BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION

UG-______

NORTHWEST NATURAL GAS COMPANY

Application for an Order
Determining that the Tualatin
Property is No Longer Useful or,
in the Alternative, an Order Authorizing
the Sale of the Tualatin Property

Exhibit B

April 19, 2013

INVESTMENT PROPERTY ADVISORS

SUMMARY APPRAISAL REPORT

Tualatin Center

A 3-building, single-user office/warehouse facility
7100 SW McEwan Road
Tualatin, Washington County, Oregon 97035

Client: NW Natural
CJM Job No: OW12-009

Date of Value/Date of Inspection: January 26, 2012
Date of Report: February 2, 2012

Appraisal performed by
Hillary Huefner, MAI & Chuck Munson, MAI

I N V E S T M E N T P R O P E R T Y A D V I S O R S

February 2, 2012

CJM File No.: OW12-009

Mr. Steve Walti, Supervisor
NW Natural
Risk Environment & Land Division
220 NW 2nd Avenue
Portland, OR 97209

Re: Summary appraisal report of a single-user, three-building office-warehouse facility at 7100 SW McEwan Road in Tualatin, Washington County, OR 97035

Dear Mr. Walti:

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

As a result of the inspection, investigation, and analyses undertaken, it is our opinion that the subject's As Is market value, estimated as of January 26, 2012 (the date of our inspection), and subject to the assumptions and limiting conditions as set forth in the addendum of this report, is as follows:

FIVE MILLION SEVEN HUNDRED THOUSAND DOLLARS
($5,700,000)

No chattel property is included in our value estimate.

The subject site is zoned for light industrial use, and the current use appears to be a legal, conforming use. At the same time, the subject's location along I-5 in an area dominated by strong retail uses would make the subject appealing for general commercial use. Furthermore, as will be shown, if commercial use was allowed on the site, the subject's commercial redevelopment value would exceed its value as presently improved. However, as will be discussed, commercial use of the site is not currently allowed, and our conversations with city planning officials suggest that (for numerous reasons described herein) the chances of successfully obtaining the necessary zoning changes are relatively low. Our analysis also indicates that the value of the subject site as improved exceeds its value for redevelopment under the current zoning regulations. Together, the subject's highest and best use is concluded to be continued single-user light industrial use. The value shown above reflects that highest and best use conclusion.

40 Lake Bellevue Drive, Suite 240, Bellevue WA 98005 | Tel 425.454.6789 | Fax 425.454.3234
3850 SW 4th Street, Gresham OR 97030 | Tel 503.491.0801 | Fax 503.907.6526
1335 Enchante Way, Oceanside CA 92056 | Tel 760.405.3222 | Fax 425.454.3234
www.cjmadvisors.com | Washington - Oregon - California

Mr. Walti
February 2, 2012

It is the intent of this report to comply with i) the *Uniform Standards of Professional Appraisal Practice* (USPAP), Appraisal Foundation; ii) Title XI of *the Federal Institutions Reform, Recovery, and Enforcement Act of 1989* (FIRREA), Office of Thrift Supervision; iii) Title 12, Part 34 (Real Estate Lending and Appraisals) and Part 225 (Bank Holding Companies and Change in Bank Control) of the *Code of Federal Regulations* (CFR), Office of the Comptroller of the Currency; iv) Appendix E of the *Commercial Real Estate and Construction Lending Comptroller's Handbook*, Office of the Comptroller of the Currency; v) *Statement of Financial Accounting Standards 157* (FAS 157), Financial Accounting Standards Board; vi) Federal Deposit Insurance Corporation (FDIC) Part 12 CFR 323; vii) the joint statements of policy guidelines issued in the *Interagency Appraisal and Evaluation Guidelines* by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the National Credit Union Administration; and viii) any additional appraisal requirements of the client. CJM has not previously appraised this property.

The accompanying narrative appraisal report identifies the subject property, summarizes the market for this type of property, and presents specific market data and analyses leading to an estimate of value.

Sincerely,

CJM Investment Property Advisors

Hillary Huefner, MAI
C000753, State of Oregon

C. J. Munson, MAI
C000641, State of Oregon

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SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

PROPERTY IDENTIFICATION

Address	7100 SW McEwan Road Tualatin, Washington County, OR 97035
Assessor's Parcel No.	The subject site is comprised of seven tax lots, identified as follows: 2S124AA-05500 (R2143276) 2S113DD-01000 (R517051) 2S113DD-00900 (R517042) 2S113DD-01600 (R517006) 2S113DD-01700 (R517015) 2S113DD-01100 (R517033) 2S113DD-01200 (R517024)
Owner of Record	NW Natural Gas Company

SITE DESCRIPTION

Shape, Topography, Frontage, and Site Area	The subject site is a triangular parcel with a total site area of 10.27 acres. The site has approximately 1,445 feet of frontage along I-5, while access to the site is from SW McEwan Road, which runs along the north side of the site. Railroad tracks run along the eastern side of the site. The site is relatively level and at street grade.
Floor Area Ratio	With 110,250 square feet of building area and a total site area of 10.27 acres, the subject's FAR is 25%.
Access	Vehicular access is direct from SW McEwan Road. Two curb cuts provide access to the site in general; a third curb cut provides access to the loading docks in Building B. Access is adequate.
Visibility/Exposure	With more than 1,000 feet of frontage along I-5, the subject's visibility and exposure are considerably above average.
Soils Conditions	A soils report was not provided. Based on the appearance of existing improvements on the subject site and on adjacent parcels, it appears that soils conditions are adequate to accommodate the existing improvements into the foreseeable future.
Utilities	All public utilities are available.
Zoning	Light Manufacturing (ML), City of Tualatin Warehousing, wholesaling, light manufacturing, and similar uses are specifically allowed. It appears that the existing use and improvements conform to applicable zoning requirements.
Flood Hazard	The subject is located on FEMA Flood Map No. 410277-0002-D, dated February 19, 1987. The subject site is in Zone C, an area outside of the 500-year floodplain.

IMPROVEMENTS

Site Improvements

The site is improved with asphalt-paved parking and truck maneuvering areas, curbed sidewalks, and concrete walkways. Site landscaping includes a large grassy area with mature trees near McEwan Road, and an engineered bio swale area in the far back corner of the site. The site is fully fenced, and a security gate controls access to the site. There is also a cell tower on the site.

Building Improvements

There are three primary buildings on the site, constructed in 1968 and 1969, which together comprise 110,250 square feet.

Building A is approximately 83,000 square feet in size. It is of concrete construction and has 14% office build-out with average quality finishes. The building's warehouse area has a clearance height of 17 feet. Various portions of the building have been modified and expanded and renovated countless times over the years, resulting in a building that has a relatively choppy interior layout.

Building B fronts McEwan Road. The building is 20,000 square feet in size, with 1,600 square feet (8%) of two-story office build-out with average quality finishes. The building is also of concrete construction; it has 25' clearances. While all of the loading doors in Building A are at grade, Building B has two dock-high doors. We understand that the roof in Building B "leaks fairly consistently."

Building C is a metal-frame, 7,250-square-foot building at the back of the site. The building was 3% office build-out. The building has a maximum clearance height of 18 feet.

All of the warehouse areas have concrete floors and exposed structural elements; all are heated with ceiling-mounted natural gas space heaters. Office areas have central heat and cooling. All of the buildings are sprinklered.

Age/Economic Life

Built in 1968/1969, the chronological age of the subject improvements is 44 years. Industrial properties in the Portland market typically have an economic life of no less than 75 years, suggesting that with repair of the subject's deferred maintenance and regular maintenance thereafter, the building should have a remaining economic life of no less than 30 years.

Parking

Parking at the subject consists of two paved and striped parking lots (83 stalls total) and lots of open area for outdoor storage and unmarked parking. Again, with an FAR of 25%, parking availability appears to be adequate at the subject.

HIGHEST AND BEST USE

Continued single-user light industrial use

INCOME CAPITALIZATION APPROACH **$5,375,000 to $5,700,000**

OPERATING STATEMENT

Category							Totals
Potential Gross Income							
Base Rent	110,250	SF @	$0.32	/SF/mo	NNN	=	$423,360
Office Surcharge	13,205	SF @	$0.56	/SF/mo	NNN	=	$87,153
Additional Income (cell tower)							$14,832
Total Gross Income							$525,345
Less: Vacancy & Collection Loss							
Vacancy & Collection Loss Contingency			5.50%	PGI			($28,894)
Effective Gross Income							$496,451
Operating Expenses							
Management Expense			2%	EGI		($9,929)	
Structural Reserves			$0.20	/SF		($22,050)	
Total Deductions							($31,979)
Net Operating Income							$464,472
Preliminary Estimated Value @			8.00%	OAR	=		$5,805,900
			8.50%	OAR	=		$5,464,376
Less Cost to Cure Deferred Maintenance:							($100,000)
Final Value Estimate		**Rounded to:**				**$5,375,000 to**	**$5,700,000**
		Equivalent to:	**$49/SF**	**to**	**$52/SF**		

SALES COMPARISON APPROACH **$5,150,000 to $6,275,000**

COST APPROACH Not applicable, not used

FINAL OPINION OF VALUE **$5,700,000**

MARKETING/EXPOSURE TIME Twelve months, more or less

DATE OF INSPECTION/ DATE OF VALUE January 26, 2012

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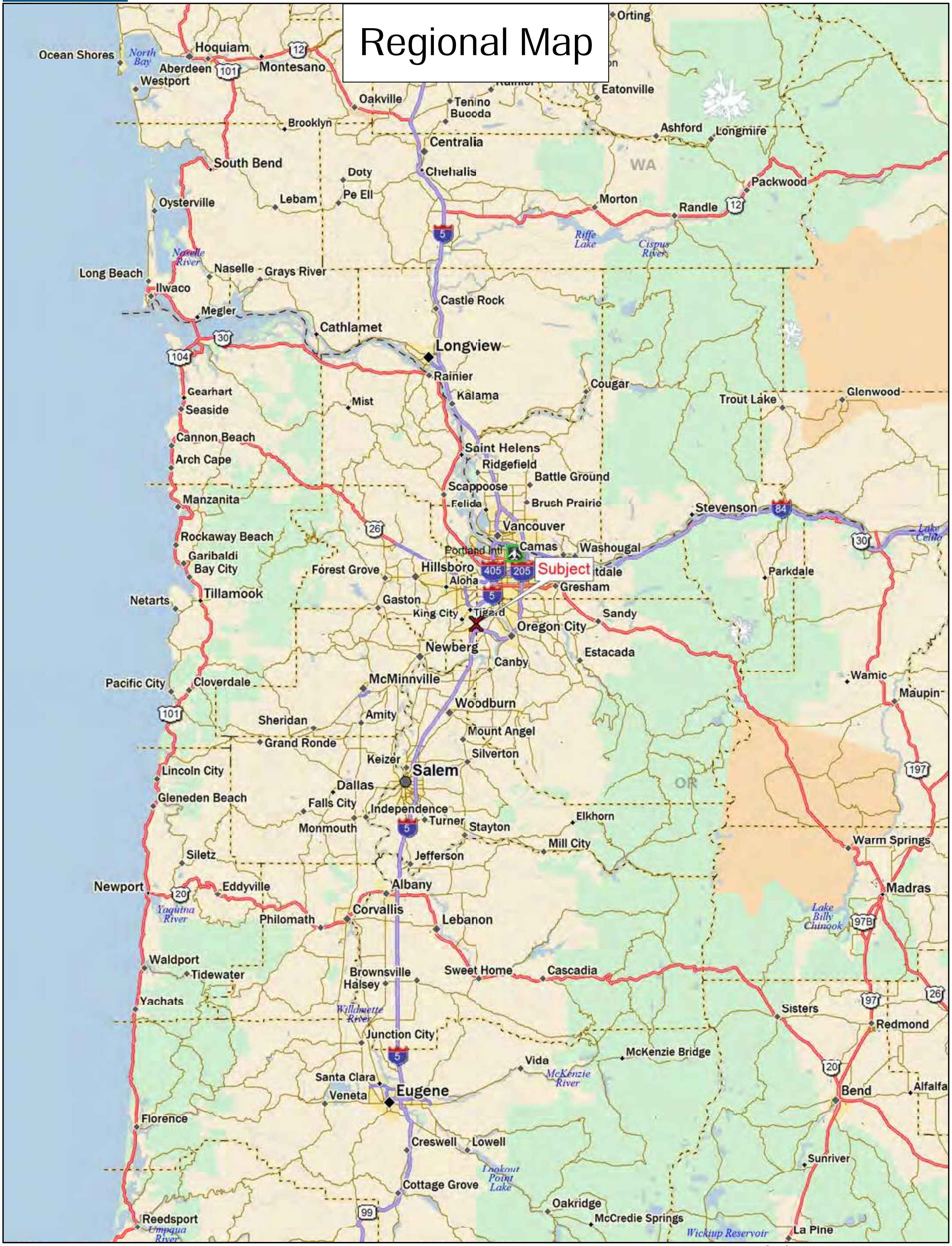

