per month plus electric (warehouse unit only) with a lease date from 3/1/2015 to 9/1/2015. Unit 3 is leased by the Kodiak Police Department for $1,500 per month plus electric with a lease date from 10/1/2014 to 10/1/2015. The 822 SF one bedroom apartments is leased for $1,450 per month with the owner covering all utilities. The apartment is currently leased month to month; however, a relative of the owner will occupy the apartment starting in June 2015 for $1,450 per month and ending in November 2015. A southern portion of the site is leased for storage/parking for $600 per month from 3/2015 to 9/2015. Please see the current lease table below. All of these leases are considered short term with no leasehold or leased fee interest concluded.

Unit #	Area (SF)	Tenant	Lease Start/End	Monthly Rent	$/per SF
1 (¾ bathroom, mech. room)	1,620 sf	Owner	Owner	Owner	Owner
2	1,500 sf	Anderson Performance	3/2015 – 9/2015	$1,500 + Electric	$1/sf
3	1,500 sf	Police Department	10/2014 – 10/2015	$1,500 + Electric	$1/sf
Office (Northern office, shared restroom)	240 sf	Owner	Owner	Owner	Owner
Office (Southern office, shared restroom)	140 sf	Anderson Performance	3/2015 – 9/2015	$300 Util. inc.	$2.14/sf
Apartment	822 sf	Crew Member	Mo to Mo	$1,450 Util. inc.	$1.76
Site Storage /Parking	Gravel site area	Anderson Performance	3/2015 – 9/2015	$500	N/A
Site Storage /Parking	Gravel site area	AIM	3/2015 – 9/2015	$600	N/A
Current Monthly Rental Income				*$5,850/month*	

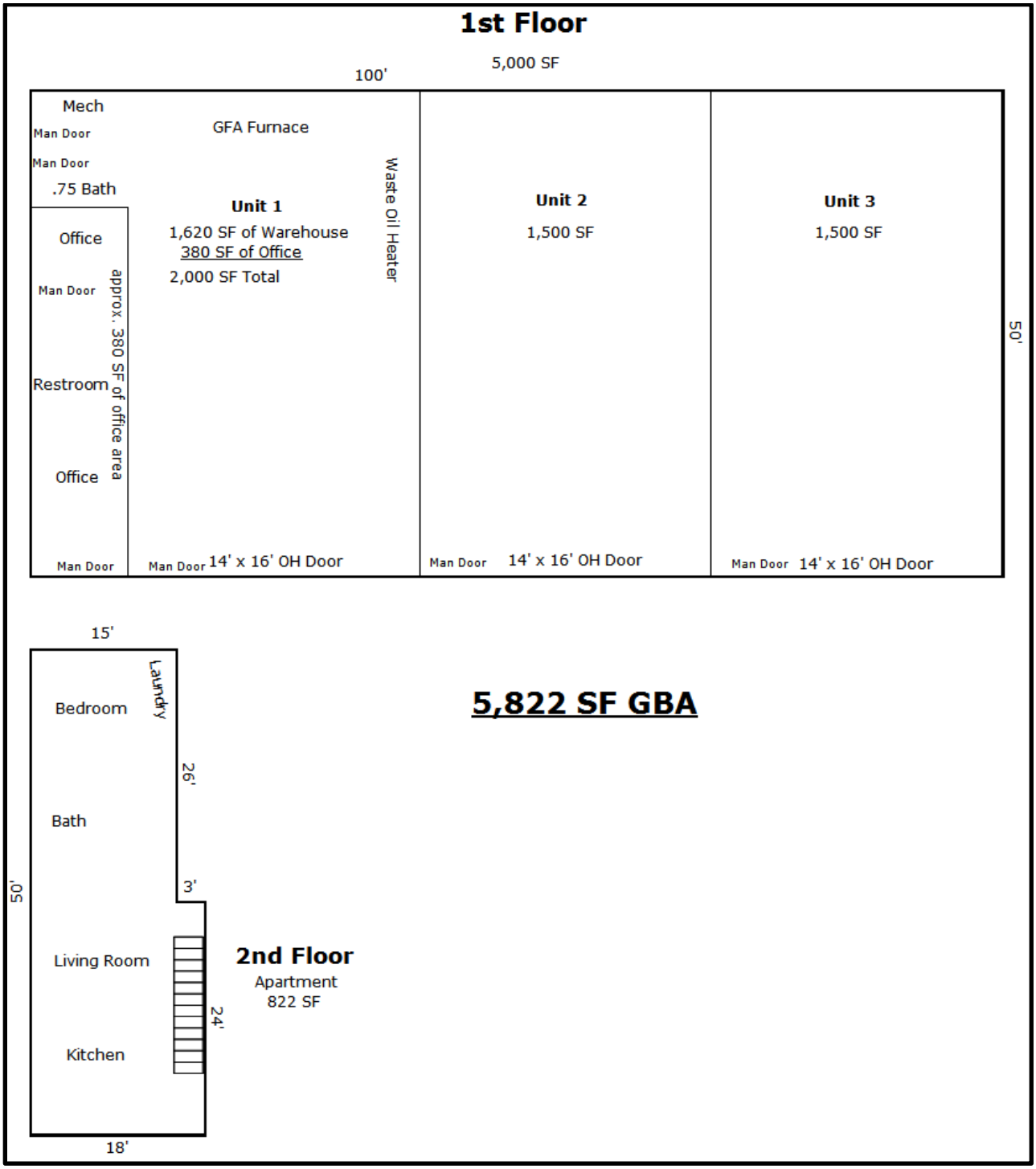
Land / Site Description: The Subject site has an area of approximately 1.25 Acres (54,450 sf), according to USS 3098. The site is generally rectangular shaped, measuring 165' x 330', with approximately 165' of frontage along Mill Bay Road to the north. A site plan was not provided for review. Neither the size nor the shape limits development, however the physical characteristics of the site and its steep slope down from Mill Bay Road limit visibility and full development of the site. It is estimated that the lower portion of the site is approximately 50' below the level of the road, with a steeply sloping drive providing access towards the east side of the site. The site is currently improved with a 5,822 SF warehouse building located near the northern portion of the site, with a large gravel yard area towards the southern portion of the site.

The overall land to building ratio of the site is 9.35:1, with a total site coverage of 9%, which is considered good for a commercial warehouse building in Kodiak, allowing for adequate on-site parking / site storage-rental and adequate ingress/egress. The subject site is below Mill Bay Road grade and features a driveway that slopes to the south toward the subject site and warehouse limiting full development and visibility to the site. Neither the size nor the shape of the site is restrictive to development. See the maps on the following pages.

PLAT MAP


U. S. SURVEY
No. 3098, ALASKA
MILL BAY ROAD GROUP
embracing
Lots 1 to 30, inclusive.
Situated
On both sides of Mill Bay Road adjacent to easterly boundary of the Townsite of Kodiak
Area: 38.62 Acres
Latitude 57°48'00.65" N., Longitude 152°23'04.92 W.,
At Corner No. 1
Scale in Chains
o Indicates an iron post
x Indicates a wooden post
Surveyed By
Jack C. Means, Cadastral Engineer
July 13 to 30, 1951
Under Special Instructions dated June 12, 1951 and approved June 26, 1951
UNITED STATES DEPARTMENT OF THE INTERIOR
BUREAU OF LAND MANAGEMENT
Washington, D. C., August 5, 1952
This plat is strictly conformable to the approved field notes, and the survey, having been correctly executed in accordance with the requirements of law and the regulations of this Bureau, is hereby accepted.
For the Director
Chief, Branch of Surveys
MILL BAY ROAD
U. S. SURVEY No. 3098
SHALLOW LAKE
SUBJECT
U. S. Survey No. 2843
U. S. Survey No. 1822
U. S. Survey No. 2538 A
U. S. Survey No. 1396
U. S. Survey No. 2739
165' x 330'
421 & 710
vol. 429 p. 100

Subject Building Sketch



Detailed Improvement Description

The site is improved with a steel frame, steel skin, 5,000 SF (50' x 100') warehouse / office building with an 822 SF second level apartment. The building was built in 2006 and is in overall above average / good condition, with limited physical deterioration for a building of its age and quality of construction. The foundation is composed of a 4" to 6" concrete slab, at grade with the surrounding area, with a concrete walkway/sidewalk surrounding the south and west sides of the building. The exterior is composed of a Bison Steel frame building with a steel roof, steel siding, vinyl windows, and metal rain gutters, considered to be in above average to good condition. The building is demised into three bays in addition to a 10' x 38' main level office area along the western portion of the building, with an 822 SF one bedroom, one bath apartment located over the office area. Each bay has a 14' x 16' overhead door, with additional access via a man door. There is one ½ bath in the office area, and one 3/4 bath in the southern bay, which is heated via an oil fired roof mount heater and a waste oil heater. Unit 2 & 3 are not heated. The second level apartment is 822 SF and comprised of a kitchen area, bathroom, bedroom and washer / dryer / utility area heated via a hot water baseboard system.

The individual warehouse spaces are clear span with 18' eaves. The building has insulated walls & ceilings and concrete floors with temporary wood partition walls separating the spaces. There are high-output fluorescent lights, metal man doors, foam-core/steel sandwich garage doors, with sufficient clear span interior room in each of the three 30' x 50' bays. Unit 1 features a 30' x 50' bay, a ¾ bathroom, the mechanical room and the adjacent office area. There is adequate on-site parking to the south of the subject building, with the extra yard area rented and used for equipment / trailer storage and vehicle parking.

The overall quality and condition is judged to be above average to good for the market. The utility of use appears to be good, with warehouse bays, an office area, and one bedroom apartment.