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Scale 1 : 1,600,000

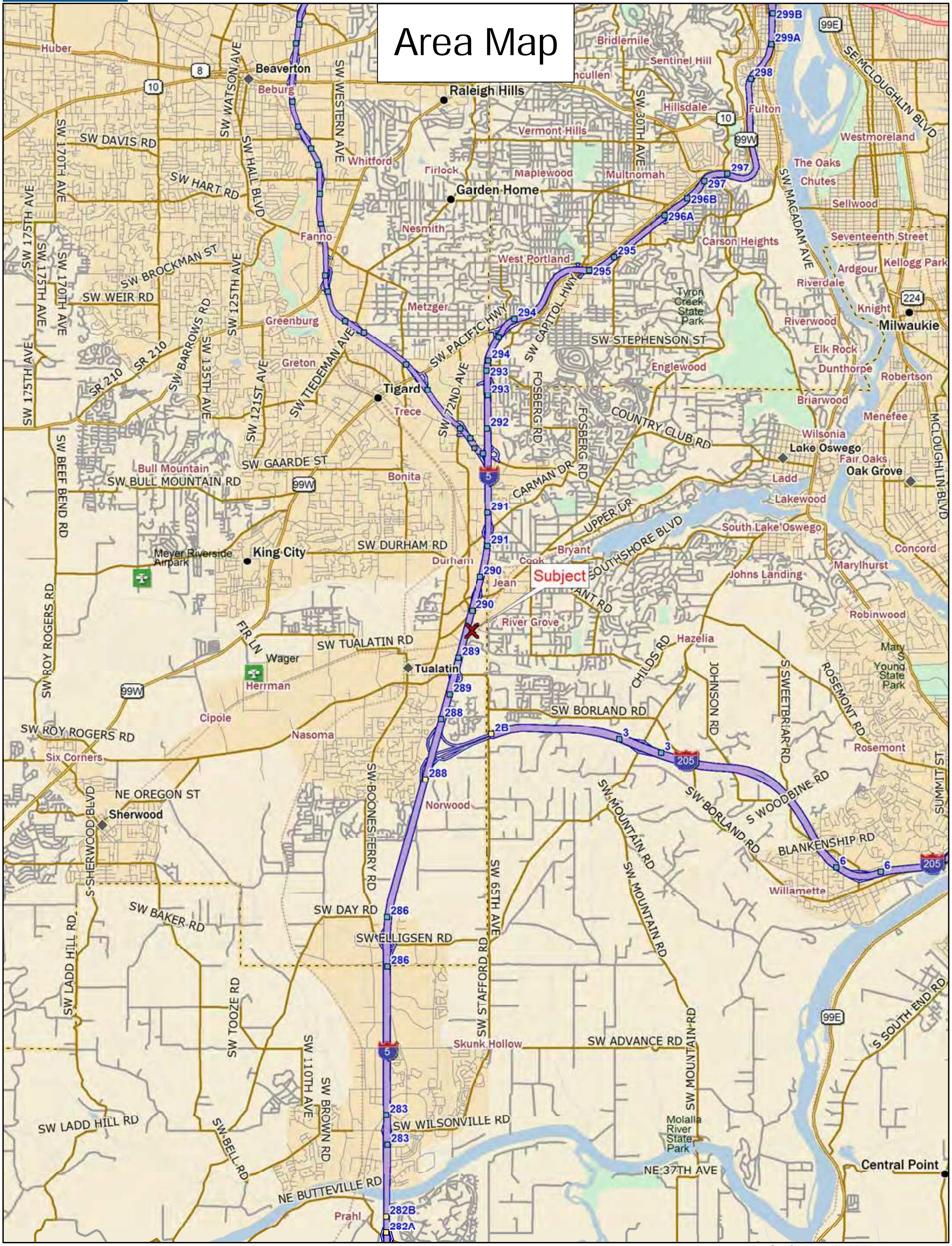
1" = 25.25 mi

Data Zoom 7-0

DELORME

DeLorme Street Atlas USA® 2010

Area Map



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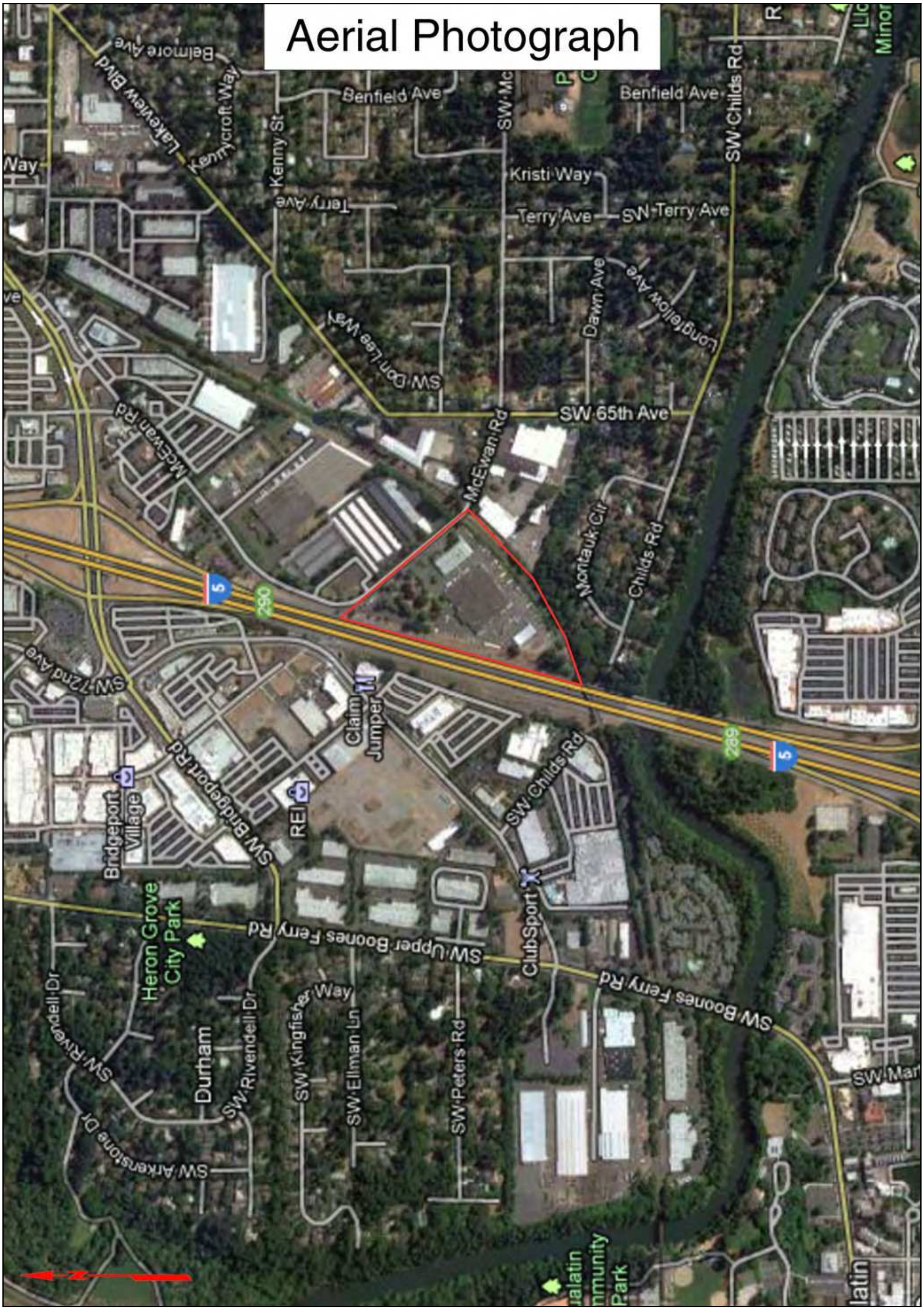
Scale 1 : 100,000
1" = 1.58 mi
Data Zoom 11-0

Aerial Photograph



Photodirectional Map

Photo 1: Facing McEwan Road from the visitor's parking lot

Photo 2: Facing east toward Building B

Photo 3: Facing north toward Building B

Photo 4: Facing west toward Building B

Photo 5: Facing west toward the Building B loading docks from McEwan Road

Photo 6: Facing southwest along the railroad tracks that run along the subject's eastern border

Photo 7: Facing south toward Building A

Photo 8: Facing west toward Building A

Photo 9: Facing west toward the back of Building A

Photo 10: Facing north toward Building A

Photo 11: Facing southeast toward Building A

Photo 12: Facing east along the front of Building A

Photo 13: Facing west toward Building C

Photo 14: Facing south toward Building C

Photo 15: Facing east toward Building C

Photo 16: Facing east along the subject's eastern border

Photo 17: Facing south toward the bio swale area

Photo 18: Facing west toward a small shed on the subject site

Photo 19: Facing the cell tower in the north corner of the subject site

Photo 20: The main employee parking lot

Photo 21: Facing southeast across the grassy area between the two parking lots

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APPRAISAL PREMISES

PROPERTY LOCATION

The subject is located at 7100 SW McEwan Road in Tualatin, Washington County, OR 97035.

Reference Census Tract 320.05, Block Group 1, Block 1025, and *The Thomas Guide*, map 685, grid G-2.

LEGAL DESCRIPTION

The subject's legal description is as follows:

Tualatin Valley Homes lots 33-37, 43, and 44, Tualatin, Washington County, Oregon.

PROPERTY RIGHTS APPRAISED

This appraisal is a valuation of the subject's fee simple estate.

PURPOSE

The purpose of this appraisal report is to estimate the As Is market value of the subject property's fee simple interest.

INTENDED USE

This report is to be used by NW Natural to assist in establishing value for asset management purposes.

CLIENT/INTENDED USERS

Our client is NW Natural. This report is intended for the use of NW Natural staff and board members requiring access to this report in conformity with its function as stated above.

EFFECTIVE DATE OF VALUE

January 26, 2012 (the date of our property inspection)

UNFORESEEABLE EVENTS

This appraisal does not address unforeseeable events that could impact the proposed property improvements and/or the market conditions reflected in the analyses that follow. The forecasts, projections, and value estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, as well as future economic conditions reflected by the expectations and perceptions of market participants. Although our best efforts have been made to estimate reasonable value conclusions and marketing periods for the subject, unforeseeable events such as natural disasters, terrorist activity, significant government interventions, or unpublished major economic indicators could impact future marketability of the subject beyond what is foreseen at the present time. See the addendum for additional information.

PERSONAL PROPERTY

No chattel property is included in the appraised value estimate.

COMPETENCY STATEMENT

The individuals signing this report, as the qualifications appearing at the end of this report verify, are qualified to do this appraisal.

MARKET VALUE DEFINITION

Market value is defined as:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. *Buyer and seller are typically motivated;*
2. *Both parties are well informed or well advised, and each are acting in what they consider to be their own best interest;*
3. *A reasonable time is allowed for exposure to the open market;*
4. *Payment is made in terms of cash in U.S. dollars, or in terms of financial arrangements comparable thereto; and*
5. *The price represents the normal consideration for the property sold unaffected by special or creative financing, or sales concessions granted by anyone associated with the sale.*

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

PRIOR SERVICES

CJM has not previously appraised the subject.

WARRANTY

CJM warrants that none of its management staff, employees, or agents has any present or prospective financial or ownership interest in the subject property, or in any related property.

APPRAISER INDEPENDENCE

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

SCOPE OF WORK

INTRODUCTION

The report format has been logically structured, and appraisal techniques and approaches necessary for a credible valuation conclusion have been employed. Every attempt has been made to simulate typical market behavior. To that end, conclusions are based on extensive market data and logical analysis.

SCOPE OF WORK CONSIDERATIONS

This scope of work description provides a brief discussion of the procedures utilized in the development of the appraisal, providing insight into the level of data and analysis leading to value estimate conclusions. Additional discussions regarding scope of work appear in the relevant sections of the report. Considering the relative complexity and characteristics of the property appraised, the intended use and users of the report, and the assignment conditions, the following scope of work was pursued.

Assignment Conditions

Our assignment was to provide an opinion of the subject's As Is market value.

Site Visits

Hillary Huefner, MAI, inspected the subject property inside and out. In addition, observations of surrounding properties have been made, photographs of which are included in the report. The inspection of the improvements focused particularly on characteristics which most directly impact value, e.g., appearance, condition, and utility. Exterior and interior photographs appear where applicable in this report. A description of the site and improvements is included.

A detailed inspection of the roof or crawl spaces has not been undertaken. Deferred maintenance in the form of a leaky roof was reported, as was minor deferred maintenance related to an old septic system on the site. While any evident physical or structural deterioration has been noted and considered when concluding a value estimate, CJM is not an expert on structural integrity and makes no guarantees of structural integrity. It is recommended that if a question about structural integrity is raised, an expert in this regard be retained.

Highest and Best Use

Existing improvements often constitute the most profitable site use but this is not always the case. In the case of the subject, alternative uses have been considered and the highest and best use of the property has been determined. As is discussed at length later in this report, the subject's highest and best use is continued single-tenant light industrial (office/warehouse) use.

Purchaser Profile

Real estate has no intrinsic value; it is worth what someone will pay for it. An appraisal conclusion is, consequently, not an estimate of property value as much as an estimate of probable "typically motivated" buyer and seller behavior. It is, therefore, imperative to identify the purchaser profile during the appraisal effort, pursuing properties involving a conforming profile. As is discussed in this appraisal, the most likely purchaser of the subject property is an owner-user.

APPROACHES TO VALUE

Two valuation techniques—the income capitalization approach and the sales comparison approach—have been used to estimate the values appearing in the transmittal letter. Support for utilizing these approaches is discussed below.

Income Capitalization Approach

Because the subject is currently owner-occupied, and because the most likely buyer is another owner-occupant, the applicability of the Income Capitalization Approach is reduced. However, after review of the above considerations, it was determined that an income capitalization approach would be both appropriate for this assignment. Within this approach the direct capitalization technique has been utilized. Lease rates, expense levels, and overall capitalization rates are based on market data.

Sales Comparison Approach

After review of the above considerations, it was determined that a sales comparison approach would be both appropriate and necessary for this assignment. A search for comparable properties was performed, and the best comparables available were utilized. These sales were then compared with the subject utilizing quantitative or qualitative analyses where applicable.

Cost Approach

Purchasers of existing buildings in the greater Portland market typically do not employ the cost approach when formulating offers, particularly for buildings that are, like the subject, more than 40 years old. The Cost Approach is not applicable to the assignment at hand and is not used.

HYPOTHETICAL CONDITIONS AND/OR EXTRAORDINARY ASSUMPTIONS

There are no unusual hypothetical conditions or extraordinary assumptions made in this report. Please refer to the addendum for a complete list of conditions and assumptions.

RECONCILIATION AND FINAL ESTIMATE OF VALUE

The conclusions from each approach have been logically weighed and balanced in the reconciliation according to the strength of each approach and the degree to which each approach is used in the marketplace.

SCOPE OF WORK CONCLUSION

The conclusions from each approach have been logically weighed and balanced in the reconciliation according to the strength of each approach and the degree to which each approach is used in the marketplace. Because we are not aware of any recent listings or pending sales, a discussion of the differences between our concluded values and recent list or sale prices is not applicable.

COMMUNITY & NEIGHBORHOOD CHARACTERISTICS

INTRODUCTION

This section of the report summarizes characteristics that influence property values in the subject neighborhood.