Functional Utility - The utility of use of the warehouse building and its layout on site is considered above average, with clear span, steel frame, steel skin warehouse area, office area, a one bedroom apartment, and three bays with individual overhead doors, allowing for multiple tenants, and considered a desirable attribute for the warehouse market in Kodiak. The quality and condition are considered above average to good, with the utility of use of the complex judged to be above average. These positive attributes are somewhat offset by the lack of heat for Units 2 & 3, and the steep driveway along the east side of the site, which put downward pressure on the marketability of the subject, however in the subjects market, owner / buyers are willing to forgo many of the conveniences of a built to suit facility for one that provides functional space in the Kodiak market. On-site parking/storage is consider good, with the southern 2/3's of the site generally level gravel area for ingress/egress and additional parking & storage.

Utilities: The public utilities currently connected to the subject site include telephone, electric, water, and sewer. There is an above ground 1,000 gallon fuel oil tank along

the north / rear side of the building. We assume the existing utilities (mechanical / plumbing / electrical systems) are adequate to support the subject building and its current use.

Neighborhood Characteristics & Data: The Subject property is located northeast of downtown Kodiak along Mill Bay Road, one of the main arterials through Kodiak. For the purposes of this analysis, the specific neighborhood boundaries will be defined as the entire city of Kodiak, as all commercial areas generally compete with one another.

Access to the neighborhood is considered above average with paved, state maintained roads providing access to the area. The neighborhood's predominant land use zoning is business zoning along the arterials, with mixed use residential zoning prevalent in the surrounding neighborhoods. All public utilities are generally available throughout the neighborhood including public water and sewer, telephone and electricity. Police protection is provided by the City of Kodiak in this area.

To summarize, the neighborhood is considered to be have a good location for business / commercial uses. There is a limited amount of vacant land available in the neighborhood for future development. As the demand for property increases, older structures are either being renovated to support commercial use or razed to make way for new developments. Overall, the neighborhood influences are positive for commercial / business development.

Zoning: The Subject property is zoned Business, and the current use is an allowed use. A full description of the Business Zoning is located in the addenda. The subjects use is a legal and permitted use in the neighborhood.

HIGHEST AND BEST USE: In common appraisal practice, the concept of highest and best use represents the premise upon which a value estimate is based. *The Dictionary of Real Estate Appraisal*, Third Edition, defines Highest and Best Use as follows:

> "The reasonably probable and legal use of vacant land or an improved property, which 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 profitability."

There are four essential elements to consider in analyzing the Highest and Best Use:

1) Physical Possibility - Those uses that can physically be constructed on the site.

2) Legal Permissibility - Those uses of the site that are permitted by law, zoning, codes and ordinances, and deed restrictions.

3) Financial Feasibility - Those physical and legal uses that will produce a net positive return to the land.

4) Maximum Productivity - Among the feasible uses, the use that will produce the highest rate of return or the highest value.

The highest and best use of the land if vacant and available for use may be different from the highest and best use of the improved property. This is true when the improvement is not an appropriate use but, nonetheless, it makes a contribution to the total property value in excess of the value of the land.

The appraiser is to decide what uses of the physically possible, legally permissible, and financially feasible would be most productive to the site and to produce the greatest return. Based on the zoning, access, visibility, overall potential utility of use attributes and the surrounding trends of land usage, commercial uses within the Subject's general area are most probable. Our analysis has shown that economic obsolescence exists in the market and construction of most improvements on the sites is not feasible at this time in that the cost of construction would exceed the improvements' market value.

Highest And Best Use – As Vacant

The subject site consists of a 1.25 acre parcel located in a Business zoned district northeast of downtown Kodiak, along Mill Bay Road. Considering the physical characteristics, size and topography most uses are probable. The subject site is approximately 50' below street grade, which limits visibility, access and full use of the site, requiring a steep driveway for access. Based on the current zoning, the Subject's limited visibility off Mill Bay Road, and the surrounding trends of land usage, general business uses not requiring good visibility are most probable, something other than retail / office uses that require this type of amenity. Our analysis has shown that

economic obsolescence exists in the market, and construction of most improvements is not feasible at this time in that the cost of construction would exceed the improvements' market value. Therefore, the highest and best use of the site at this time, **as if vacant and unimproved** would be to develop with a warehouse or a mixed use industrial / commercial building not needing high visibility or direct access to the main arterial, or alternately to hold the property as vacant and unimproved until such time that improved commercial property values increase to a level where market value exceeds replacement cost new.

Highest And Best Use – As Improved

The **"as improved"** highest and best use of the site must also be considered in terms of the four essential elements. The Subject improvements consist of a 5,822 SF multi-tenant warehouse / office / apartment building that is physically adaptive to the site, with adequate / excess parking to the south of the building. The site totals approximately 1.25 acres (54,250 SF), with an ensuing land-to-building ratio of 9.35:1, and a total site coverage of approximately 9%, which are considered good ratios for warehouse facilities, allowing for enough yard area to store and operate vehicles. The physical characteristics of the site, being approximately 50' below the grade of Mill Bay Rd is considered a negative attribute, limiting visibility of the building and making direct access to the building inferior to surrounding buildings in the market along major arterials. The building appears to be the appropriate size for the site, and is considered to have a functional layout, with adequate parking to the south. The building in considered to be in overall above average to good condition, has a majority of its economic life left, and appears to be economically productive. Therefore, our conclusion for the "**as improved**" highest and best use of the Subject is to continue the use of improvements as an existing multi-tenant warehouse building.

Appraisal Method

The appraisal process is the procedure in which comparable market data are gathered, classified, analyzed, and presented in an orderly manner along with a reconciliation and conclusion of value. First, the appraisal assignment must be defined; i.e., identification of the property, classification of the property rights appraised, the type of valuation sought, and the date of valuation. Regional and city demographics and economic data relevant to the Subject are collected and analyzed, then a neighborhood and site analysis is performed and the highest and best use of the Subject is developed. Once this has been accomplished, the appraiser considers the application of the three typical approaches to value and applies the approaches which are applicable to the Subject in estimating the value. The three typical approaches to value are the Cost Approach, the Sales Comparison Approach, and the Income Capitalization Approach.

The Cost Approach is based on the assumption that a buyer will pay no more for a property than the cost to replace the property within a reasonable period of time. The value of the land is obtained generally by direct sales comparison. Replacement cost new for the improvement is calculated and then accrued depreciation from all sources is subtracted. The remainder is added to the land value for an indication of value by the Cost Approach.

The Sales Comparison Approach (Market Approach) involves a comparison of the Subject property with properties of a similar use, design, and utility that have sold in the recent past. The appraiser gathers data on sales of comparable properties and analyzes the nature and condition of each sale, making logical adjustments for dissimilar characteristics. Typically, a common denominator is found. In our area, this is usually either a price per acre or price per square foot for land value and a price per building unit or gross income multiplier for improved property. The Sales Comparison Approach gives a strong indication of value when sales of similar properties are available, which is not the case for the subject with few newer warehouse sales within the past three years in the local Kodiak market.

The Income Capitalization Approach is predicated on the assumption that there is a definite relationship between the amount of income a property will earn and its value. This approach is based on the principle that value is created by the expectation of benefits to be derived in the near future. In this approach, the anticipated annual net operating income of the Subject property is converted to an indication of value. Net operating income is the income generated before payment of any debt service. The process of converting net operating income into value is called capitalization, which involves dividing the net income by a capitalization rate. Factors such as risk, time, interest on the capital investment, and recapture of the depreciating asset are considered in the rate selection. The appropriateness of this rate is critical. There are a number of techniques by which a capitalization rate may be developed. The most reliable method is extraction from market transactions when there are sufficient amounts of reliable market data available which is the case for the subject; however,

many of the most comparable warehouses in Kodiak are owner/user occupied with no arm's length lease in place.

A final step in the appraisal process is the reconciliation of the value indications. In the reconciliation, the appraiser considers the relative applicability of each of the approaches used, examines the range between the value indications, and places major emphasis on the approach that appears to produce the most reliable solution to the specific appraisal problem. The purpose of the appraisal, the type of property, and the adequacy and reliability of the data are analyzed; these considerations influence the weight given to each of the approaches to value. The data used and conclusions drawn must be derived, as much as possible, from the current market and supported by the local economic factors inasmuch as the appraiser seeks to reflect the actions of buyers and sellers within the marketplace.

We have formatted our analyses in the following order: the Cost Approach, the Income Approach, and the Reconciliation and Final Value Estimate. We have omitted the Sales Comparison Approach due to the lack of recent sales of similar warehouse facilities in the Kodiak market. That being said, we have relied on the recent sale of the subject in July 2014, less than one year ago, which provides a strong indicator toward intentions of owner / operators in the market, representing an arm's length sale of the subject. There are some recent sales in other remote Alaskan communities; however, those sales outside the Kodiak area lead to a weak approach and the buildings were not as similar being older. The client requested the scope of the appraisal assignment consider the best approach(es) to value be utilized. The Cost Approach is concluded to provide a credible result for support of the value conclusion as there is sufficient warehouse cost data available and the subject was constructed in 2006. The subject is a multi-tenant building and income producing with available data in the market to form an income approach analysis. The most credible approaches to value will be presented in the following section.

Site Value

Land is customarily valued as though vacant and available for development to its highest and best use. The most reliable method of estimating the current land value in fee simple is through the Sales Comparison Approach. This approach is based on the Principle of Substitution, which postulates that a well-informed buyer will pay no more for a property than the amount for which he can buy a suitable substitute within a reasonable period of time.

Land may be valued by a number of measurements including, but not limited to, price per lot, price per square foot, price per acre, price per buildable unit, or price per front foot. Market research indicates that the unit of comparison typical of parcels of land in the Kodiak Area is the price per square foot or the price per site. In the subject's case, the analysis of the comparable land transactions will be based on the price per square foot, which is an accepted market measurement for parcels in Kodiak.

A search of the Kodiak area was conducted for properties having similar potential uses with overall similar site attributes and highest and best use to the Subject. There have been a few sales of vacant land that are similar in size with similar utility of use attributes (commercial zoning / use with average visibility) in the past three years, as the market has been in transition with many existing sites already having been developed or are being held for future development and/or speculation. The appraiser used the best available, most recent data available at the time of inspection.

A lack of sufficient current vacant land sales data in the neighborhood necessitated a larger geographical and time survey. Vacant land comparables having similar attributes to the subject in Kodiak range in price from about $0.75/SF to $4.50/SF, however they significant differences that affect the respective site values such as: overall sizes of the sites, superior/inferior locations, visibility off a main arterial, and access / parking attributes. A search of the Kodiak area was conducted for properties having similar potential commercial uses in business zoned areas near the central business districts, with overall similar site attributes to the Subject. The appraiser used the best available, most recent data available at the time of inspection. Due to the lack of recent sales data of directly competing business zoned vacant land in Kodiak, older sales and sales with differing attributes were analyzed, and are overall supportive of the recent sales data analyzed. Additionally, we have extrapolated land values from the sales of improved properties with similar locations and similar zoning that are near the end of their useful life and were purchased for the land, considering the building as an interim use, which provides an additional indicator.

The sales discovered include sales of 17,000 SF to 13 Acre business/industrial zoned parcels in Kodiak, all having similar potential highest and best use zoning for commercial uses / buildings. The prices range in price from $82,000 to $269,000 per site, or $0.70 to $4.80 SF, with an overall average of about $2.75/SF. The higher per unit indicators are for the smaller sites, and those with superior overall attributes. We feel the subject is representative of a value near above the middle of the range, with the

lack of available vacant Business Zoned sites creating upward pressure on the price per SF, slightly offset by the subject's topographical characteristics / visibility (50+/-' below grade of Mill Bay Road), and considering its larger size (1.25 acres). The subject's positive site attributes include the level/graded area towards the southern portion of the site, allowing for additional storage and adequate ingress/egress with a favorable business location off Mill Bay Road, and good gravel soils. We have also considered the site value technique looking at the overall values of the individual comparables in considering a value for the subject, which puts some downward pressure on our final value due to the size. Additional discussions with the assessor provide more historical sales and we have considered the assessed value of the site of $188,300 as well.

A reliable range for the subject is considered to be $150,000 to $210,000**,** when all attributes are considered, with a final value above the middle of the range, with the positive factors given more weight, while considering the negative site attributes, somewhat offsetting and not warranting a value at the upper end of the range. Considering all of the attributes, a final value of **$185,000** is considered appropriate or about $3.40/SF.

Total Site Value: **$185,000**

Cost Approach to Value

The Cost Approach to Value is based on the premise that a prudent buyer will not pay more for a property than the cost to reproduce it, provided it could not be reproduced without costly delay. This approach involves estimating the value of the Subject site as if vacant and available for development to its highest and best use. To this value is added the total cost of the proposed improvements, minus the total accrued depreciation from all sources that affect the property.

Theoretically, the Cost Approach implies "reproduction", meaning a duplicate or replica. In practice, "replacement", meaning equivalent, is commonly used. In this report, we will use "replacement cost", defined in *The Appraisal of Real Estate* as follows:

> "Replacement cost is the estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout."

The five steps in this valuation method are as follows:

1. Estimate land value.

2. Estimate reproduction or replacement cost (new) of the existing or proposed improvements.

3. Estimate any accrued depreciation caused by:
   a) Physical Deterioration
   b) Functional Obsolescence
   c) External Obsolescence

4. Deduct depreciation from estimated reproduction or replacement cost (new) to arrive at the depreciated value of improvements.

5. Add land value to the depreciated value of improvements for a total value indication.

The cost factors can be estimated by utilizing a national cost service manual for the Subject area, cost data extracted from recently completed and similar properties, consultations with contractors and professional cost estimators, and by the actual building costs of the Subject property provided by the owner to the appraiser. We have performed numerous appraisals for reputable builders of commercial projects in the Kodiak area, as well as other more rural communities off the road system in the South-central and Southwestern Alaska regions, providing us with good cost data of similar style and type mixed-use warehouse / office buildings. We have reviewed actual construction costs in the subject's market area, therefore the data used in the analysis is considered reliable and accurate.

These costs generally include all the direct costs of material, labor, contractor profit, and all indirect costs such as professional fees, financing costs, taxes, and all carrying costs during the construction phase and the market absorption period. Discussions with local area architects, construction managers, and builders indicate that cost of raw material have increased over the past twelve months. Additionally, these cost increases and raw materials scheduling have caused construction delays in a majority of projects throughout the country, especially in Alaska. In addition to the direct and indirect costs, a figure for entrepreneurial profit is added. Entrepreneurial profit is normally based on a percentage of the total of the other costs associated with the project.

In estimating the replacement cost (new) of the Subject property improvements, we have considered a national cost manual entitled *Marshall Valuation Service*. This national cost service company has cost data for all 50 states. Current cost multipliers are developed in the specific areas covered. This service is a complete authoritative guide for developing replacement costs, depreciating values, and insurable values of buildings and other improvements. It provides costs for a wide variety of construction classes and types of occupancies. Modifiers are included to make the cost applicable to any size building in any locality. Included in the per unit building cost is an allocation for average architect's and engineer's fees, normal interest and service charges for the construction financing, building permits, all material and labor costs, normal site preparation and excavation for the building footprint, utilities from the building to the lot line, and contractor's overhead and profit.

Additionally, we have analyzed cost data from similar projects of which we have knowledge, and have analyzed the recent costs provided to the appraiser regarding similar warehouse buildings under construction in the Kodiak Area and similar remote markets throughout Alaska. From these sources, a reliable hard cost estimate for the Subject building was developed. Budgets from past warehouse builds in the Kodiak area have been reviewed, including actual construction costs when the subject was built. We have reviewed data from discussions from the original owner/builder of the subject warehouse, and this data is overall supportive of the recent cost information we have discovered.

<u>Building Cost Data Analysis</u> – According to the owner/developers in the Kodiak area, the total development cost for warehouses dating back to 2009 have been between approximately $120/SF to $160/SF. We have appraised numerous new construction warehouse properties on the Kenai Peninsula and Mat-Su Valley, with new construction costs for similar style, 3,000 to 8,000 SF steel frame, steel skin insulated warehouses in the $115/SF - $135/SF range, having a similar warehouse to office ratio, however they included all on-site utilities therefore are slightly high indicators. This provides overall support for the subject's concluded $/SF. We have also considered costs data on the numerous warehouse properties we have appraised in Anchorage, however due to the significant permitting cost, higher costs of labor and other factors, these indicators are higher. In conclusion, a value of **$130/SF for the warehouse space** and **$160 for the office/apartment area** are considered reliable and well supported by market data and are used in our analysis.

Entrepreneurial Profit - Entrepreneurial profit is the financial incentive and reward to the developer who assumes the risk and management of the development. Entrepreneurial profit is based on the premise that development does not occur without the consideration of financial incentive. This financial incentive is regulated by the market and can be extracted from the market when new development is prevalent. For this report, we have estimated entrepreneurial profit at 12% of the total cost of construction and site improvements, which is a reasonable amount and support by data from communities throughout Alaska where there is limited data.

Accrued Depreciation - Total accrued depreciation is the difference between the replacement cost of the improvements and the market value of the improvements. Depreciation is caused by deterioration and/or obsolescence in the property. There are three general categories of accrued depreciation: Physical Deterioration, Functional Obsolescence, and External Obsolescence. The various types of depreciation are considered and defined on the following page.

Physical Deterioration: This is the normal wear and tear and action of the elements upon the improvement, including aging of the structural components. Deterioration may be curable or incurable, depending on whether it is economically feasible to repair or replace. The subject is a warehouse facility with office area originally built in 2006, and is considered to be in above average overall condition, with limited deferred maintenance. Due to the nature of the building, which supports industrial uses, and good maintenance physical deterioration is estimated at 8%.

Functional Obsolescence - Functional obsolescence is defined as "that loss from cost new as of the date of the appraisal which is caused by a super-adequacy, inadequacy, unattractive style, poor or inefficient layout, or design." Functional obsolescence can be either curable or incurable; it is curable only when it is profitable to cure the item. Incurable functional obsolescence involves items of inutility, which would not be economically feasible to correct because the value would not increase as much as the cost of correction. In this case, the Subject building is laid out for its current use as a multi-tenant warehouse facility with office area, three overhead doors, a one bedroom 2nd floor apartment. The existing layout is considered its highest and best use, as the building is functional and operable, however two of the units do not have heat and other users may desire a different layout. Overall functional obsolescence is estimated at 8%, a nominal amount considering the subject's above average functional utility.

External Obsolescence - This is the diminished utility of a structure due to negative influences from outside the site and is incurable on the part of the owner. External obsolescence can be caused by a variety of factors such as neighborhood decline, environmental factors, or market conditions (economic obsolescence). To estimate external obsolescence, the appraiser capitalizes the income or rent loss attributable to the negative influence. In essence, external obsolescence results in the loss of productivity or income for a property versus the productivity or income potential for the property without the negative influences.

As discussed in the Highest and Best Use section of this report, the current net operating income potential for most types of commercial complexes is NOT sufficient to support the total cost of development plus developer profit. The exceptions are special-use facilities and/or facilities that fulfill the specific needs of the owner/tenant. In our opinion, the Subject does not fall within this category. External obsolescence is still present in that construction of the improvements is not financially feasible without external (or non-real estate) considerations.

External obsolescence is measured as the difference between the market value of the property and its depreciated replacement cost. External obsolescence can be calculated by a number of acceptable methods. In this case, the data indicate that construction is feasible if the developer profit incentive is deferred into the future. We see this deferment occurring more frequently as landowners and contractors look for ways to create development. To make the project work they are willing to defer their profit incentive into the future. External obsolescence is estimated at 12%, which is a market acceptable return on similar projects.