NEIGHBORHOOD PROFILES

Physical Profile

Relative Location

The subject site is located on the east side of Interstate 5, between the Nyberg Road and Lower Boones Ferry Road exits within Tualatin city limits. There are, however, three other jurisdictions within one to two blocks of the subject site: Lake Oswego, Rivergrove, and Clackamas County. The intersection of I-5 and I-205 is one mile south of the subject; I-5 leads into downtown Portland approximately ten miles to the north.

The stretch of I-5 between Nyberg Road and Lower Boones Ferry Road is dominated by retail uses, many of which—like the two pictured below—were constructed within the last 10 years.

Nyberg Woods, located at the northeast corner of the intersection of I-5 and Nyberg Road

Bridgeport Village, located at the northwest corner of the intersection of I-5 and Lower Boones Ferry Road

Major tenants at the 213,000-square-foot neighborhood shopping center known as Nyberg Woods include Best Buy, Famous Footwear, Chipotle, Old Navy, PetsMart, Supercuts, Ulta, and Starbucks.

Bridgeport Village, a 500,000-square-foot regional shopping center, is home to boutique retailers such as Cole Haan, The Container Store, Crate & Barrel, Eileen Fisher, Tommy Bahama, Coldwater Creek Spa, and Saks Fifth Avenue Off Fifth. The center is also home to the largest Regal Cinema in the state and an IMAX theater.

While smaller retail uses were already in place at the Nyberg and Lower Boones Ferry exits, the development of these large, prominent retail centers have spurred additional retail development. Immediately south of Bridgeport Village, for example, directly across the freeway from the subject site, are a variety of new in-line retail stores, a large Claim Jumper restaurant, and a brand new hotel (Grand Hotel).

Grand Hotel

Looking across I-5 at the subject site from the Claim Jumper parking lot

Also directly across I-5 from the subject site, near the Grand Hotel, is a new Providence Medical Center immediate care/medical office building.

Providence Medical Center

South Lake Center, neighborhood shopping center at the northeast corner of I-5 and Lower Boones Ferry Rd

In contrast to the new, higher-end retailers at Nyberg Road and in and around Bridgeport Village, the commercial uses at the northeast and southeast corner of the I-5/Lower Boones Ferry Road interchange (the subject side of the freeway) are older and much more modest. South Lake Center, for example, at the northeast corner of I-5 and Lower Boones Ferry (pictured above) is home to a couple of national chain restaurants (Baja Fresh, Fuddruckers) but also a series of typical local retailers (Beaverton Bakery, teriyaki, nail salon, etc.). A Safeway store and a Walgreen's pharmacy are a block further to the east.

Access to the subject site is from McEwan Road, which is accessed from Lower Boones Ferry Road and which is one block east of the freeway. Uses along McEwan near Lower Boones Ferry include a Taco Bell restaurant, a Carl's Jr restaurant, a Motel 6, and a 24-hour Fitness Center.

Taco Bell

Motel 6

Driving further south on McEwan (away from Lower Boones Ferry, toward the subject), the uses become more industrial in nature. These uses include NW Textbook Depository, Public Storage, Oswego Storage, and Oswego Business Park.

Public Storage (located across McEwan from the subject)

Oswego Business Park

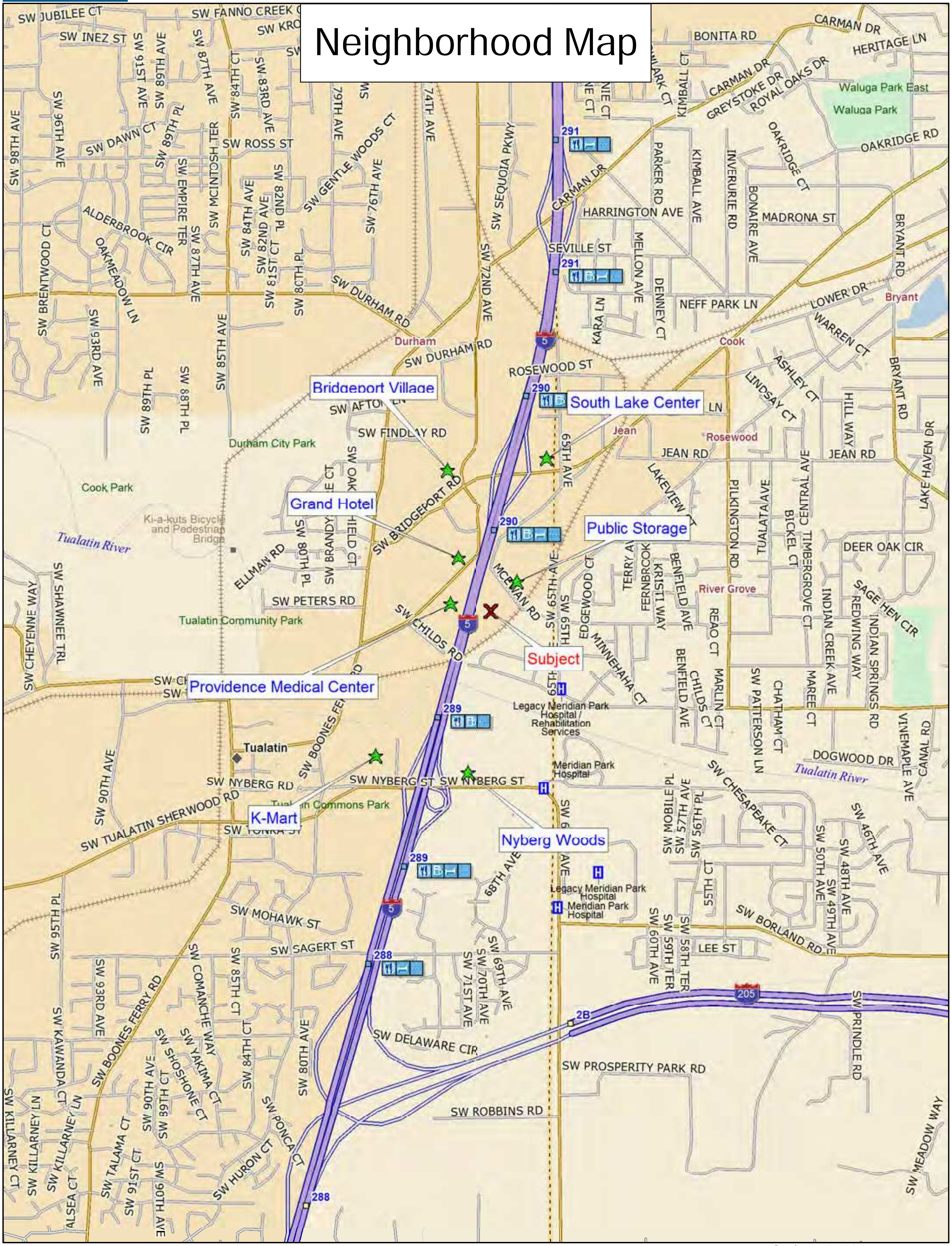
A few industrial buildings like the subject are within the block immediately south of the subject on McEwan and along the parallel street to the east. One block further south, however, and to the east, uses turn suddenly into older single-family residences.

Industrial use immediately south of the subject on McEwan

Typical single-family residence one block further south

DeLorme Street Atlas USA® 2010

Neighborhood Map



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MN (16.1°E)

Scale 1 : 25,000

0 600 1200 1800 2400 3000 ft
0 200 400 600 800 1000 m

1" = 2,083.3 ft Data Zoom 13-0

Overall, the subject's stretch of I-5 is increasingly a prominent, strong retail node. The subject, however, is just beyond the current reach of the retail development in an area characterized by a mix of modest commercial uses, light industrial uses, and residential uses.

Neighborhood Cycle

Neighborhoods are subject to periods of growth, stabilization, decline, and revitalization. As indicated earlier, the recent development of the Bridgeport Village shopping center spurred rapid retail growth. While the recession stalled that growth pattern, developable land remains and development is expected to resume once new construction again becomes feasible. In the immediate vicinity of the subject, however, where land is zoned for light industrial or residential use, the neighborhood is mostly built-out. It would be expected that as retail growth resumes, some of the older commercial uses along McEwan near Lower Boones Ferry will be razed to make way for more intensive development. Unless the subject site is rezoned for commercial use, however, continued light industrial use of the subject is expected. As will be shown, despite their age (44 years) the subject improvements contribute significant value to the subject site, and redevelopment of the subject site for alternate light industrial use will not likely be feasible for many years. In short, while the general neighborhood is expected to resume rapid growth when general economic conditions improve, the immediate subject area is considered stable, with few growth opportunities likely in the foreseeable future.

Property Appearances

As illustrated by the photographs provided earlier, the appearances of properties in the vicinity of the subject range from above average to below average. However, for their age and use most neighborhood properties are average in terms of maintenance and appearance. There is no evidence to suggest that neighborhood properties suffer from external obsolescence.

Access

Interstate 5 provides direct access to and through the submarket area. Additionally, the area is served by public transportation and by freight rail. Submarket access and transportation linkages are good.

Linkages & Complementaries

The Portland International Airport is approximately fifteen miles to the northeast and, as we said, Interstate 5 and freight rail lines pass through the subject neighborhood. These linkages support the area's industrial uses, while various public schools, churches, parks, and shopping centers support the area's resident population. Downtown Portland is, again, approximately ten miles from the subject, providing numerous employment centers, medical resources, recreational areas, and educational institutions. Linkages and complementaries are good.

Governmental Profile

Zoning & Land Use Policy

A wide variety of zoning classifications can be found in the immediate neighborhood, including general commercial, light industrial, and residential. While an eventual rezone of the neighborhood's industrial land for commercial use would seem logical, such a rezone is unlikely, as will be discussed later in this appraisal. No significant changes in zoning or land use policy are anticipated in the foreseeable future.

Protective Services

Neighborhood protective services are primarily provided by Tualatin, Lake Oswego, and Clackamas County. Protective services appear adequate.

Utilities Services

The neighborhood is served by all utilities. Utilities services are adequate. Municipal infrastructure is in adequate condition.

Environmental Profile

Environmental Concerns

In the immediate area there appears to be no evidence of dumping or discharge of liquid or solid waste materials, soil erosion, overuse of pesticides, or chemical fertilizers, or other elements which may be hazardous to plants, animals, ground water, etc. This statement does not mean that CJM warrants the non-existence of any of these potential problems but rather that none were evident during inspections conducted as part of this appraisal report.

External Obsolescence

No external obsolescence is observed in the subject neighborhood.

Demographic & Economic Profile

ESRI compiled the following statistics for that area within a five-minute driving radius of the subject.[1] As shown on the accompanying map, this area roughly encompasses the subject's submarket area.

Average Household Size

The 2010 neighborhood population estimate within a five-minute drive of the subject is 17,102 persons, up from 16,411 in 2000. The indicated annual compound population growth rate in the submarket area between 2000 and 2010 was a relatively low 0.41%. In 2010, the average household size within the submarket area was 2.5 persons.

Age Profile

The median age of neighborhood residents is 36.7 years. Children (individuals under the age of 18) account for 23.5% of the neighborhood population, while retirees (65 and older) account for 9.2% of the neighborhood population.

Economic Profile

Employment Location

Neighborhood residents require, on average, 22 minutes to get to work. Approximately 46% of neighborhood residents require less than 20 minutes to get to work. Within this timeframe, neighborhood residents could normally commute to employment centers in downtown Portland, as well as to employment centers in the surrounding communities (Tualatin, Tigard, Lake Oswego, Beaverton, Wilsonville, etc.).

Employment Skills

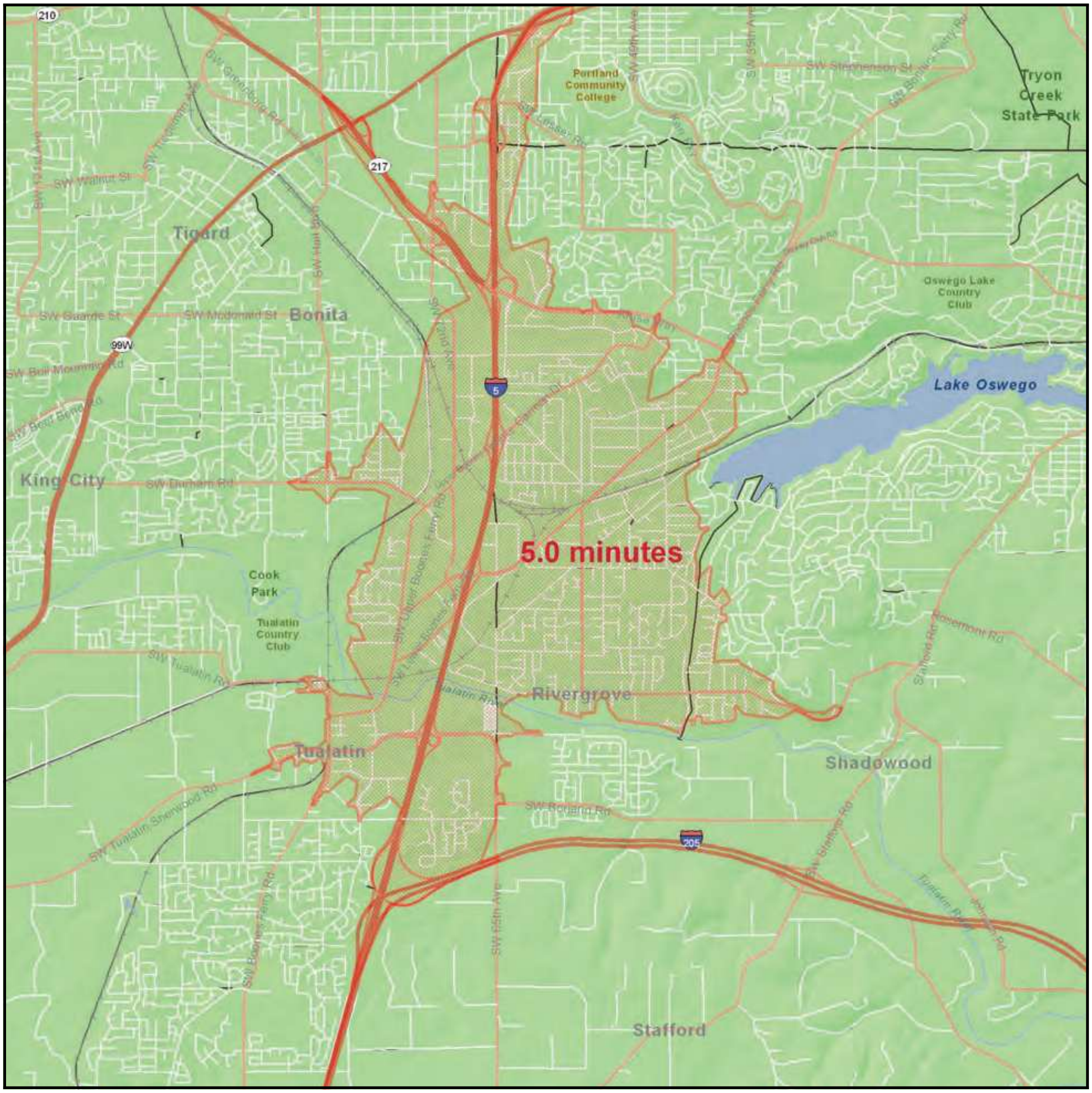
Approximately 47% of employed neighborhood residents over the age of 16 have service-related jobs. Seventy-three percent of the employed population has what would be considered a white-collar job; 14% are blue-collar workers.