Summary of Cost Approach – Conclusion to Value

The summary of the Cost Approach, which follows, has been completed using estimated costs for reconstructing a similar building on site with similar overall attributes, tempered by current cost data from competing Alaskan communities, supported by data from the *Marshall Valuation Service*, a nationally recognized cost index manual. A summary of the Cost Approach follows:

Indicated Value by the Cost Approach

$869,000

Cost Approach Summary

SUMMARY OF THE COST APPROACH							
Report 15-559							
2180 Mill Bay Road - Kodiak, Alaska							
Warehouse Area	4,620 SF	x	$130.00	SF	=	$600,600	
Office & Apartment Area	1,202 SF	x	$160.00	SF	=	$192,320	
	5,822 SF						
Add Site Improvements:							
Site Work/Landscaping/Utilities					=	$40,000	
	Subtotal:						$832,920
Add:							
Entrepreneurial Profit			12.00%			$99,950	
Total Replacement Cost (New):							$932,870
Less Depreciation:							
Physical Depreciation			8%			$74,630	
Functional Obsolescence			8%			$74,630	
External Obsolescence			12%			$99,950	
Total Accrued Depreciation			28%				($249,210)
Depreciated Improvement Cost:							$683,661
Add:	Fee Simple Land Value					$185,000	
							$868,661
TOTAL INDICATED VALUE BY THE COST APPROACH							
						(RD)	**$869,000**

Income Capitalization Approach to Value

In the Income Capitalization Approach to Value, the net operating income generated by the real estate is converted to an indication of value. *The Dictionary of Real Estate Appraisal*, Fourth Edition, defines the Income Capitalization Approach as:

> "A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate."

The two techniques commonly used in this approach are the Direct Capitalization Method and the Yield Capitalization Method. *The Appraisal of Real Estate* defines the two methods as follows:

> "Direct capitalization is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step -- either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate factor."
>
> "Yield capitalization is a method used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that explicitly reflects the investment's income pattern, value change, and yield rate."

Both techniques are market oriented and the income, expense, vacancy, and rate data used should be derived from the market. The following steps are taken to implement the Income Approach:

1) Market rental rates for the Subject property are determined and a potential gross annual income is calculated.

2) Anticipated vacancy and collection loss percentages for the Subject are developed.

3) Operating expenses for the Subject are calculated based on the historical expense data of the Subject and of the market comparables.

4) The net operating income is developed by deducting anticipated vacancy and collection loss factors and total operating expenses

5) A capitalized and/or discount rate(s) is(are) developed from the market and applied to the net operating income for an indication of value.

The Subject property consists of a 5,822 SF warehouse with a small office area and a one bedroom apartment on the upper level, in overall above average to good overall condition with an above average location east of downtown Kodiak on Mill Bay Road, a major arterial through Kodiak. The site has good on-site parking/storage and adequate ingress/egress, however is located below the street level. In the Kodiak market, there are few variables that can affect its income stream, as the facility is completely occupied (owner & tenants). Additionally, the large site allows for additional site storage for tenants in the building or separate tenants requiring yard storage area. This is a positive attribute for the subject's ability to produce income.

Therefore, in this report, the Direct Capitalization Method was selected as the technique to be used in developing a value indication by the Income Approach. In this technique, a single year's income, vacancy and collection loss, and expense data are analyzed and a net operating income developed. A capitalization rate is developed from market transactions and supported by the mortgage equity technique. The net operating income is divided by the capitalization rate for a value indication.

In determining the market value for the Subject by the Income Approach, the highest and best use of the Subject as improved must be considered. In this case, the highest and best use of the Subject is as improved, i.e., a multi-tenant warehouse / office / apartment building.

"Market Rent" is defined in *The Dictionary of Real Estate Appraisal*, Fourth Edition, as "The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal."

Market rent for the Subject is governed by the existing and asking rental rates of the Subject, as well as those of similar properties in the Subject's area. In this case, the Subject is owner and tenant occupied mixed use building with numerous rental suites, with shorter term leases in place. There are numerous varying size and style competing facilities in the Kodiak market that could compete directly with the subject, many of which have differing levels of service, differing locations, and differing quality and condition that were examined in this analysis, however most of these are owner occupied, with very few arm's length leases in place. We were provided income and expense data from the subject, as two of the spaces are leased out to tenants; however, the current owners have only owned the building for less than a year with limited income and expense data, and no data prior to their purchase in 2014. We have estimated

some of the costs / expenses based on similar style and type facilities in the market, with support from similar size and type facilities expenses from competing coastal Alaskan communities.

Current Rates for the Subject / Lease Analysis

Unit #	Area (SF)	Tenant	Lease Start/End	Monthly Rent	$/per SF
1 (¾ bathroom, mech. room)	1,620 sf	Owner	Owner	Owner	Owner
2	1,500 sf	Anderson Performance	3/2015 – 9/2015	$1,500 + Electric	$1.00/sf
3	1,500 sf	Police Department	10/2014 – 10/2015	$1,500 + Electric	$1.00/sf
Office (Northern office, shared restroom)	240 sf	Owner	Owner	Owner	Owner
Office (Southern office, shared restroom)	140 sf	Anderson Performance	3/2015 – 9/2015	$300 Util. inc.	$2.14/sf
Apartment	822 sf	Crew Member	Mo to Mo	$1,450 Util. inc.	$1.76
Site Storage /Parking	Gravel site area	Anderson Performance	3/2015 – 9/2015	$500	N/A
Site Storage /Parking	Gravel site area	AIM	3/2015 – 9/2015	$600	N/A
Current Monthly Rental Income				*$5,850/month*	

Analysis of the Data and Conclusion of Market Rent

The market rental data analyzed includes competing facilities and various levels of warehouse / office / retail space in the Kodiak area that compete with the subject for similar type space as well as residential apartment rental data. We did discover & analyze seven rental comparables / rental listings with year-round tenant occupied facilities in the local market that are generally supportive of the current market rents concluded for the subject facility. Market data for these type of facilities is limited, as the majority of this type of warehouse / office space in the Kodiak market are owner occupied, with no arm's length lease in place, weakening the Income Approach.

We have concentrated our analysis on mixed-use warehouse facilities that have similar overall attributes to the subject, including location, visibility, size, utility and access to the downtown Kodiak business district with some of the comparable rentals having been converted from warehouse area to retail/shop area. Our research has discovered a few tenant occupied facilities in the Kodiak market that compete with the subject, having a similar layout and utility of use, which provide the best, most accurate indicators for the subjects type of space. The most similar facilities are summarized below, which provide us with support for a monthly rental rate based on a price per SF for the subject space.

The seven rental comparables analyzed are representative of the mixed use / warehouse market in the Kodiak area that have similar characteristics to the subject and provide the best cross-section of the rentals that could compete with the subject, and provide a reasonable range for the price per square foot. The comparables rental rates were adjusted to reflect utility costs.

The subject building consists of 4,620 SF of warehouse area, approximately 380 SF of office area, and an 822 SF apartment. The building is in above average to good overall condition with the site having good/level parking area, considered positive attributes. Rental rates for this type of warehouse space typically have the tenant paying for variable expenses (utilities), with the landlord paying all other expenses, and all rental rates have been adjusted to reflect the tenant covering electric, with adjusted rental rates ranging from $0.80/SF to $1.80/SF. The most similar space consists of smaller, single tenant buildings with varying degrees of quality, located outside of the core downtown area, with the most similar warehouse space in the $1.25/SF to $1.65/SF range. Unit 1 will have a mixed rental rate that includes 1,620 SF of warehouse area and 380 SF of office area for a total mixed area of 2,000 SF. Typically the office area attached to the warehouse is included within a warehouse rental unit, and justifies a higher rental rate. Unit 1 is superior to units 2 & 3 as it is heated, and features above average office area, a ½ bathroom, and a ¾ bathroom.

A search of 1 and 2 bedroom Kodiak residential apartment rentals was performed and the range of rental range is $950 to $2,200 and adjusted to reflect the owners only covering heat & water/sewer. The subject's 1 bedroom apartment is in above average condition with a kitchen, living room, laundry room, and a full bathroom, however has an inferior layout and is located on the upper level of a warehouse building. The current market **rental rate for the one bedroom apartment of $1,450** with the owner covering all utilities is in line with the current residential apartment market within Kodiak and is concluded to be near market.

The subject also has a large 1.25 acre site has been leveled and graded, with the warehouse located along the northern portion of the site, allowing for maximum use of the level, graded area to the south, allowing the owner to lease out the extra land area not needed for the operation of the warehouse to be leased as additional yard storage area. There are currently two land leases that combine for $1,100 per month, with enough room to lease another portion of the site for an additional $600 per month. This equates to a land lease rate of about $0.10/SF, which is in line with land lease rates in the Kodiak market supported by statewide land leases. The total potential land available for lease along the south side of the site does not affect the utility of use of the warehouse or any parking or access / egress necessary for its operation. We estimate approximately **16,000 SF of level**, **graded land available for lease**, which would equate to approximately **$1,600 per month**.

Considering all of the subject warehouse / office buildings attributes, the concluded rental rate will fall above the middle of the range of the adjusted rental rate per $/SF/Mo., primarily due to the age, condition, good central location, current demising of

the space with three separate rental units, and office / apartment areas. Additional weight given to the current rental rate of the leased space. A concluded rental rate for unit 1 is **$1.75 SF/Mo.** with the owner covering all utilities. A concluded rental rate for units 2 & 3 is **$1.35 SF/Mo.** with the tenant paying for electric. This rate is at the below Unit 1 as the units are not heated and do not have office areas or restrooms in the units. These rates are considered appropriate for the market and reflect the above average on-site parking, and overall above average to good condition & location and the physical attributes of the site being below the level of the street, which is not a necessity for a warehouse building not requiring good frontage or visibility, therefore not significantly affecting rents.

Concluded Market Rental Rate & Potential Annual Revenue

Area Description	SF	Market Rental Rate	Monthly Potential Income	Annual Potential Income
Warehouse/office Unit 1	2,000 SF	$ 1.75 SF	$ 3,500	$ 42,000
Warehouse Unit 2	1,500 SF	$ 1.35 SF	$ 2,025	$ 24,300
Warehouse Unit 3	1,500 SF	$ 1.35 SF	$ 2,025	$ 24,300
1 B/R Apartment	822 SF	$ 1,450/Mo.	$ 1,450	$ 17,400
Excess Site Area	16,000	$ 0.10 SF	$ 1,600	$ 19,200

Potential Annual Gross Income **$127,200**

Income & Expense Analysis

The subject building is currently both owner and tenant occupied, with no formal lease agreements provided for review; however, according to the owner all leases are shorter term and expire at the end of 2015, therefore no leasehold or leased fee interest exists. We were provided with limited income and expense data from the last 10 months of income and expense data for the facility as the owner only recently purchased the facility July 2014, therefore limited historical data is available; therefore, we will use market rates and estimate expenses based on similar style and type buildings in the community in our analysis with additional weight given to the current rates and income/expense data. A summary of the expenses follows.

Expense Analysis

The next step in the Income Approach is to quantify and analyze the annual expenses affecting the Subject property. To convert rental income to value by the direct capitalization technique, the appraiser must determine the net operating income for the property.

The Dictionary of Real Estate Appraisal, Fourth Edition, defines Net Operating Income (NOI) as:

> "The actual or anticipated net income that remains after all operating expenses have been deducted from effective gross income, but before mortgage debt service and book depreciation are deducted; may be calculated before or after deducting replacement reserves."

The first adjustment to the potential annual gross income is for vacancy or collection loss, which is defined in *The Appraisal of Real Estate*, Thirteenth Addition, as:

> "An allowance for reductions in potential income attributable to vacancies, tenant turnover, and nonpayment of rent . . ."

Annual rent collections are typically less than the total potential gross income. This allowance is usually estimated as a percentage of potential gross income and the percentage is derived from the historical experience of the property, demand and supply factors of the neighborhood, local economic condition and trends, and the vacancy and collection loss being experienced by similar properties in the area.

After an allowance for vacancy and credit loss has been considered, the resulting total is called the Effective Gross Income (EGI), which is defined as:

> "The anticipated income from all operations of the real property after an allowance for vacancy and collection losses. Effective gross income includes items constituting other income, i.e., income generated from the operation of the real property that is not derived from space rental (e.g., parking rental or income from vending machines)."

To arrive at the NOI, operating expenses are subtracted from the effective gross income. Operating expenses are defined as:

> "The periodic expenditures necessary to maintain the real property and continue the production of the effective gross income, assuming prudent and competent management."

In the appraisal process, the operating expenses are typically broken into three classifications: fixed expenses, variable expenses, and replacement allowances.

Fixed expenses are operating expenses that generally do not vary with occupancy and have to be paid whether the property is occupied or vacant. Real estate taxes and building insurance costs are typically considered fixed expenses.

Variable expenses are all operating expenses that generally vary with the level of occupancy or the extent of services provided. Individual variable expense items may vary greatly from year to year, but specific types of property normally reflect a

reasonably consistent pattern of variable expenses in relation to gross income and/or size of the building. Typical variable expenses for commercial and industrial properties include the following categories: management, utilities, maintenance and repair, janitorial, leasing commissions, tenant improvements, and miscellaneous. It is typical in the Kodiak market for tenants to pay some of the utilities as they vary greatly depending on the type of business occupying the space. Unit 1 has the owner covering all utilities as the apartment area electric and heat is tied into Unit 1. This is a common occurrence for commercial buildings with apartments above.

The last expense classification is a replacement allowance which provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced periodically during the building's economic life. These components may include roofing, carpeting, painting, etc. The annual allowance for each component is usually estimated as the anticipated cost of its replacement prorated over its anticipated remaining economic life, provided this does not exceed the remaining economic life of the structure. Simple averaging is a permissible method. In the case of the Subject, the components of this replacement allowance are the roof, floor coverings, interior finish items, man doors, overhead doors etc.

After the total expense for each expense classification has been calculated, the sums are added together for a total operating expense. For comparison purposes, the total operating expense figure can be divided by the EGI to arrive at an expense ratio, or divided by the size of the building area to arrive at an expense cost per square foot. The total operating expense is subtracted from the effective gross income (EGI) to arrive at the net operating income (NOI). In the direct capitalization technique, the NOI is converted to value by dividing the NOI by an overall capitalization rate that has been derived from the market.

In estimating the variable expenses for the Subject, we have considered the age, quality, and condition of the facility, tempered with expense ratios that are typically experienced and reported by the operators of similar warehouses in the local Kodiak market and similar coastal communities.

Vacancy and Credit Loss Analysis

The typical vacancy rate for commercial mixed-use warehouse / office facilities in the Kodiak market ranges from 2% to 6%, however there is limited data available for analysis due to the heavy owner occupancy nature of the market. Based on the vacancy rate for similar facilities with similar mixed-use attributes in the downtown Kodiak market, we have used a **4%** vacancy factor.

Fixed Expenses

Real Estate Taxes – Total assessed value for the subject for 2014 is $541,600, with a total tax amount for the subject of approximately $6,905.

Insurance - The cost of physical damage, fire, extended coverage, and owner's liability insurance is considered a fixed operating expense. Typically, insurance rates are based on the replacement cost of the building. According to the owner, the current yearly insurance cost is $2,220 and is in line with similar size and type facilities in the market.

Variable Expenses

Management and Administration - This is estimated at 5% of the effective gross income (EGI) for the whole building, which includes the management, accounting, supplies, and administration functions. There is no specific historical expense for this item as the building is owner occupied/operated with tenants. Either way, this expense is a part of any commercial building and prudent, competent management is assumed, and the figure utilized is consistent with smaller similar multi-tenant facilities in the local market, tempered by markets similar in size.

Utilities – It is common in the Kodiak warehouse market for the tenant to pay some of the utilities. The owner is set to cover all utilities for Unit 1 and the apartment. The tenants of Unit 2 & 3 cover electric with the owner covering all other utilities. The estimated utility expense reflects the historical costs associated with these expense allocations and is in line with similar buildings in the local market. According to the owner, electricity averages $400 per month and Water, Sewer, Refuse is $170 per month.

Janitorial - This expense is a tenant specific item not typically included in the rental rate, therefore, there is no expense forecast.

Maintenance/Repairs - This includes the on-going maintenance and repairs required to maintain the complex in a competitive physical condition. This expense category does not include costs associated with renovation or capital improvements or replacement reserves for short-lived tenants. The subject is a newer building that appears to have been well maintained, and we have based our estimated maintenance / repairs at the middle of the range at 4.0% of EGI, which is considered reasonable.

Yard / Parking – This expense category includes those items necessary to maintain the grounds in good condition. Due to the nature of the site and climate, this expense is toward the lower end of the range, however it is necessary to maintain access to the site year round and considering the steep access drive, snow plowing / sanding the drive and yard area warrants the 2% of EGI figure.

Miscellaneous - This category is for all miscellaneous costs associated with the operation of the building that are not covered in the above expense categories. We estimate this expense at 2% of the effective gross income, which is considered reasonable and in line with similar facilities.

Replacement Allowance - A reserve for the replacement of short-lived items is recognized in the market. A number of methods can be used to estimate this expense item. Reserves are a very important item in a mixed-use commercial building that is in above average overall condition, as most area in need of continual maintenance. It is extremely important to maintain the complex in as good a condition as possible, with industry data suggesting a reserve factor of 3% to 8% of the EGI. We have estimated the reserves at 5% of EGI, near the middle of the range.

Total Operating Expense - The total operating expenses are estimated at $37,943 per year, which is approximately 31% of EGI, or $6.52/SF. These expenses are in line when compared to actual expenses of similar warehouse / office complexes in the local market, and in line with those expenses reported by the owner.

Net Operating Income - The total operating expenses are subtracted from the effective gross income to arrive at the net operating income for the property. The NOI is calculated to be $84,169. It is this NOI that is capitalized at an appropriate rate to derive an indicated value for the Subject by the Income Approach.

The discussion of the capitalization rate follows.

Rate Analysis

Capitalization Rate - A capitalization rate is any rate that is used to convert income to value. In this report, we have used an overall capitalization rate (RO) which is defined in *The Dictionary of Real Estate Appraisal*, Fourth Edition, as:

> "An income rate for a total real property interest that reflects the relationship between a single year net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value."

Two methods of developing an overall capitalization rate are by the Mortgage Equity Analysis and Market Extraction.

The Mortgage Equity Analysis is based on the theory that first mortgage financing plays a major role in real property values and is defined as:

> "Capitalization and investment analysis procedures that recognize how mortgage terms and equity requirements affect the value of income-producing property."

This method reflects the availability of possible first mortgage financing, an equity yield rate that would be sought by a prudent investor for this type of property, and the anticipated depreciation or appreciation of the property over the holding period.

The availability of financing is a very critical element in the Alaska real estate market. Discussions we have had with the real estate lenders active in the area indicate current

mortgage rates are in the 6.5% to 9.0% range, typically adjusted every three to five years based on the Treasury note index. Mortgage terms typically require a 25% cash down payment with 15-year to 25-year amortization. A 20-year to 25-year amortization is still available through agencies such as the Alaska Industrial Development and Export Authority (AIDEA) on selected properties.

Considering the type of property, the age of the complex, and the overall quality of construction and condition, at this time a mortgage should be available for the Subject property on the following basis:

7.5%	Effective Interest
75%	Loan to Value Ratio
25 Years	Term

The equity yield rate is the prime measure of investment performance for an investor. Typically, the investor requires a higher yield rate than the lender because the lender has a more secure position. The equity yield is a full measure of the performance of the investment, taking into consideration the equity invested and the future changes in equity income and equity value. This rate is influenced by market condition such as the rates available on alternative investments (i.e. mutual funds, stocks, bonds, etc.), rates on other real estate investments, quality of the specific project, risk associated with market conditions, and the liquidity of the investment.