[1] The most current data available from ESRI/STDB is 2010 data. According to STDB representatives, 2011 data will be available "soon," but no specific release date was given.

2010 Total Population by BLOCK_GROUPS

Prepared by Wendy Munson

12009



2010 Total Population

- 0 - 25572.6666666667
- 25572.6666666667 - 51145.3333333333
- 51145.3333333333 - 76718

CJM

About Your Map...

This map shows 2010 Total Population by BLOCK_GROUPS

The map divides the range of values into equal-sized categories. This method is best applied to familiar data ranges such as percentages.

Income per Household

Estimated household income levels are summarized in the table below.

2010 HOUSEHOLD INCOME LEVELS
Subject Neighborhood

Household Income Bracket	Proportion
$150,000 & more	12.3%
$100,000 to $149,999	18.0%
$75,000 to $99,999	12.7%
$50,000-$74,999	24.5%
$35,000 to $49,999	14.9%
$25,000 to $34,999	6.6%
$15,000 to $24,999	5.7%
Under $15,000	5.3%

Source: ESRI

The estimated 2010 average household income was $87,929; the median household income is $66,947.

MARKET INDUSTRIAL TRENDS

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

Competing Rental Trends

Competing Market Lease Rates

At present, monthly lease rates for shell (warehouse) space in the competing market area generally range from $0.25 per square foot to $0.35 per square foot. While some tenants have negotiated leases without any office surcharges, the office premium is typically between $0.50 and $0.75 per square foot per month. Industrial leases in the submarket area are typically written on a triple-net basis.

Rental Rate Appreciation

Industrial lease rates have stabilized, and some landlords have been able to raise rates slightly during the past year. All of the recent leases we researched for this assignment included annual rental rate increases of 3%.

Lease Terms

Three- to five-year lease terms are common in the market, although some ten-year leases are also found. Industrial leases are almost always on a triple net basis.

Rent Abatements

Rent concessions are decreasing; landlords are no longer giving away a full month of free rent for every year of the lease period. While most new leases continue to include modest concessions, these concessions are now less than one month free per year.

Tenant Improvements Allowances

Tenant improvements/allowances are generally nominal in the subject market once a building is initially completed and leased-up. Few if any tenant improvements are made to the shell portion of a space; tenant improvements of around $5.00 per square foot for the office build-out can sometimes be negotiated.

Leasing Commissions Leasing commissions of 5.00% to 7.50% for a new tenant and 2.50% for a renewal are typical in the subject market.

Vacancy and Absorption Trends

Vacancy Levels The current industrial vacancy rate in the greater Portland area is somewhere between 8.00% and 9.00%, according to reports published by Colliers International ("Q3 Highlights"), Kidder Mathews ("Real Estate Market Review, 4Q2011"), and Grubb and Ellis ("Industrial Trends Report, 4Q2011"). Within the I-5 south corridor submarket, the industrial vacancy rate was a little higher, at about 9.5%. However, within the smaller Tualatin submarket, current vacancy rates approximate 6.5%. No new industrial space is under construction in the immediate submarket area.

Lease Turnover Time Leasing agents interviewed indicate that as space becomes available, the time required to release vacant space varies depending on the unit size, but is usually six to twelve months. According to the Kidder Mathews report referenced earlier, the greatest demand for space is in the 100,000 SF to 175,000 SF range (the subject, again, has 110,250 square feet of space). Spaces between 30,000 and 60,000 square feet have been the hardest to lease; some of these spaces have been available for nearly three years.

Operating Expense Trends

Operating Expense Levels Operating expense levels in the primary market area typically range from about $0.08 per square foot per month to $0.10 per square foot per month. However, industrial leases in the submarket area are typically written on a triple net basis, with the tenants either paying all operating costs, or reimbursing the owner for operating costs.

Operating Expense Appreciation Operating expenses have remained fairly constant during the past few years, typically appreciating at the general inflation rate of 2.50% to 3.00%.

OAR Trends Sales activity is down, but based on our review of available sale data and our conversations with local market participants cited in this report it appears that investors are currently utilizing overall capitalization rates of 7.00% to 9.00%. All of the brokers interviewed for this assignment indicated that overall rates have declined in the past year or so, although these same brokers noted that most of the sales of properties of the subject type and size have been to owner-users and, consequently, overall rates from these sales are not available.

Marketing Trends

Building Sales Trends Again, most of the sales activity in the past couple of years has involved owner-users, since these buyers have had better access to financing than institutional investors.

Across the Portland Metropolitan area, office/warehouse properties are typically selling at prices ranging from approximately $30.00 per square foot to $70 per square foot.

Marketing/Exposure Times

Comparable sales indicate typical marketing/exposure times of approximately one year.

Projects Proposed and Under Construction

No new construction is underway or proposed in the submarket area.

CONCLUSION

The subject neighborhood benefits from its proximity to I-5 and from substantial recent retail growth; growth is expected to resume when market conditions improve. Local industrial lease rates have stabilized and are showing some signs of upward movement, vacancy rates are declining, and overall capitalization rates are returning to pre-recession levels. Owner-users continue to be the most active buyers in the market. Uses in the immediate vicinity of the subject include a mix of commercial, industrial, and residential uses; continued industrial use of the subject site is anticipated into the foreseeable future.

SUBJECT SITE DESCRIPTION

INTRODUCTION

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

IDENTIFICATION

Location

7100 SW McEwan Road

Assessor's Parcel No.

The subject site is comprised of seven tax lots, identified as follows:

2S124AA-05500 (R2143276)
2S113DD-01000 (R517051)
2S113DD-00900 (R517042)
2S113DD-01600 (R517006)
2S113DD-01700 (R517015)
2S113DD-01100 (R517033)
2S113DD-01200 (R517024)

Owner of Record

NW Natural Gas Company

Immediately Surrounding Properties

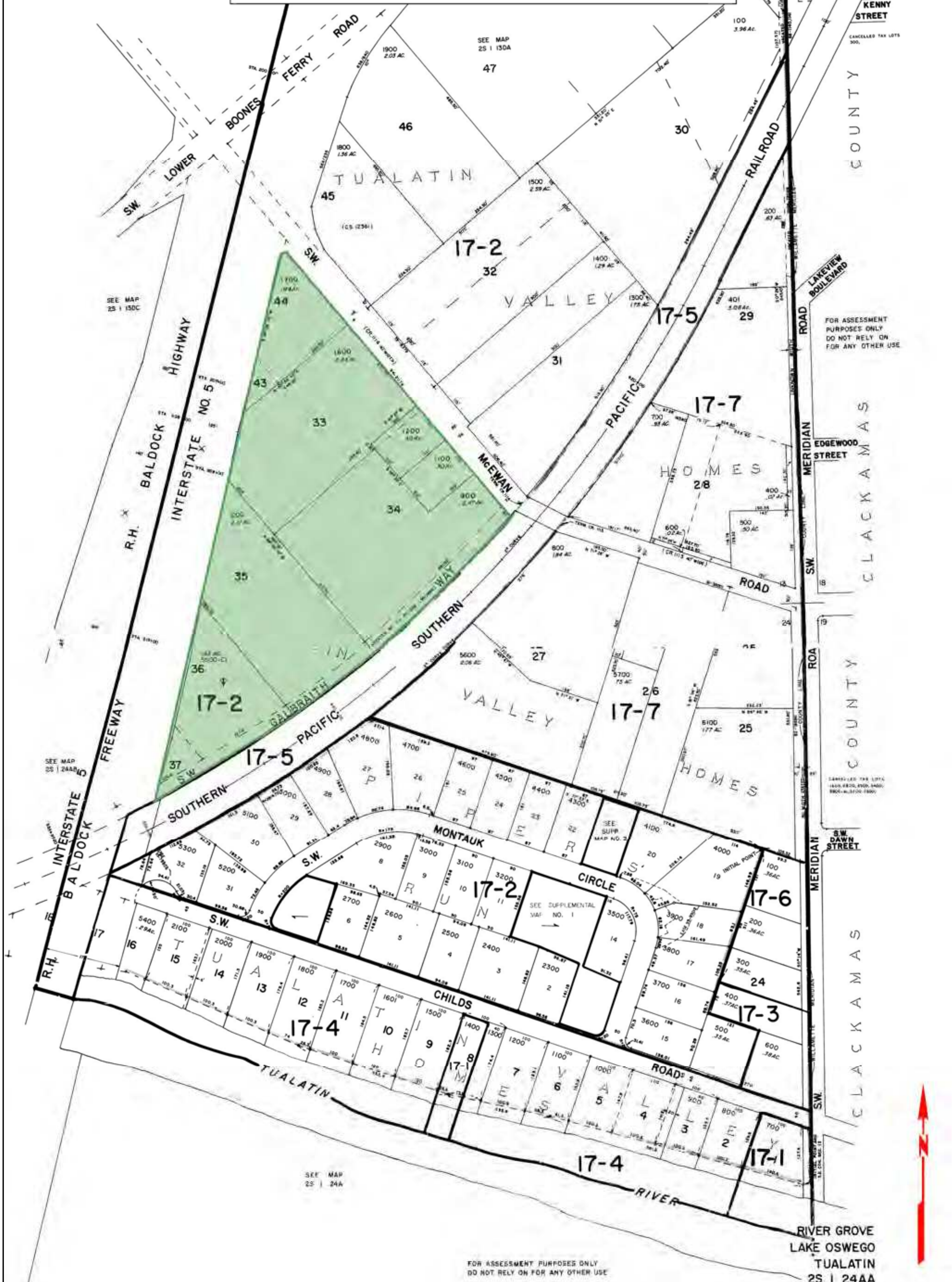
As discussed earlier, immediately surrounding properties a couple of self-storage/mini-storage facilities, several light industrial buildings, older detached single-family residences, and some general commercial uses.

Oswego Storage, located directly across McEwan Road from the subject

Photographs of other neighborhood properties were provided earlier in this appraisal report.

The appearances of properties in the immediate vicinity of the subject are varied but are generally average for their age and use.

Assessor's Parcel Map



DESCRIPTION

Shape, Topography, and Area

The subject site is a more-or-less triangular parcel with a total site area of 10.27 acres. The site has approximately 1,445 feet of frontage along I-5, while access to the site is from SW McEwan Road, which runs along the north side of the site. The third side of the site runs along a length of Southern Pacific railroad tracks. The site is relatively level and at street grade.

Floor Area Ratio

With a gross building area of 110,250 SF and a total site area of 10.27 acres, the subject's floor area ratio (FAR) is 25%. Among the competing properties surveyed for this assignment, FARs range from approximately 15% to 75%. Properties with lower FARs are generally preferred because of the outside yard storage they typically provide. At 25%, the subject's FAR is competitive in this regard.

Excess or Surplus Land

Again, the subject's FAR is within the typical range. Because of the placement of the buildings on the site and the required bio swale area at the far end of the site, there is not really any room on the site for significant expansion (surplus land), nor is there an area of the site that could be partitioned from the rest for independent use. There is no excess or surplus land at the subject site.

Visibility/Exposure and Access

With more than 1,000 feet of frontage on Interstate 5, the subject's visibility and exposure are considerably above average. At the same time, it should be noted that visibility and exposure are of less concern to a typical industrial user than are accessibility and transportation linkages. While the subject offers average to slightly above-average transportation linkages, subject access is considered average or perhaps slightly below average, since McEwan Road is relatively narrow, is winding, and connects with a residential neighborhood just one block beyond the subject site.