Motivation for investment is driven, in part, by the belief that there will be substantial appreciation in values over the holding period to compensate for the risk. As indicated in our area analysis, and again in our land analysis, there has been only moderate appreciation of similar types of property values in the area over the past 7-10 years. All indications are that this trend will continue. Therefore, we are projecting a nominal appreciation of 5% over an eight-year holding period. These factors suggest that investor requirements and expectations to attract a capital investment would be as follows:

15%	Equity Yield Rate
8 Years	Projected Holding Period
5%	Appreciation Over Holding Period

Applying the foregoing factors to the Akerson Format for calculating a capitalization rate by Mortgage Equity results in a computed overall capitalization rate of 0.092208, rounded to 9.2%. The calculation is found below.

```
CAPITALIZATION : MORTGAGE-EQUITY AKERSON FORMAT
************** *********** ***************** ************** ************
M = MORTGAGE RATIO              =        0.75
E = EQUITY RATIO                =        0.25
I = MORTGAGE INTEREST RATE      =       7.50%
T = MORTGAGE TERM               =          25
Y = YIELD RATE                  =      15.00%
N = # PAYMENTS PER PERIOD       =          12
K = MORTGAGE CONSTANT           =    0.088679
HP = HOLDING PERIOD             =           8
APP = % APPR OVER HP            =          5%
SFF = SINKING FUND Fx           =    0.072850
% PD = % MTG PD OFF OVER HP     =    0.149323
========: ======= =========== ========: =======

      0.75 M   x      0.088679   K =        0.066509
      0.25 E   x      0.150000   Y =        0.037500
                                           --------
WEIGHTED RATE                      =        0.104009

LESS: CREDIT FOR EQUITY BUILD-UP

      0.75 M   x      0.149323   % PD x     0.072850 SFF =   0.008159


LESS: APPRECIATION

      0.05 APP  x     0.072850   SFF  =                      0.003643


EQUALS: OVERALL RATE                                          0.092208
                                                            =======
```

The second method of developing an overall capitalization rate is through Market Extraction. In this method, comparable sales are analyzed and the net operating income (NOI) generated by the property at the time of the sale is compared to the sale price. The overall capitalization rate is developed by dividing the NOI by the sale price. It is important that the NOI for each comparable is calculated and estimated in the same way that the income of the Subject property is estimated. Market expectation concerning changes in condition, holding periods, and financing terms must also be similar. The extraction method is considered most reliable when good market data are available.

Our summary of single tenant retail facilities both in Kodiak and statewide, indicate a range of market-derived overall capitalization rates ranging between 8.75% and 12.0%, with the average being about 10.5%. Complete income and expense data were not available in all of the sale transactions; therefore certain assumptions were necessary. The appraiser was required to make certain assumptions in the analysis regarding income and expense data, and the data is weakened. None of the comparables were physical duplicates of the Subject. The physical size of the improvements and the land to building ratios varied significantly. These factors reduce the reliability of rates as extracted from the comparable data and help to explain the wide variance in rate indications. The Subject has an overall above average location for the market, and is in above average to good condition, slightly offset by the site attributes and its location

below street grade however this is not a necessity for a mixed use warehouse in the local market. In conclusion, the subject is representative of a rate slightly below the middle of the Kodiak market for this type of facility. Based on these data, a market capitalization rate of 10.0% is concluded.

Direct Capitalization Analysis

To develop a value indication by the Direct Capitalization Method, the fair market rent for the Subject is concluded by analyzing the existing and asking rents for similar commercial properties. The total potential annual gross income for the Subject is calculated and a market-derived vacancy and credit loss factor is applied to arrive at the annual effective gross income. The total operating expenses attributable to the property (based on typical terms prevalent in the market and the existing expenses affecting the property) are subtracted from the effective gross income (EGI) to arrive at the net operating income (NOI) for the property. This NOI is divided by the appropriate capitalization rate as determined in the preceding Rate Analysis section, to provide a value indication by the Income Approach.

A summary of the Direct Capitalization Analysis follows.

Direct Capitalization Analysis

			DIRECT CAPITALIZATION ANALYSIS						
Report 15-559 Kodiak, AK									
2180 Mill Bay Rd									
Potential Annual Gross Income									
Unit	Size	*Rent $/SF*		*Rent per Mo.*					
1	2,000	$1.75		$3,500	x	12	=	$42,000	
2	1,500	$1.35		$2,025	x	12	=	$24,300	
3	1,500	$1.35		$2,025	x	12	=	$24,300	
Apt	822 SF Apt.	$1.76		$1,450	x	12	=	$17,400	
Site	Site Storage-16,000 SF	$0.10		$1,600	x	12	=	$19,200	
				$10,600					
				Total Potential Gross Income Per Year				$127,200	
Total Potential Annual Gross Income:									$127,200
Less:									
Vacancy & Collection Loss:				4.0%				($5,088)	
Effective Gross Income (EGI):		Total							$122,112
Expenses:									
Fixed Expenses -									
	Real Property Taxes			$6,905					
	Insurance			$2,220					
Total Fixed Expenses:								$9,125	
Variable Expenses -									
	Management/Admin.	5.00%	EGI	$6,106					
	Utilities - E,W,S,Refuse	5.60%	EGI	$6,838					
	Janitorial	0.00%	EGI	$0					
	Maintenance/Repairs	4.00%	EGI	$4,884					
	Yard/Parking	2.00%	EGI	$2,442					
	Miscellaneous	2.00%	EGI	$2,442					
	Total Variable Expenses:			$22,713				$22,713	
Replacement Allowance:		5.00%	EGI					$6,106	
Total Operating Expenses		31%	EGI						($37,943)
				($6.52)	SF				
Net Operating Income (NOI):									$84,169
	Capitalization Calculation -		Value Indications:						
Mortgage Equity =		9.20%							
	$84,169	divided by		0.0920	=				
								$914,876	
								(RD)	**$915,000**
Market Extraction =		10.00%							
	$84,169	divided by		0.1000	=				
								$841,686	
								(RD)	**$842,000**

Reconciliation of the Income Approach

In the Direct Capitalization analysis, two methods were used to develop an overall capitalization rate. The market value range for the Subject using these two different methods is as follow:

	Mortgage Equity	Market Extraction
Indicated Values	$915,000	$842,000

In summary, in the Income Approach an indicated market value is developed based on the potential gross income the property can generate within the competitive market. Typical operating expenses for the property are subtracted from the PGI, including vacancy and collection loss, to arrive at a net operating income. The NOI is divided by a capitalization rate to arrive at a value indication. A capitalization rate was developed using two recognized techniques - Market Extraction and Mortgage Equity. The two methods are considered to be supportive of each other. The mortgage equity technique is more applicable to newer properties. In the local market real estate values are being influenced by the availability of favorable financing.

In our opinion, the market for a mixed-use, multi-tenant, warehouse building with an apartment in the City of Kodiak has been relatively stable for a number of years. The outlook in the near term is for conditions to remain stable over time and the Subject has maintained a good position in the market and should continue to do so into the foreseeable future. The market for this type of product favors owner occupancy; however, with the owner only having 10 months of income/expense data numerous assumptions and estimations were necessary, and the data analyzed is considered well supported. The income approach is not weighted as heavily as the Cost Approach due to the numerous assumptions and estimations.

Considering all factors, with the overall above average to good condition offset by its above average location in northeast of downtown Kodiak, we have given generally equal weight to the both techniques. Based on our analysis of the data gathered, we have concluded the current market value by the Income Approach to be:

Indicated Value by the Income Capitalization Approach $875,000

Reconciliation and Final Value Estimate

The Value Indications by the two approaches to value are as follows:

Cost Approach	$869,000
Income Approach	$875,000

In the final analysis, slightly more weight in forming an estimate of value for the subject property was given to the Cost Approach, with both having strengths and weaknesses. The 2006 construction of the building provides good support for the cost approach, and similarly, the income approach was tempered with credible income data both providing accurate indicators and a relative tight spread of less than 1%. Due to the lack of additional sales of similar buildings in the market, the sales comparison approach was not performed; however, the subject's July 2014 sale has been given weight in the reconciliation. The subject was purchased for $870,000 in July 2014 by the current owner. This provides a very good indicator, as the purchase was within the last year, was an arm-length sale, and the warehouse has not been altered since the purchase. The other two approaches are very supportive of the recent purchase price as well, all providing good support for the final value conclusion.

In the Cost Approach, the replacement cost of the improvements are calculated and adjusted for depreciation from all sources. The adjusted cost was added to the value of the site, as if vacant, to arrive at a value estimate for the Subject property. This approach is most reliable when the improvements are new or nearly new and represent the highest and best use of the site. Typically, this approach is used to test the feasibility of new construction and as a benchmark for comparing other approaches to value. The weakness of this approach is that precise cost figures and total depreciation from all sources are difficult to estimate, however in the subject's case, this approach was considered to provide a reasonable indication of value, as there is limited similar sales data available in the market, and the subject is newer construction, with good cost data available for analysis. This approach is considered reliable if accurate cost data is available, and reasonable depreciation is applied to the approach, which is the case for the subject, therefore the Cost Approach is given weight in the analysis.

The Income Capitalization Approach provides a slightly weaker indication of value, as the subject market has primarily owner / user characteristics and limited actual income and expense data are available as the owner has occupied the building for less than a year without a long operating history of income and expenses. This approach is more reliable when there are good historical figures for analysis. In this case, the subject is an owner and tenant occupied facility. The majority of buyers in this market do not consider the income stream of the property and are not investors, rather they are users looking for a facility that meets their specific needs, therefore this approach has been given less weight, however is overall supportive. The Capitalization Rate was estimated based on the market extraction technique and mortgage equity technique, which allows the appraisal of the property to be substantiated mathematically.