Ingress/Egress

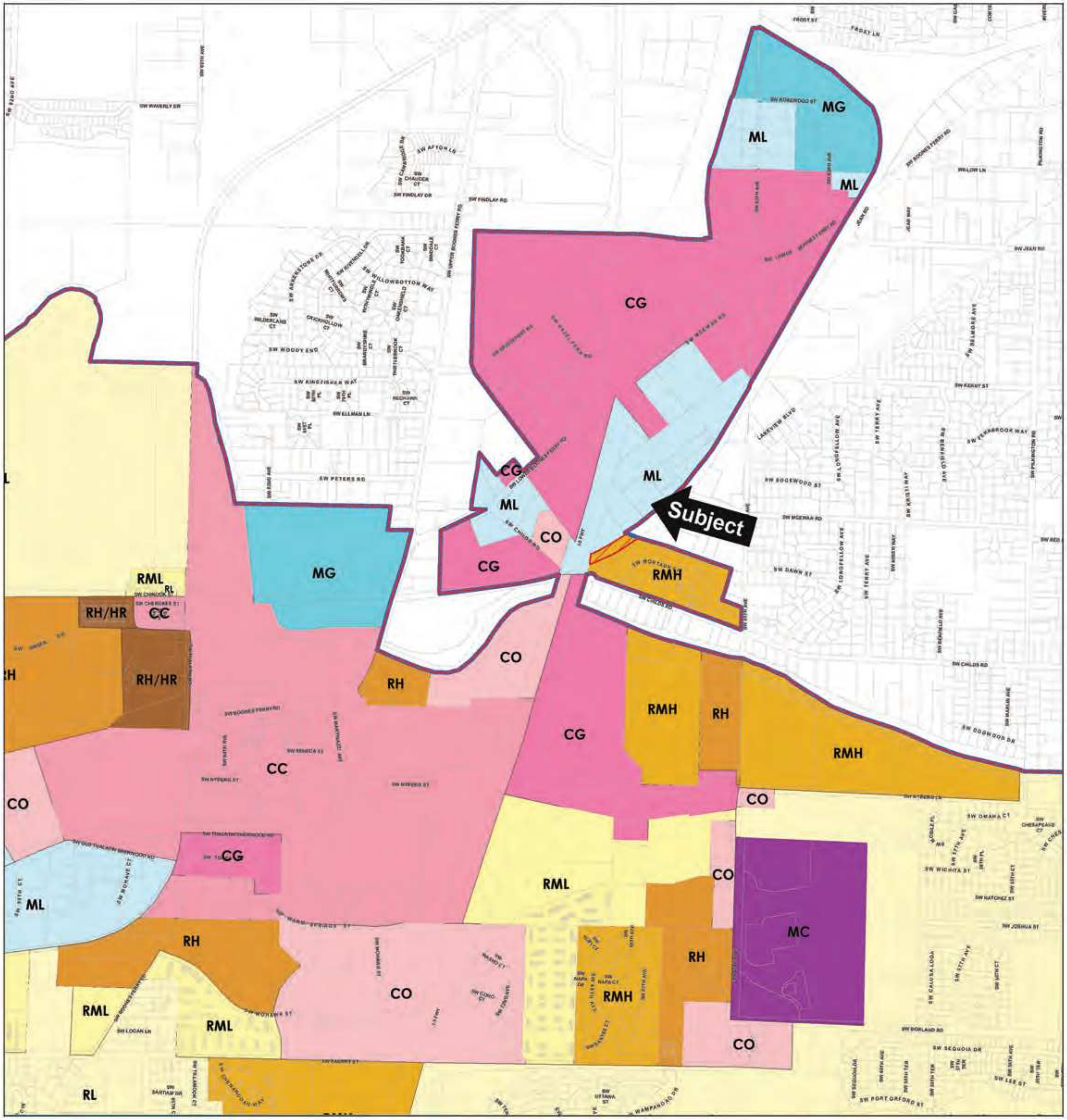
The subject site has two curb cuts along McEwan Road providing general vehicular access to the site, and a third curb cut provides truck access to the subject's Building B loading docks. Ingress/egress and onsite maneuverability are considered adequate for most types of light industrial users.

Soils Conditions

No soils report has been provided CJM. Based on the appearance of the subject and surrounding properties, it appears that soils conditions are adequate to accommodate the existing improvements into the foreseeable future. No guarantee of this latter statement is made, however.

Utilities

All public utilities are available at the site.



TUALGIS

Community Plan Map -Planning Districts- Map 9-1

NOTES:

1. All plan designation boundaries are intended to follow property lines, center lines of streets, or can be scaled pursuant to the scale of this map. If mapping errors occur, the City Council shall be the sole arbitration body to decide the location of boundaries.

2. Specific requirements for each Planning District are found within the Tualatin Development Code.

3. The Wetland Protection District and the Greenway and Riverbank Protection District locations are described in the Tualatin Development Code. Maps of the districts are available from the Planning Department.

4. Properties within the Tualatin Urban Renewal Area boundary are subject to the Tualatin Urban Renewal Plan which may contain specifications and requirements that are more restrictive than those found within the Planning District standards.

Planning Area Boundary

Manufactured Dwelling Park Permitted

City Boundary

In Planning Area/ Outside of City

N

RF 1:9,600

Effective: May 25, 2011

RESIDENTIAL		DU/Acre
RL	Low Density	1-6.4
RML	Medium-Low Density	7-10
RMH	Medium-High Density	11-15
RH	High Density	16-25
RH/HR	High Density/High Rise	26-30

MANUFACTURING

- ML Light
- MG General
- MP Park
- MBP Business Park

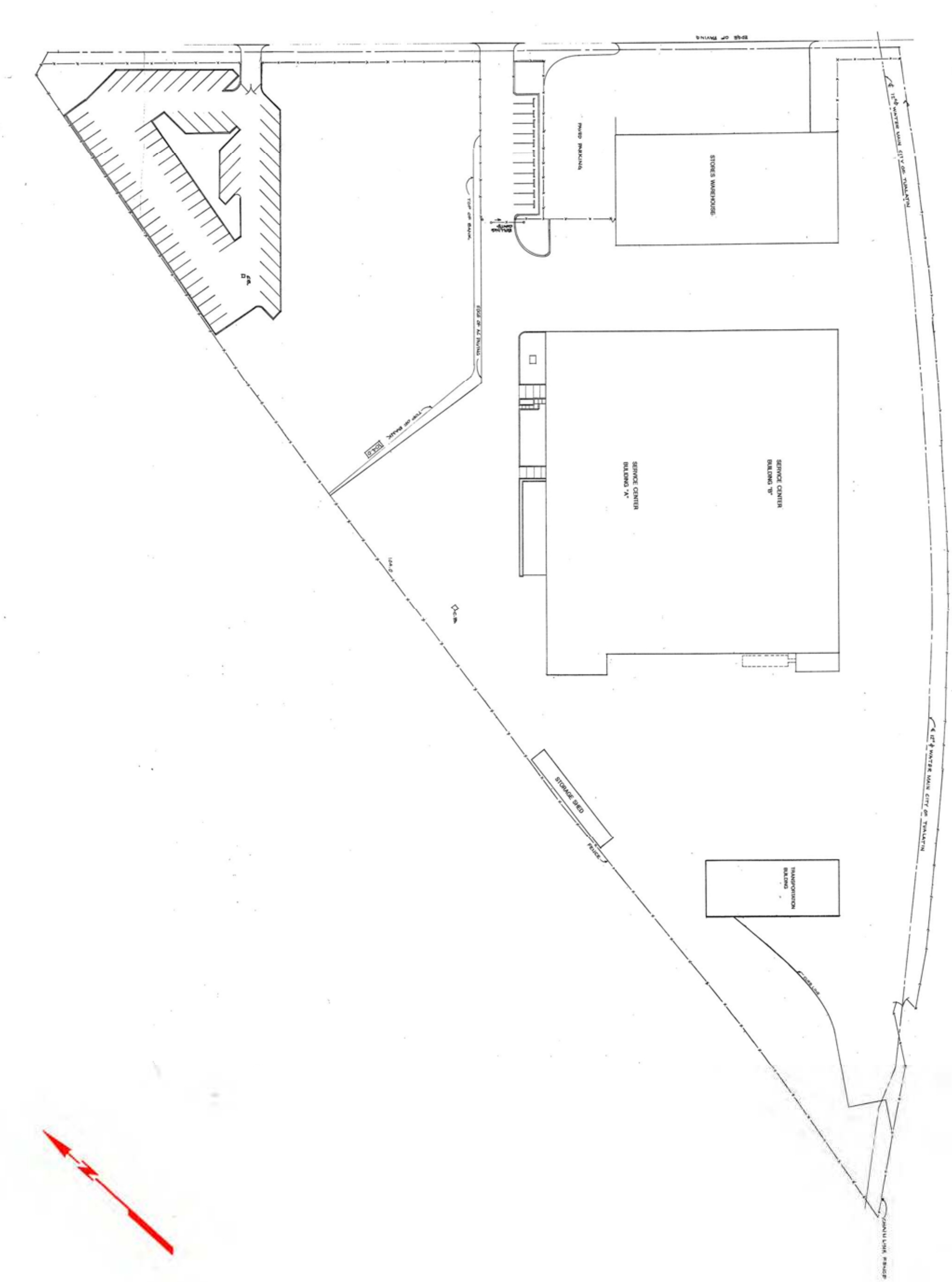
INSTITUTIONAL

- IN Institutional

COMMERCIAL

- CO Office
- CC Central
- CG General
- CR Recreational
- MC Medical Center

Site Plan


STORES WAREHOUSE
PAVED PARKING
SERVICE CENTER BUILDING "A"
SERVICE CENTER BUILDING "B"
STORAGE SHED
TRANSPORTATION BUILDING
FENCE

LAND USE RESTRICTIONS & ENVIRONMENTAL LIMITATIONS

Zoning & Land Use

The site is zoned ML (Light Manufacturing) by the City of Tualatin. Manufacturing, production, warehouse, and industrial services are all specifically permitted in the ML zone, and it appears that the existing improvements and use conform to applicable zoning requirements.

Flood Hazard

The subject is located on FEMA Flood Map No. 410277-0002-D dated February 19, 1987. According to that map, a copy of which is provided in the addendum of this report, the subject site is in Zone C, an area outside the 500-year floodplain.

Seismic Activity

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

Easements, Covenants & Restrictions

A title report was not provided for reference in this appraisal assignment. We are not aware of any easements or restrictions that might negatively impact site utility.

Apparent Encroachments

There are no apparent encroachments.

Hazardous Waste

Based on our cursory site inspection of the subject property, there does not presently appear to be any hazardous waste. There is no refuse in the area and the likelihood that the subject property was used as a dumping ground in the past is minimal.

To determine the present existence or absence of hazardous waste or site contamination, it is recommended that a professional environmental assessment firm be contacted to provide additional tests to determine beyond any degree of doubt the status of the site in this regard. The conclusions of value and highest and best use within this report are contingent upon the absence of hazardous waste or site contamination.

Other Environmental Concerns

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

[1] http://earthquake. usgs.gov/hazards

SUMMARY

The subject site is 10.27 acres in size, is level and at grade, has above-average visibility and exposure and average to slightly below average access, is not negatively impacted by environmental contamination, encroachments, or restrictions, and is served by all public utilities. The site is not within a flood-hazard zone, and the current improvements appear to conform to applicable development code requirements. Overall, the relative desirability of the site is considered average for light industrial use.

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IMPROVEMENT DESCRIPTION

INTRODUCTION

This section of the report summarizes the subject improvements.

PHYSICAL CHARACTERISTICS

General Overview

There are three primary buildings on the site, constructed in 1968 and 1969, which together comprise 110,250 square feet.

Building A, which is near the center of the site, is approximately 83,000 square feet in size. It is of concrete construction with a built-out roof and has 14% office build-out. While there are a few areas of mezzanine storage, the building functions as a single-story structure. The building's primary warehouse area runs through the center of the building and has large roll-up doors at either end, allowing service trucks to drive into the building at one end and out the other. This central warehouse area has a clearance height of about 17 feet.

Central warehouse area, Building A

More warehouse space, Building A

The warehouse space also includes a paint booth.

Over the years the space on both sides of the central warehouse areas has been carved into a variety of built-out and warehouse spaces. The spaces have been modified and expanded and renovated countless times over the years, resulting in a building that has a relatively choppy interior layout. Finishes in the build-out areas are of average quality and are in average condition for their age.

Office area, Building A

Break room, Building A

Building A also has several areas used for meetings and for training purposes.

Training/meeting room, Building A

Nicer meeting room, Building A

Training room, Building A

Auditorium, Building A

As was mentioned earlier, Building A also has a large men's shower room with lockers.

Building A has central heat and air conditioning and has fire-sprinklers in the roof. It was reported that the A/C compressors are old and need to be replaced.

Although the building has 12 large roll-up doors (some on each side of the building), it does not have any dock-high doors.

Building B fronts McEwan Road. The building is 20,000 square feet in size, with 1,600 square feet (8%) of two-story office build-out of average quality finishes.

Warehouse space, Building B

View of the Building B office space from within the warehouse

The office space in Building B is stacked, with general office space on the ground level and a lunch room and private office above. A staircase at each end provides access to the second floor space.

Main level office space, Building B

Upstairs lunch room, Building B

Part of the first floor office build-out in Building B is a large women's bathroom with lockers and showers. The men's room in Building B does not have showers, but a much larger men's shower room is provided in Building A. We note that while Building B was constructed in 1968/1969, the office space was added about 15 years ago.

Building B is also, like Building A, of concrete construction. It has 25' clearances and a combination of grade level and dock-high doors. We understand that the roof in Building B "leaks fairly consistently," and there are occasional problems with the very old septic system that runs under the building.

Building C is a metal-frame, 7,250-square-foot building at the back of the site. The building was 3% office build-out. The building has a shorter end (14' clearances) and a taller end (18' clearances).

Warehouse and office space, shorter end, Building C

Warehouse space, taller end, Building C

The warehouse space in Building C has some lifts and fans; these items are, however, personal property and are not included in this valuation. An area of the warehouse floor in Building C is carved out so that employees can more comfortably work underneath vehicles being serviced.

The warehouse areas in all three buildings have concrete floors and exposed structural elements; all are heated with ceiling-mounted natural gas space heaters. Office areas have central heat and cooling. All of the buildings are sprinklered.

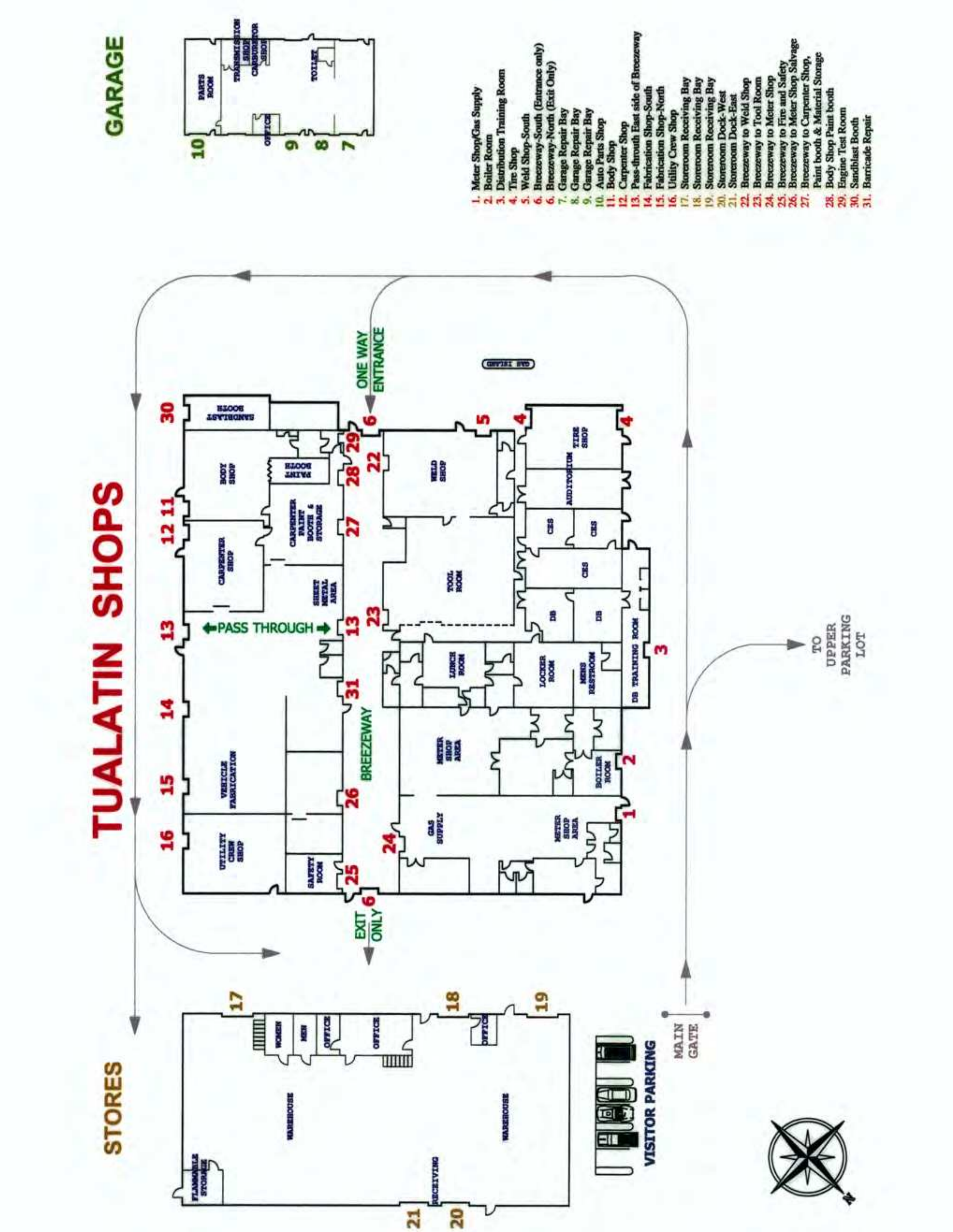
Except for the leaking roof in Building B (a problem that 1) can be remedied, and 2) is considered in this valuation), the buildings appear to be in average condition structurally for their age. Finishes are of average quality, and the subject's FAR and office build-out percentages are within the typical range.

The functional utility of the subject buildings is reduced by the choppy, cobbled-together interior layout that resulted from many small, isolated modifications to the space over the years, but the same kinds of layout issues are commonly found in properties of a similar age and size across the market. The subject's lack of dock-high doors in the main building would be considered a weakness by most potential buyers.

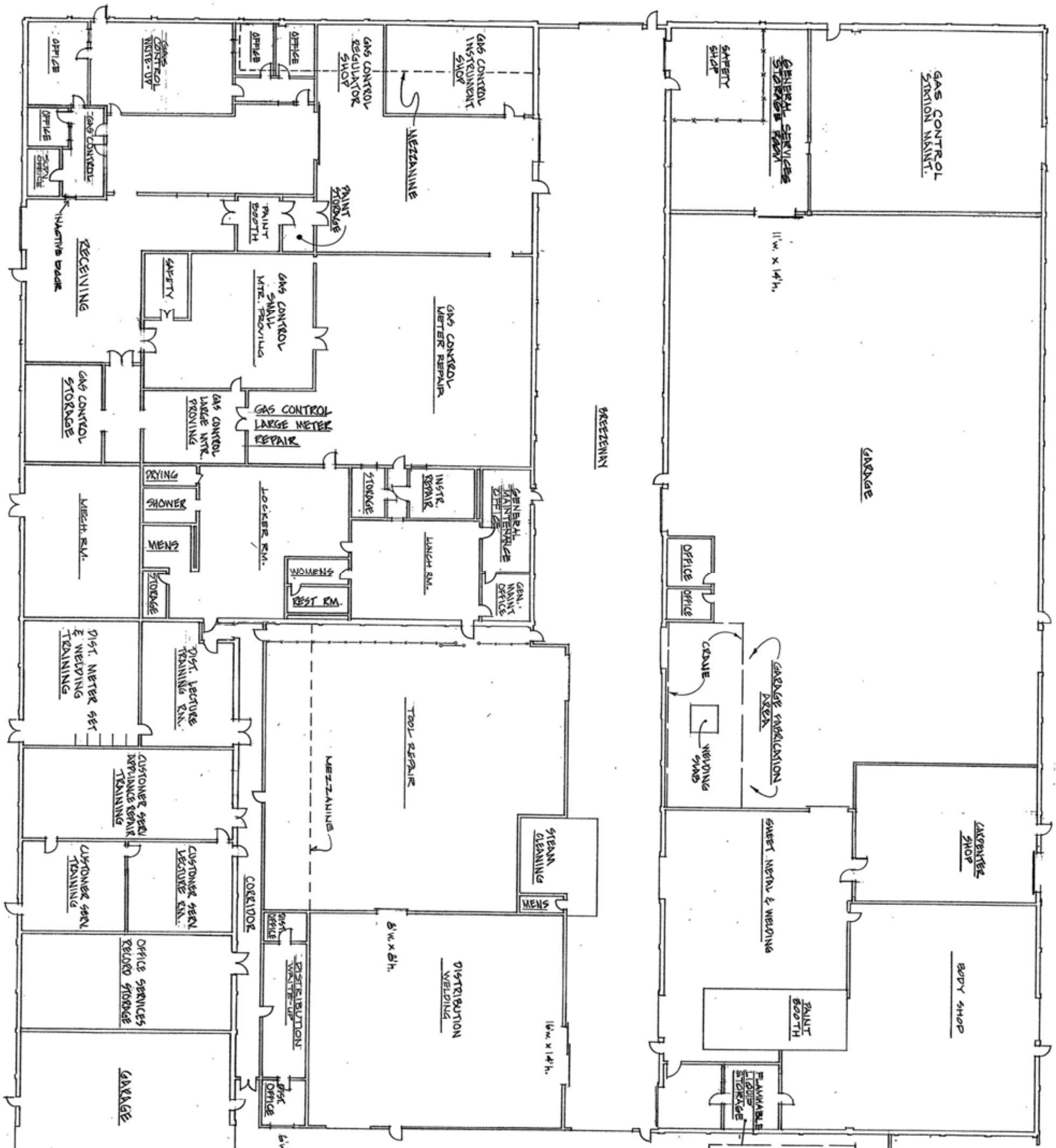
While the subject's I-5 frontage is a strong marketing feature, in actual fact visibility and exposure are not typically of primary concern to industrial users. Accessibility, however, and transportation linkages are often of critical concern. The subject's I-5 location gives it good linkages, but access to the subject site is average or perhaps slightly below average, since McEwan Road is a relatively narrow, winding road that is home to an assorted mix of commercial, industrial, and residential uses.

Floor plans are provided on the following pages.

3 Buildings (Shops) Plan



Floor Plan


OFFICE
GAS CONTROL WRITE-UP
GAS CONTROL REGULATOR SHOP
GAS CONTROL INSTRUMENT SHOP
MEZZANINE
PAINT STORAGE
PAINT BOOTH
RECEIVING
SAFETY
GAS CONTROL SMALL MTR. PROVING
GAS CONTROL METER REPAIR
GAS CONTROL STORAGE
GAS CONTROL LARGE MTR. PROVING
GAS CONTROL LARGE METER REPAIR
DRYING
SHOWER
MENS
STORAGE
LOCKER RM.
WOMENS
REST RM.
INSTR. REPAIR
LUNCH RM.
GENERAL MAINTENANCE OFFICE
MECH. RM.
DIST. METER SET & WELDING TRAINING
DIST. LECTURE TRAINING RM.
TOOL REPAIR
STEAM CLEANING
CUSTOMER SERV. APPLIANCE REPAIR TRAINING
CUSTOMER SERV. TRAINING
CUSTOMER SERV. LECTURE RM.
CORRIDOR
OFFICE SERVICES RECORD STORAGE
DISTRIBUTION WRITE-UP
DISTRIBUTION WELDING
GARAGE
BREEZEWAY
SAFETY SHOP
GENERAL SERVICES STORAGE
GAS CONTROL STATION MAINT.
CRANE
GARAGE FABRICATION AREA
WELDING STAND
SHEET METAL & WELDING
CARPENTER SHOP
BODY SHOP
PAINT BOOTH
FLAMMABLE LIQUID STORAGE

Building Areas

The table below summarizes the subject's building areas, based on measurements taken the day of the inspection.

BUILDING AREAS

Building	Total Area (SF)	Office Build-out (SF)	Percent Build-out
A	83,000	11,405	14%
B	20,000	1,600	8%
C	7,250	200	3%
Total	**110,250**	**13,205**	**12%**

Total build-out at the subject is 12%, as is shown above. This total is within the range typically seen for properties of the subject type (3% to 20%). Allen Patterson of Capacity Commercial (503-542-4347), a prominent industrial broker in Portland, stated that industrial properties with about 10% build-out are preferred. The subject's build-out percentage is reasonable.

Age/Economic Life

The subject's chronological age is 44 years. Industrial properties in the greater Portland area typically have an economic life of at least 75 years, suggesting that with repair of the subject's deferred maintenance (roof leakage) and regular maintenance thereafter, the subject's remaining economic life should be no less than 30 years.

Parking

Parking at the subject consists of two paved and striped parking lots (83 stalls total) and lots of open area for outdoor storage and unmarked parking. Again, with an FAR of 25%, parking availability appears to be adequate at the subject.

Component Description

Year Built

1968/1969

Frame

Building A and Building B: reinforced concrete
Building C: metal

Roof

Building A and Building B: built-up
Building C: pitched metal

Interior Finishes

As described and pictured above, office finishes are modest and generally include commercial grade carpeting and vinyl, suspended acoustic ceiling tiles with florescent lights, and laminate countertops. Some office areas have concrete floors and painted paneling, bricks, or concrete blocks. The warehouse areas have concrete floors and exposed structural elements at the ceiling, florescent lights, and space heaters. Interior finishes are considered average.

Exterior Finish

Building A and Building B: Aggregate stone and concrete
Building C: corrugated metal sheathing

HVAC	Suspended heating units in the warehouse spaces. The office spaces have forced air heat and cooling.
Electrical	Heavy power three-phase electrical service in the warehouse. Standard electrical service in the office space. Electric service is adequate for typical light industrial use.
Elevators	None
Insulation	Assumed to be adequate.
Soundproofing	Assumed to be adequate.
Sprinkler/Security System	A wet sprinkler system has been installed throughout the buildings.
Landscaping/Site Improvements	The site is improved with asphalt-paved parking and truck maneuvering areas, curbed sidewalks, and concrete walkways. Site landscaping includes a large grassy area with mature trees near McEwan Road, and an engineered bio swale area in the far back corner of the site. The site is fully fenced, and a security gate controls access to the site. Active railroad tracks run along the north edge of the site, but the site does not have a rail spur. There is a very large cell tower at the northernmost corner of the site.
Deferred Maintenance	The roof in Building B reportedly leaks and needs to be replaced, as do the A/C compressors in Building A. However, CJM did not inspect the roof nor is CJM a roof repair or structural specialist. If structural deficiencies are found to exist, the results of this appraisal would be affected.
Condition	The buildings appear to be in average condition for its age.
Functional Utility	Although the subject's interior layout is "choppy," and although the subject has only a couple of dock-high doors (none in the primary building), the subject's functional utility is comparable with that of buildings of a similar age. The subject demonstrates adequate functional utility for continued light to moderate industrial warehouse/office uses.
Office Build-out	As indicated earlier in this section of the appraisal, the subject currently has 12% office build-out
Mezzanine Storage	There is a negligible amount of mezzanine storage space in Building A.
Loading Docks	There are two dock-high loading doors located along McEwan Road in Building B; all other loading doors at the subject are at grade.
Chattel Property	No chattel property is included in the estate appraised.
***Americans with Disabilities Act (ADA)* Compliance**	Title III of the Americans with Disabilities Act (ADA) prohibits discrimination on the basis of disability by private entities in places of public accommodations, and requires that places of public

accommodations and commercial facilities be designed, constructed and/or altered in order to be readily accessible to, and usable by, persons with disabilities. Section 36.304 of the ADA requires a place of public accommodation to remove architectural and communication barriers where such removal is readably achievable. The extent to which the ADA applies to the subject is not determined in this report.

SUMMARY & MARKETABILITY

Competitiveness

The subject's visibility and exposure are above average; access is average to slightly below average. Finishes are modest but functional. The subject's functional utility is typical for a property of the subject age, but subject appeal would be reduced by its lack of dock-high doors. Overall, the subject's competitiveness is considered average.

Purchaser Profile

As will be shown, properties of the subject size and type are typically bought and sold by owner-users. The subject is currently owner-occupied, and the most likely purchaser is another owner-user.

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SUBJECT HISTORY

INTRODUCTION

The *Subject History* section is primarily concerned with the age and subsequent condition of the property as well as the sales history.

HISTORY

Date of Construction

The subject was built in 1968 and 1969.

Sales History

There have been no sales of the subject building in the past three years, and no sales are pending. Conversations with local brokers regarding listing the property for sale are underway.

Assessed Value & Property Taxes

Property owned by NW Natural is not assessed and taxed the same way that a typical piece of real estate is assessed or taxed by the local county assessor or treasurer. Instead, the entire NW Natural property portfolio is valued as a single unit by the State of Oregon Department of Revenue, and the total value is then mathematically allocated among the different properties based on construction costs. According to Mike Olson, principal appraiser and lead member of the Department of Revenue utility team (503-428-2319), any relation between the allocated or apportioned value of a particular NW Natural site and its fair market value is purely coincidental. According to Mr. Olson, the taxes billed to any particular NW Natural site are also calculated as an allocation of the overall portfolio value and are more of a business tax than a real estate tax.

In short, information about market assessed values, taxable assessed values, and real property taxes is not available for the subject property and, even if the Department of Revenue were able to share those allocated values or taxes with us (which they aren't), the numbers would not be reliable for any typical appraisal-related purposes.