In the final analysis, most weight in forming an estimate of value for the subject properties was given to the historical sale of the subject tempered by the Cost Approach and Income Approach.

Based on our investigation and analysis, we have formed the opinion that, subject to the limiting conditions and assumptions contained herein, the **"AS IS"** market value of the Subject property, in the fee simple interest, as of April 29, 2015, is:

EIGHT HUNDRED SEVENTY THOUSAND DOLLARS
($870,000)

General Limiting Conditions and Assumptions

This Report is subject to the following general limiting conditions and assumptions:

1. This Appraisal Report sets forth all the limiting conditions affecting the analysis, opinions and conclusions contained in this Report.

2. Unless otherwise stated in this Report, the property is appraised as though owned in fee simple estate and the property is appraised free and clear of any or all liens and encumbrances. No responsibility is assumed for legal or title considerations.

3. All dimensions and legal descriptions are assumed to be correct as found through on-site inspections or available records. No engineering survey has been made by the appraiser(s). Except as specifically stated, data relative to size and area were taken from sources considered reliable. No encroachment of real property improvements is assumed to exist.

4. The information used and the data furnished in this Report is believed to be reliable, but no warranty is given or implied. If any errors in the data are found, the right is reserved to modify the conclusions reached.

5. Various approaches to value, various techniques, and various mathematical calculations may have been used in estimating value. These are only aids to the formulation of the final value estimate expressed by the appraiser(s).

6. The data and conclusions contained in this Report are a part of the whole valuation, and no part of this appraisal is to be used out of context. The allocation of total value to land, buildings, or any fractional part or interest as shown in this Report, is invalidated if used separately.

7. Disclosure of the contents of this Appraisal Report is governed by the By-Laws and Regulations of the Appraisal Institute. Possession of this Report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser(s) and, in any event, only with proper written qualification and only in its entirety.

8. Neither all nor any part of the contents of this Report (especially any conclusions as to value, the identity of the appraiser(s) or the firm with which he is connected, or any reference to the Appraisal Institute) shall be disseminated to the public through advertising, public relations, news, sales, or any other public means of communication without the prior written consent of the author.

9. The date of value for the opinions expressed in this Report is the date of valuation as stated in the Report. The appraiser(s) assumes no responsibility for

economic or physical factors occurring at some later date which may affect those opinions.

10. No opinion is intended to be expressed for legal matters or matters that require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers.

11. The maps, plats and exhibits included are for illustration only, as an aid in visualizing matters discussed in the Report. They should not be considered as official surveys or relied on for any other purpose.

12. No opinion is expressed as to the value of subsurface oil, gas, or mineral rights.

13. Unless otherwise stated, no detailed soil studies covering the subject property were available to the appraiser(s). It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.

14. Employment to make this appraisal does not require testimony in court unless mutually satisfactory arrangements are made in advance. In the event of litigation, the client agrees to compensate the appraiser(s) for the court preparation, testimony and appearances.

15. This Appraisal, or any information contained herein, is not to be used in a syndication or limited partnership.

16. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless otherwise stated in this Report.

17. It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this Report are based.

18. Unless otherwise stated in this Report, the Subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability or utility.

19. Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.

20. Responsible ownership and competent management are assumed unless otherwise stated in this Report.

21. Unless otherwise stated in this Report, the existence of hazardous materials (which may or may not be present on the property) was not observed by the appraiser(s). The appraiser(s) has no knowledge of the existence of such materials on or in the property. The appraiser(s), however, is not qualified to detect such substances. The presence of potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such hazardous 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.

22. In general, property in Alaska is within a geographic area prone to earthquakes and other seismic disturbances. Except as specifically indicated in the report, no seismic or geologic studies have been provided to the appraiser(s) concerning the geologic and/or seismic condition of the property. The appraiser(s) assume no responsibility for the possible effect on the subject property of seismic activity and/or earthquakes.

23. It is understood and agreed that any controversy or claim arising out of or relating to this assignment, including but not limited to a claim based upon or arising from an alleged tort, will, at the request of any party, be determined by arbitration. The arbitration shall be conducted in accordance with the United States Arbitration Act (Title 9, U.S. Code, Section 1, et seq.), notwithstanding any governing law provision in this Agreement, and under the Commercial Rules of the American Arbitration Association. The institution and maintenance of an action for judicial relief or pursuit of a provisional or ancillary remedy shall not constitute a waiver of the right of any party to submit the controversy or claim to arbitration.

24. Acceptance and use of this report implies that the client has read the Report and agrees with all the limiting conditions and assumptions. In the event of litigation, the client agrees to compensate the appraiser (s) for the court preparation, testimony and appearances

ADDENDUM

The information contained in this award, along with the information contained in the **General Appraisal Requirements, Specific Performance Standards, and the General Contractual Requirements** referenced in the RFP, as well as all other RFP information, serve as the contract for services to be rendered. If, within 12 months of this assignment date, the vendor is contacted to appraise the subject property by any other party than Wells Fargo RETECHS, vendor agrees to (1) notify Wells Fargo RETECHS in writing and (2) receive a written reply from RETECHS approving this request.

Unless specifically stated otherwise, information provided by the bank or borrower in conjunction with this assignment shall be considered confidential and may not be used except as necessary for the completion of this assignment. Additionally, such information may not be shared or provided to any individual or entity except as necessary for the completion of this assignment, or as required by law or as mandated by appropriate professional standards or organizations such as USPAP and the Appraisal Institute.

This Statement of Work and Award is entered into as of the date of the award by and between Wells Fargo Bank, N.A. (Wells Fargo) and the awarded contractor, pursuant to the Master Agreement for Real Estate Services, dated September 15, 2010; all terms of which are incorporated herein by reference.

Note: Failure to deliver is subject to penalties as defined in the Master Service Agreement. Immediately contact Brett Smith (SLC) 435-315-3066 for any holds, delays, or further required information.

1. Project Name: Stevens Commercial Building
2. Description of Services: As indicated in the RFP
3. Performance Period
   Start Date: 4/28/2015
   End Date (if known): 5/26/2015

4. Work Site: 2180 Mill Bay Rd, Kodiak, AK 99615
5. Total Costs and Fees: $5,000
6. Wells Fargo Job Manager: Brett Smith (SLC)

Property Access and Contact Information:

James Stevens

907-486-1792

Please make contact immediately for access to the property

Include the following statement in the Letter of Transmittal and Intended Use section of the report:

Wells Fargo reserves the right to use the report for the purposes of syndication with other financial institutions or securitization.

Delivery Instructions:
(Unless otherwise specified in the attached addendum)

All valuation services requested, which include the report with signatures, all associated exhibits, and any other pertinent supporting documentation, shall be delivered online via RIMSCentral to Wells Fargo Bank-RETECHS, and (if appropriate) via a hard copy to the Wells Fargo Banker or representative. In no case, will any valuation services ever be **solely delivered to a Wells Fargo Banker or representative without written authorization** from RETECHS. In addition, upload the final invoice separately for payment. The following guidelines provide more specific instructions:

1. Upload to RIMSCentral, under the appropriate assignment, a PDF APPRAISAL REPORT to include:
    - The Recipient information [name, address, etc]
      Wells Fargo Bank – RETECHS
      Brett Smith (SLC)
      299 S MAIN ST
      Salt Lake City, UT 84111
      WF-SLC-15-010148-01
    - Vendor digital signature
2. Upload to RIMSCentral a copy of the appraiser's state license / certification as an addendum to the appraisal report.
3. Upload to RIMSCentral any other property information used to complete the assignments as stated in the Request for Proposal (RFP)
4. Upload to RIMSCentral the Original Invoice addressed to:

    Wells Fargo Bank RETECHS
    Brett Smith (SLC)
    299 S MAIN ST
    Salt Lake City, UT 84111
    435-315-3066

Note: *If uploading the documents to RIMSCentral is* ***not feasible****, please contact RIMSCentral for upload assistance, or the RETECHS Job Manager, Brett Smith (SLC), for additional delivery instructions.*

If hard copies were requested per the RFP, only upon authorization via e-mail from a RETECHS representative is the vendor to deliver hard copy or copies:

Deliver to: Jeff Sanford (RGBK)
K3229-011
202 MARINE WAY, 1st Floor
Kodiak, AK 99615
907-486-3126

Additional Requirements may be specified in an attached addendum.

ADDENDUM

The following contains additional specific information to be used in the assignment:

For questions regarding the subject property or problems with property access, please contact:

AO Name; <Account Officer>,
Phone; <AOs Phone number>
or by e-mail <AOs Email>

If you have any questions or concerns relative to the evaluation process or specific concerns relating to the subject real estate, please contact the RETECHS Job Manager at:

JM Name; <Job Manager>,
Phone; <JMs Phone number>
or by e-mail <JMs Email>

This letter serves as your approval to proceed with an evaluation of the referenced real estate. We have selected you to perform this evaluation based on your experience and expertise in the real estate industry. In completing your analysis, please keep in mind that we are not seeking a likely listing price; or the highest possible price of the real estate-we are interested in a value that reflects the likely market interaction of buyers and sellers that would set the real estates value.

While the format of your written evaluation is at your discretion, there are six requirements for completing an evaluation for Wells Fargo. The evaluation must, at a minimum:

1.=Include the preparers name, address, signature, and the effective date of evaluation.
2.=Describe the real estate collateral, its condition, its current use and, if applicable, its projected use.
Wells Fargo RETECHS department will endeavor to provide as much information as possible relative to the real estate. This will include such items as tax parcel numbers, site size, improvement size and description, occupancy, and additional information as available and applicable. As part of this evaluation, we ask that you mention any observed differences between the property information provided and the actual characteristics and condition of the real estate. Our goal is to assess the quality of the collateral as it impacts value.
3.=Describe the source(s) of information used in the analysis.
4.=Describe the analysis and supporting information.
The analysis presented in the evaluation report should include sufficient documentation to allow us to understand how you arrived at your value estimate. Description of the analysis and supporting information may, for example, be in a narrative format with a discussion of known sales, listings, or rent levels with a corresponding income analysis; alternatively, the analysis and supporting information may involve the inclusion of sale comparables either in a summary table or actual inclusion of MLS or similar data sheets.
5.=Provide an estimate of the real estates market value as of the effective date of evaluation.