PROBABLE IMMEDIATE FUTURE ACTIVITY

Continued single-user light-industrial office/warehouse use.

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HIGHEST AND BEST USE

INTRODUCTION

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

THE FOUR HIGHEST & BEST USE CRITERIA

Legally Permissible Uses

The subject site is zoned ML (Light Manufacturing Planning District) by the city of Tualatin.[1] According to the city's development code, the ML zone is intended to "provide areas of the City that are suitable for industrial uses and compatible with adjacent commercial and residential uses" (Tualatin Development Code 60.010). The district is intended to be a buffer between heavier manufacturing uses and residential neighborhoods and is "suitable for warehousing, wholesaling, and light manufacturing processes that are not hazardous and do not create undue amounts of noise, dust, odor, vibration, or smoke." Public works shops and storage yards are also specifically allowed in the ML zone.

Generally, lots in the ML zone must be at least 20,000 square feet in size with a minimum average lot width at the street of 100 feet. With a few exceptions, the minimum front yard setback is 30 feet; side and rear setbacks range from 0 to 50 feet ("as determined in the Architectural Review process"). Building heights within the ML zone are typically limited to 50 feet.

The existing improvements and the use of those improvements appear to be legally permissible uses. The highest and best legally permissible use of the subject property is for continued light industrial use.

A Zoning Change?

As we have said, the subject site has frontage on I-5. Nearby uses along I-5 are primarily commercial in nature, and several large, new retail centers have been developed nearby in the past 10 years. We also understand that NW Natural has received several unsolicited purchase offers; these buyers expressed interest in redeveloping the subject site for commercial use.

We have not seen copies of the various purchase offers. However, because commercial use of the site would not be allowed under current zoning regulations, we assume that the offers would be contingent on successfully petitioning Tualatin city officials for a rezone.

[1] The City of Tualatin does not technically have zones or a zoning code. Instead, the city is divided into "comprehensive plan areas," each having a specific set of development code regulations. Despite the differing terminology, the city's comprehensive plan map functions as a typical zoning map, and the city's comprehensive plan text is equivalent to a typical zoning code. What might be called a "rezone" or a "zoning change" in another jurisdiction is referred to as a "comprehensive plan amendment" in Tualatin. For the purpose of simplicity and ease of understanding, we have utilized the more common "zoning" and "zoning code" terms in this appraisal.

Based on 1) the subject's I-5 frontage, 2) the dominance of commercial uses in the immediate vicinity, and 3) the reported intended commercial use of the subject site by prospective buyers, the question of "legally permissible uses" became critically important to this analysis. While commercial uses would not be legally permissible at present, the subject's potential for commercial redevelopment factors heavily into its perceived value.

As will be shown, subject value for continued single-user light industrial use approximates $5,000,000 to $6,000,000. With 10.27 acres, that value range is equivalent to about $11 to $13 per square foot of site area. By contrast, the best commercial parcels in the area (or in similar areas along I-5) consistently command prices above $20 per square foot—sometimes well above $20 per square foot, as illustrated below:

- A 5.12-acre commercial parcel located at the highly visible and easily accessible intersection of Kruse Way and Carman Drive (one exit north of the subject and approximately one mile east of I-5) is currently under contract at a price "north of $35 per square foot," according to listing broker MaryKay West of NAI Norris, Beggs & Simpson (503-273-0344). This parcel has better access than does the subject, and the appearances of immediately surrounding properties are superior, but with I-5 frontage the subject has significantly better exposure.
- In 2006, the 7-acre commercial parcel directly across I-5 from the subject was purchased by Providence Health Care for a price equal to $42 per square foot.
- An 8.42-acre parcel currently listed for sale in a similar retail neighborhood in Eugene, with frontage on I-5, is offered at $25 per square foot.

Obviously, if the subject as presently zoned and improved is worth approximately $11 to $13 per square foot of site area while a value of $20 to perhaps $40 per square foot of site area would be supported if commercial redevelopment were allowed, the question of whether a zoning change is possible must be seriously considered.

For this assignment we interviewed two senior officials with the City of Tualatin's Planning Department. Mr. Will Harper, Senior Planner (503-691-3027), and Ms. Aquilla Hurd-Ravich, Planning Manager (503-691-3028), both indicated that while any rezone ("a comprehensive plan amendment") application would be carefully considered, several concerns significantly reduce the likelihood that the proposed change would be approved.

- First, the Tualatin City Council is very concerned about the traffic impact of any new development. The trips generated by a commercial development on the subject site would be significantly higher than those generated by continuation of light industrial use of the site. The subject's fronting road (SW McEwan) would not likely satisfy city, metro, and state transportation planning rules; the options and costs associated with satisfying traffic-related requirements would be of significant concern to city planners and council members.

- Related to the traffic issue is the larger question of infrastructure. Ms. Hurd-Ravich (Planning Manager) stated that commercial development of the subject site would be “an infrastructure challenge.”
- A third concern—and one related to the first two described above—is the potential negative impact of a rezone on the residential areas located one block south and east of the subject site, primarily caused by significantly increased traffic counts and the potential need to reconfigure the existing right-of-ways or infrastructure.
- A fourth concern that could negatively impact the subject’s potential for a commercial rezone is a political one. Although the planning officials we interviewed stated that there is no particular “political will” that would oppose the rezone, the fact remains that there are four—yes 4!—different jurisdictions within a couple of blocks of the subject site (City of Tualatin, City of Lake Oswego, Rivergrove, and Clackamas County). Because the subject site is within Tualatin city limits, Tualatin city officials would have the final say in matters of rezoning. However, because property owners within the other jurisdictions would be impacted by Tualatin’s decision, Tualatin planning officials stated that they would consult with planners in the other jurisdictions during the approval process. Trying to bring four different jurisdictions to a politically satisfactory consensus could be challenge enough to prevent a subject rezone.
- Finally, Metro has historically been strongly opposed to the efforts of any jurisdiction to change acreage zoned for industrial use to any other use; opposition from that front could also be enough to prevent a rezone of the subject site for commercial use.

Based on these concerns outlined by city officials, it appears that the likelihood of rezoning the subject site for commercial use is extremely low. A prominent local broker with whom we spoke during the preparation of this report (Stu Peterson with Macadam Forbes, 503-972-7288), who is personally familiar with the subject site, told us that the subject site has been “looked at for retail development” many times over the years, but that because of the issues outlined above, a rezone “is probably never going to fly.”

In short, while a rezone would significantly enhance subject value, a rezone appears unlikely. As a result, only those uses that are legally allowed under the current zoning regulations are considered in this highest and best use analysis.

Most Likely/Physically Possible Use

The subject site is presently improved with three light industrial buildings occupied by an owner-user. The buildings were constructed in the late 1960s and have been renovated and reconfigured multiple times over the years to accommodate the needs of the owner.

The buildings do not offer the features and functional utility of a newer industrial building, the interior layout of the main building (Building A) is very compartmentalized and choppy (the result of decades of minor expansions and piece-meal reconfigurations), and the next-largest building (Building B) has a leaky roof. However, the leaky roof can be fixed, a choppy layout is common among older buildings, and the subject's floor area ratio, office build-out percentage, clearance heights, interior and exterior finishes, loading doors, accessibility, and other physical features are consistent with those found at light industrial facilities of a similar age throughout the Portland metropolitan area. Based on sales activity and comments made by brokers interviewed for this appraisal, it appears that market demand exists for properties of the subject age, size, and type, primarily for owner-occupant use.

We note that a review of recent sales (since January 2010) and current listings of five- to 25-acre industrial sites within a five-mile radius of the subject exhibit a consistent per-square-foot price range of $6.00 to $7.50. For example:

- A 19.51-acre parcel zoned "MG" at SW 115th and SW Itel in Tualatin sold in August 2010 for a price equal to $6.09/SF.
- A 5-65-acre parcel zoned "ML" at 10850 SW Leveton in Tualatin is currently being marketed at a price equal to $7.11/SF.
- A 5.36-acre parcel zoned "ML" at 18655 SW 108th Ave in Tualatin is currently for sale at $7.50/SF.

None of these parcels has the I-5 frontage offered by the subject site. However, visibility and exposure are of less importance to industrial users than are ease of access and proximity to transportation or shipping linkages. The access and linkages offered by the parcels listed above are at least as good—or in some cases better than—those of the subject, suggesting that the value of the subject site for industrial redevelopment is within the $6.00- to $7.50-per-square-foot range exhibited by these competing properties. If a maximum value of $7.50 per square foot were applied to the subject's 10.27 acres, a subject land value (before consideration of the costs to raze the existing improvements) of approximately $3,350,000 would be indicated, a value that is lower than the range indicated for the subject as improved (again, $5,000,000 to $6,000,000). It is clear, based on this data, that the subject improvements contribute measurable value to the subject and should continue to do so into the foreseeable future. Marketing the subject site for a different light industrial redevelopment project would not reflect the subject's highest and best use.

In terms of surrounding uses, while retail uses predominate at the Lower Boones Ferry Road/I-5 interchange to the north and at the Nyberg Road/I-5 interchange to the south, and while residential neighborhoods are found within a couple of blocks of the subject, the properties immediately adjacent to and across McEwan Road from the subject, and along Lakeview Boulevard which runs parallel to McEwan to the east, are light industrial in nature. As we have said, no change in land use designations or regulations is anticipated in the foreseeable future that would impact the nature of surrounding uses.

Together, based on the physical characteristics of the subject site and improvements, and on the nature of surrounding uses, the most likely, physically possible use of the subject is continued owner-occupant light industrial use.

Financial Feasibility Discussion

Although market conditions have weakened over the past couple of years rendering most new construction unfeasible at present, the subject improvements already exist and there does not appear to be any use other than industrial office/warehouse use that would be legally permissible, that would conform to surrounding uses, and that would provide a higher value to a property owner than the existing use. Overall, from a financial feasibility standpoint, continued use as an industrial office/warehouse represents the subject's highest and best use.

We note that another test of as is value and highest and best use is to consider the value of a property after a proposed renovation, less the costs associated with that renovation. The subject property owner has explored the possibility of a major renovation project at the site. That project would involve 1) gutting Building A and reconfiguring it for greater functional utility, 2) correcting the deferred maintenance (the leaky roof) at Building B, and 3) bringing the subject up to applicable current codes. The bid received for the proposed renovation reportedly approximated $10,500,000.

CoStar data indicates a price range of approximately $50 to $70 per square foot for industrial properties 50,000 SF in size or larger built since 2000 that have sold across the greater Portland metropolitan area since 2010, as illustrated by the following examples:

- 18683 NE Sandy Boulevard, Portland, 62,000 SF, built 2009. Sale price (12/17/10): $64/SF
- 19606 NE San Rafael, Gresham, 81,204 SF, built 2000. Sale price (3/12/11): $70/SF
- 1810 Red Soils Ct, Oregon City, 70,062 SF, built 2004. Sale price (5/6/10): $70/SF
- 19855 SW 124th Ave, Tualatin, 315,000 SF, built 2006. Sale price (10/27/11): $56/SF
- 18712 NE Portland Way, Portland, 96,608 SF, built 2002. Sale price (12/30/11): $49/SF

Only one of the three subject buildings would be completed renovated as part of the proposed upgrade; the other buildings would have less functional utility than the newer building sales summarized above. However, for the purpose of this discussion, if we were to assume a maximum value post-renovation of $70 per square foot, and if we were to apply that total to the subject's entire 110,250 square feet of rentable area, a maximum post-renovation subject value of $7,725,000 would be indicated. This total is obviously lower than the anticipated cost of the renovation ($10,500,000), clearly indicating that the proposed renovation is not feasible.

In short, a financial feasibility analysis also indicates that the subject's highest and best use is continued use of the existing improvements (correcting the deferred roof maintenance issues, of course).

Productivity Maximization and Optimal Use

The previous discussion indicates that subject productivity is maximized by continued use of the subject improvements for owner-occupant light industrial use.

HIGHEST & BEST USE CONCLUSION

Highest & Best Use As If Vacant

Industrial office/warehouse construction when demand is adequate.

Highest & Best Use As Improved

Continued owner-user light industrial use.

Subject value in this appraisal is estimated based on this highest and best use conclusion.

INCOME CAPITALIZATION APPROACH

INTRODUCTION

All of the comparable sales that will be used in the upcoming Sales Comparison Approach section of this appraisal were purchased for full or partial owner-occupancy. The subject is currently owner-occupied, and the brokers interviewed for this assignment, including Stu Peterson (Macadam Forbes, 503-972-7288), Brett Baynes (also of Macadam Forbes, 503-972-7280), and Allen Patterson (Capacity Commercial, 503-542-4347) uniformly stated that the most likely buyer of the subject property, and the buyer who would be willing to pay the most for the subject property, is another owner user. While an investor values a property primarily by analyzing its income productivity potential using various income capitalization techniques, an owner-user relies primarily on the valuation techniques of the sales comparison approach.

In conformity with typical market participant behavior, we will emphasize the Sales Comparison Approach to value. However, as a check against that value, and in recognition of the possible—albeit unlikely—interest in the subject property by an investor, a simple direct capitalization analysis will be undertaken in this section of the appraisal.

Income-producing properties are typically purchased as an investment. From the investor's viewpoint, the property's perceived value or purchase price is directly correlated with that property's earning potential. The higher the investment earnings, the higher the value or potential sale price will be. Investors purchasing income producing real estate are essentially exchanging a sum of present dollars for the right to receive an anticipated future income stream.

The following discussion covers gross and effective gross income estimates, expense and net operating income estimates, and capitalized value estimates.

LEASE ANALYSIS

Lease Summary

The subject property is currently owner-occupied; there are no arm’s-length leases in place.