Chapter 17.90
B – BUSINESS DISTRICT

Sections:

17.90.010 Description and intent.

17.90.020 Permitted uses.

17.90.030 Conditional uses.

17.90.040 Building height.

17.90.050 Performance standards.

17.90.060 Urban renewal plan compliance.

17.90.010 Description and intent.

The B business zoning district is established for the purposes of protecting and encouraging the development of community business core areas that function efficiently as centers of retail business and retail service activities. For the business zoning district, in promoting the general purposes of this title, the specific intentions of this chapter are:

A. To encourage the continued use and development of land for retail purposes;

B. To discourage the use of business district lands for other than retail purposes;

C. To prohibit the use of business district lands for manufacturing and industrial purposes; and

D. To encourage the discontinuance of existing uses that are not permitted under the provisions of this chapter. [Ord. 82-40-O §1, 1982. Formerly §17.21.010].

17.90.020 Permitted uses.

The following land uses and activities are permitted in the business district:

A. Accessory buildings;

B. Assembly halls;

C. Art galleries;

D. Automobile repair garages and dealerships;

E. Banks;

F. Building material suppliers;

G. Dry-cleaning establishments;

H. Eating and drinking establishments;

I. Fraternal organizations and private clubs;

J. Funeral parlors;

K. Gasoline service stations;

L. Government offices;

M. Hotels;

N. Laundry establishments;

O. Libraries;

P. Machine shops;

Q. Marinas and boat moorage;

R. Mini-warehouses;

S. Motels;

T. Multiple-family dwellings;

U. Museums;

V. Offices;

W. Outdoor storage;

X. Printing shops;

Y. Professional offices and clinics;

Z. Public parks and open spaces;

AA. Recreational related uses;

BB. Retail stores and services;

CC. Single-family and two-family dwellings, if located within a structure containing a permitted business use, not exceeding 50 percent of the area of the structure, and not located on the street level of the structure except that an owner-occupied single-family dwelling may be allowed within a street level business structure, so long as the residential portion is predominantly located in the rear of the structure (away from the commercial building facade(s) for corner and multi-frontage lots), the use of the dwelling is subsidiary and incidental to the principal commercial use, and there is no indication, other than a separate entrance on the street level building facade, that a residential use is located within the structure;

DD. Theaters; and

EE. Radio stations. [Ord. 2001-07 §2, 2001; Ord. 94-24 §2, 1994; Ord. 88-33-O §2, 1988; Ord. 83-72-O §1, 1983; Ord. 83-5-O §§1 – 3, 1983; Ord. 82-40-O §1, 1982. Formerly §17.21.020].

17.90.030 Conditional uses.

The following land uses and activities may be allowed by obtaining a conditional use permit in accordance with the provisions of Chapter 17.200 KIBC:

A. Churches;

B. Hospitals;

C. Recreational vehicle parks; and

D. Warehouses. [Ord. 94-24 §2, 1994; Ord. 83-72-O §2, 1983; Ord. 83-5-O §4, 1983: Ord. 82-40-O §1, 1982. Formerly §17.21.030].

17.90.040 Building height.

The maximum building height allowed is 50 feet. [Ord. 82-40-O §1, 1982. Formerly §17.21.040].

17.90.050 Performance standards.

All permitted and conditional uses shall comply with the performance standards listed in this section.

A. Groundcover. All areas not devoted to buildings, structures, surfaced drives, walks, or parking areas shall be covered and maintained with grass, shrubbery, trees, rocks or gravel, or other suitable groundcover materials to minimize dust, erosion, and sedimentation.

B. Lighting. Any lighting used for advertising, display, or security purposes shall not produce glare on a public highway or neighboring residential property.

C. Screening. Where a business use is adjacent to a residential use or district, that business shall provide and maintain screening as approved by the commission. [Ord. 82-40-O §1, 1982. Formerly §17.21.050].

17.90.060 Urban renewal plan compliance.

All business district development located in the urban renewal plan downtown area, as defined in the November 1972 revision of said plan, shall also comply with the provisions of that plan, and where its requirements are different than those of this chapter, the stricter of the two shall apply. [Ord. 82-40-O §1, 1982. Formerly §17.21.060].

QUALIFICATIONS OF APPRAISER

CLINT H.A. LENTFER, MBA

EDUCATION:

University of Wyoming
University of Alaska Anchorage

- BA Business Management (1995)
- MBA Business Administration (2000)

EXPERIENCE:

1997 to
2010: Certified Genera Real Estate Appraiser / Consultant, Appraisal Company of Alaska

2010 to Present: Partner / Owner, Alaska Appraisal & Consulting Group, LLC

QUALIFICATIONS:

18 years' experience in real estate appraisal work for local and national mortgage lending institutions. Residential properties include single-family residences, multi-family income properties, remote properties. Commercial properties including: remote fishing & hunting lodges, apartment buildings, warehouses, large and small retail and office complexes, and commercially zoned vacant land. Qualified expert witness in State of Alaska Supreme Court. Board of Directors & Treasurer Alaska Chapter Appraisal Institute. Appointed Board Member of Certified Real Estate Appraisers for the State of Alaska. Commercial Contract tax assessment work for Various State of Alaska Municipalities.

ACCREDITATIONS, COURSES AND LICENSES:

- State of Alaska - Certified General Real Estate Appraiser Certificate, AA-506
- FHA/HUD Approved Appraiser
- Course 311 - Residential Modeling Concepts
- Course 101 - Fundamental's of Real Property Appraisal
- Course 151 - Standards of Practice and Professional Ethics
- Course 112 - Income Approach to Valuation II
- Course 520 – Highest & Best Use and Market Analysis
- Course 530 – Advanced Sales Comparison
- Course 540 – Narrative Report Writing & Valuation Analysis
- Course 550 – Advanced Applications
- FEMA Floodplain Management Workshop 2000
- The Technical Inspection of Real Estate, The Beckman Company
- Land Valuation Assignments, Adjustment & Procedures
- Effective Banker – Appraiser Communication
- Subdivision Valuation - Seminar
- Appraisal of Local Retail Properties – Seminar
- Advanced Income Capitalization

No. 506
Effective: 06/26/2013
Expires: 06/30/2015

STATE OF ALASKA

DEPARTMENT OF COMMERCE, COMMUNITY, & ECONOMIC DEVELOPMENT
Division of Corporations, Business and Professional Licensing
P.O. Box 110806, Juneau, Alaska 99811-0806

BOARD OF CERTIFIED REAL ESTATE APPRAISERS

Certifies that

CLINT HERMAN LENTFER

Is a Certified

GENERAL REAL ESTATE APPRAISER

Commissioner: Susan K. Bell

Wallet Card

No. 506 State Of Alaska
Department of Commerce, Community, and Economic Development
Division of Corporations, Business and Professional Licensing
This Certifies that
CLINT HERMAN LENTFER
Is a Certified
GENERAL REAL ESTATE APPRAISER

Effective	Expiration	Date of Birth
06/26/2013	06/30/2015	05/31/1971

Signature

YOU MUST NOTIFY THIS DIVISION IN WRITING OF ANY CHANGE OF ADDRESS.

TO VERIFY YOUR LICENSE TO ANOTHER AGENCY, SUBMIT $20.00 MADE PAYABLE TO THE STATE OF ALASKA.

DIVISION WEBSITE: www.commerce.state.ak.us/occ

QUALIFICATIONS OF APPRAISER

ADAM T. FITT

EDUCATION:

University of Alaska Anchorage

- Bachelor of Business Administration - Management (2002 - 2006)

EXPERIENCE:

2006 to 2008:	Real Estate Appraiser Trainee, Appraisal Company of Alaska, AA-674
2008 to Present:	Certified Residential Real Estate Appraiser, Appraisal Company of Alaska, AA-731
2009 to 2010:	Certified General Real Estate Appraiser, Appraisal Company of Alaska, AA-787
2010 to Present:	Certified General Real Estate Appraiser, AA-787 Partner / Owner, Alaska Appraisal & Consulting Group, LLC

ACCREDITATIONS, COURSES AND LICENSES:

- Basic Appraisal Principles
- Basic Appraisal Procedures
- National Uniform Standards of Professional Appraisal Practice (USPAP)
- Residential Market Analysis and Highest and Best Use
- Residential Site Valuation and Cost Approach
- Residential Sales Comparison and Income Approaches
- Residential Report Writing and Case Studies
- Real Estate Finance, Statistics, and Valuation Modeling
- Advanced Residential Applications and Case Studies Part 1
- Advanced Residential Applications and Case Studies Part 2
- General Market Analysis and Highest & Best Use
- General Appraiser Report Writing and Case Studies
- General Appraiser Sales Comparison Approach
- General Appraiser Site Evaluation and Cost Approach
- General Appraiser Income Approach Part 1& Part 2
- Advanced Income Capitalization

No. 787
Effective: 06/07/2013
Expires: 06/30/2015

STATE OF ALASKA

DEPARTMENT OF COMMERCE, COMMUNITY, & ECONOMIC DEVELOPMENT
Division of Corporations, Business and Professional Licensing
P.O. Box 110806, Juneau, Alaska 99811-0806

BOARD OF CERTIFIED REAL ESTATE APPRAISERS

Certifies that

ADAM TYLER FITT

Is a Certified

GENERAL REAL ESTATE APPRAISER

Commissioner: Susan K. Bell