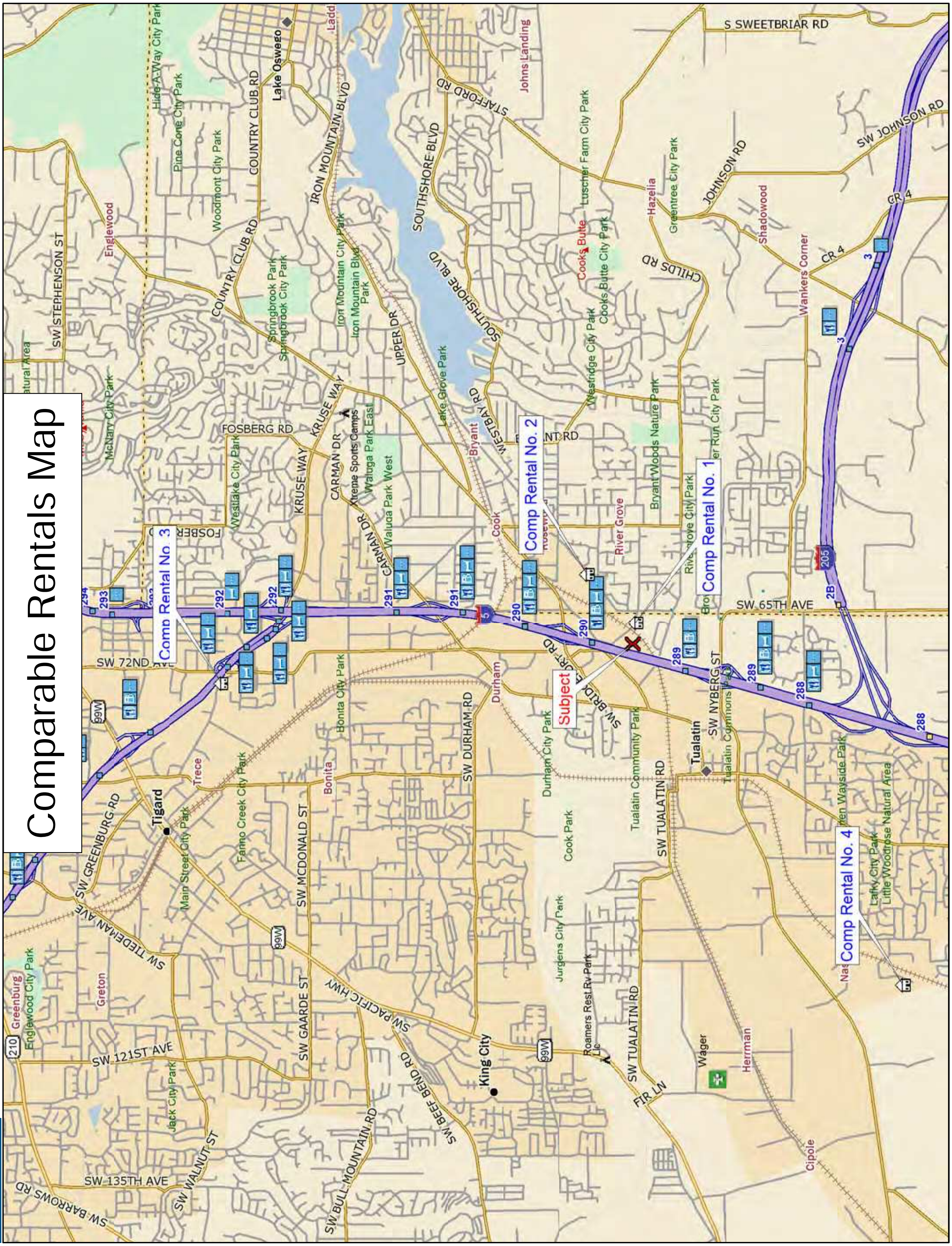
Comparable Rental Summary

To estimate the subject’s market rent, we searched for recently negotiated leases of large industrial spaces that are similar in age and functional utility to the subject and that are located in the surrounding Tigard, Tualatin, and Lake Oswego industrial areas. Four recent leases were determined to be the best indicators of subject rent potential; those leases are summarized and discussed on the following pages.

Please note: We have shown contractual rents and effective rents in the following table, adjusted for the free rent concessions given to each comparable. For the purpose at hand, since the free rent is a critical part of the negotiation process for the overall lease, we have assumed that the free rent will be spread equally across the lease period. For example, in the case of a tenant with a three-year lease and a three-month free rent concession, we have calculated effective rents assuming one month of free rent in each year of the analysis period. Similarly, in the case of a tenant receiving two months of free rent as part of a two-and-a-half year lease, effective rents are calculated assuming 0.80 months of free rent during each year of the lease period. Although in actual practice all of the free rent may be given in the first year of the lease period, the tenant's willingness to pay face rents throughout the remainder of the lease period depends on those first-year concessions. Consequently, the first-year concessions have an actual effect on subsequent year lease rates, and our effective rent calculations reflect that reality.

The Comparable Rentals Map and Summary Table follow.

DeLorme Street Atlas USA® 2010



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COMPARABLE RENTAL SUMMARY

#	Designation/Location	Year Blt.	Rented Area (SF)	Office Build-out	Clearance/ Rail?	Rent/SF/Month (Shell/Office Surcharge) Blended Terms	Comments
1	Aoson LLC 6710 SW McEwan Rd Lake Oswego	1967	46,980	7,980 SF 17%	22' Rail: No	Contractual: \$0.30/\$0.61 \$0.34, blended Effective: \$0.28/\$0.57 \$0.32 NNN-equivalent	New tenant. 64-month lease with first four months free; rent commences 8/1/11. Annual 3% increases. Landlord also waived the office surcharge for half of the office space during the first year. This lease was signed as a gross lease, but according to the broker NNN expenses at this property total \$0.055/SF per month. Property consists of concrete tilt-up warehouse with dock- and grade-level doors and a detached metal-frame office. This property is less than one block from the subject. Tenant improvements consisted of rearranging some of the partitioning walls in the warehouse area. Source: Stu Peterson, Macadam Forbes, 503-972-7288
2	Lakeview Business Center 6077 SW Lakeview Blvd Lake Oswego	1968	30,000	2,000 SF 7%	12' Rail: No	Contractual: \$0.16/\$0.00 \$0.16, blended Effective: \$0.16/\$0.00 \$0.16 NNN-equivalent	New tenant; lease commenced August 2011. This building is of metal construction and, because of the configuration of the ceiling sprinklers, goods within the warehouse component cannot be stacked more than 12' high. This is a middle space in a larger building; it has a dock-high loading bay. The lease is for four years with 3% annual increases and one month free. No TI allowances. This lease was written on a gross basis, with expenses at \$0.09/SF/month. The tenant was not charged any premiums for the office build-out. Source: Evan Bernstein, Capacity Commercial, 503-241-1155
3	7924 SW Hunziker St Tigard	1965	39,509	None	22'-27' Rail: No	Contractual: \$0.35/\$0.00 \$0.35, blended Effective:\$0.35/\$0.00 \$0.35 NNN	New tenant. Five-year lease with renewal options. 3% annual rent increases. NNN expenses at this property total \$0.11/SF/month. There was no office build-out in the space, but the tenant has since built out 6,000 SF of office space at its own cost. No free rent or Tis given. The space has one dock-high door, an outdoor yard storage area, and a crane. Concrete construction. Source: Evan Bernstein, Capacity Commercial, 503-241-1155

Table continued on following page

Table continued from previous page

#	Designation/Location	Year Blt.	Rented Area (SF)	Office Build-out	Clearance/ Rail?	Rent/SF/Month (Shell/Office Surcharge) Blended Terms	Comments
4	21235 SW 108th Ave Tualatin	1973	40,320	3,838 10%	20'-24' Rail: No	Contractual: $0.30/$0.00 $0.30, blended Effective:$0.29/$0.00 $0.29 NNN	New tenant. Two-year lease signed in December 2011 with one month free rent. No TI allowance. NNN expenses at this property total $0.09/SF/month. This tenant is only using (and being charged for) half of the space until June 2012. The asking rate for this space reflected a $0.55/SF office premium, but since the tenant didn't actually need any of the office space, no premium was charged. Metal frame building with dock-high loading bays. Gated industrial park Source: Sandy Poslick, Tri County Industrial Park, 360-566-8192
S	**7100 SW McEwan Tualatin**	**1968**	**110,250**	**13,205 12%**	**17'-25' Rail: No**	**Owner-user**	**Three buildings (two concrete, one metal frame). I-5 frontage. Only one dock-high loading door.**

Three of the four comparables have a contractual shell space rent between $0.30 and $0.35 per square foot per month on a NNN (or NNN-equivalent) basis. The one exception (Comparable No. 2) has a lower rate ($0.16/SF/month) that reflects the stacking limitations in the space.

Only one of the spaces (Comparable No. 1) achieved an office premium surcharge ($0.61/SF/month).

After consideration of free rent, three of the four comparables exhibit an effective shell rental rate range of $0.28 to $0.35 per square foot per month.

Comparable No. 1

Comparable No. 1 is located less than one block from the subject on McEwan Road. The comparable is similar to the subject in terms of age and, like the subject, the comparable includes a concrete warehouse building and a separate metal-frame building. Finishes at this comparable are similar to those at the subject, but this comparable offers better dock-high loading facilities. While the subject has better visibility, this comparable has similar accessibility and linkages, more important considerations to a typical industrial user than visibility. Clearance heights at this comparable are similar to those at the subject.

6710 SW McEwan

Of the four comparables, this one is most like the subject in terms of location, configuration, quality and condition, and functional utility although, again, this comparable benefits from better dock loading facilities. Effective rental rates at this comparable are $0.28/SF/month plus $0.57/SF/month for the office build-out. Subject rents could reasonably approximate these levels.

Comparable No. 2

Comparable No. 2 is just around the corner from the subject, on Lakeview Boulevard. However, the fronting street is narrower than is the subject's fronting street, making access and deliveries more difficult for large trucks. Furthermore, this comparable is of inferior metal-frame construction, and items within the warehouse component of this space can only be stacked 12' high, almost half the height available at the subject.

6077 SW Lakeview Blvd

This space recently rented for $0.16/SF/month on a NNN-equivalent basis. A higher rent would be expected at the subject because of the subject's superior access and functional utility.

Comparable No. 3

Comparable No. 3 is similar to the subject in terms of age, clearance height, loading docks, and access, but it does have a crane.

7924 SW Hunziker

This tenant built out its own office space within the warehouse shell; consequently, the rental rate for this space is only for shell space.

This space was recently leased for an effective rate of $0.35 per square foot per month, NNN. The strong similarities between this space and the subject make this a good comparable; a similar shell rate would be reasonable to expect at the subject.

Comparable No. 4

Comparable No. 4 is a metal-frame warehouse building located at the end of a winding, dead-end road in a gated industrial park. The subject offers better visibility, exposure, and access, and the quality of the subject improvements is superior to that of this comparable. This comparable does offer better dock-loading facilities, but in other regards the subject is considered superior to this comparable.

21235 SW 108th Ave

This tenant did not need any of the office build-out in this space and was able to negotiate a rental rate exclusive of any office surcharges or premiums. The effective shell rate for the space is $0.29/SF/month, NNN; for the reasons described above a higher shell rate would be justified at the subject.

Market Rent Conclusion

Based on the preceding discussion, a market base rate for the subject between approximately $0.30 and $0.35 per square foot per month, NNN, appears best supported. The strongest comparable (No. 1) suggests a rental rate at the low end of that range, but Comparable No. 3, which is also a strong comparable, points to a market rent selection for the subject at the upper end of the range. This same range is supported by the brokers cited above.

Together, based on the data available, a base market rental rate of $0.32 per square foot per month, NNN appears reasonable and is concluded.

In terms of an office surcharge, Comparable No. 1 supports an effective premium of $0.57/SF/month. The other comparables either rented without any office space or with no surcharge. We note that the asking surcharge at Comparable No. 4 was $0.55/SF/month, but because the landlord was anxious to find a tenant and because the tenant did not actually need any of the build-out, the tenant was able to negotiate a shell-only rate for the space. We also note that a lease at a newly constructed industrial building in Tualatin (115th Avenue Business Park Building A, Tualatin), the negotiated office premium was $0.75/SF/month, NNN. Brokers interviewed suggested that a typical premium in the newer spaces is between $0.65 and $0.75 per square foot per month, while a premium closer to $0.50 or $0.55 per month is typical at older properties. Again, the effective premium at Comparable No. 1 is $0.57/SF/month.

The limited data available suggests that while some tenants can negotiate lease rates without office premiums, and while the premium in newly-constructed industrial space can be as high as $0.75 per square foot, a premium of $0.50 to $0.60 per square foot per month would be reasonable for office build-out in an older space like the subject. For the purpose at hand, based on the data available, an office surcharge of $0.55/SF/month will be assumed for the subject.

Potential Gross Rental Income

$510,513

Applying a $0.32/SF/month base rent to the subject's 110,250 square feet of rentable area, and adding to that total an office surcharge calculated at $0.55/SF/month x 13,205 SF of office build-out, indicates a potential gross income estimate for the subject of $510,513.

Additional Income (Cell Tower)

$14,832

Additional income from the subject's cell tower lease must also be considered in this analysis.

The "Communication Site Lease Agreement" between NW Natural Gas and New Cingular Wireless commenced August 1, 2006 and runs through July 31, 2016. According to the lease summary document provided for our review, it appears that the lease includes some renewal options, but the details of those options were not available to us.

According to the terms of the lease, the starting lease rate was $996 per month, increasing by 4% annually. The current monthly rent due under the terms of the leas is $1,211.79, increasing to $1,260.26 per month in August of this year. Together, total income due from the cell tower lease over the next 12 months is $14,832.30.

Total Potential Gross Income

$525,345

Adding the potential income from market rent to the scheduled cell tower income indicates a total potential gross income estimate for the coming 12-month period of $525,345.

DEDUCTIONS FROM POTENTIAL GROSS INCOME ESTIMATE

Vacancy Estimate 5.00%

The subject is currently 100% owner-occupied. Consequently, if the building were to be sold it would most likely sell as a vacant property. What stabilized vacancy rate would a typical investor assume?

As was discussed earlier in this report, industrial vacancy rates in the Tualatin submarket area currently approximate 6.5%, better than the current vacancy rate for the wider I-5 south corridor average of approximately 9.5%. Across the Portland market, the current industrial vacancy rate is between 8% and 9%. Vacancy rates are trending downward toward Portland's historic stabilized range of approximately 5.50%-6.50%. With falling vacancy rates and a return to "typical" overall capitalization rates, brokers indicated that investors are typically using stabilized vacancy rate estimates of 5% to 7% in their calculations.

Again, the most likely buyer of the subject would be an owner-user, and to that buyer a property with 100% vacancy rate would be preferred to a building with existing tenants. These facts were repeatedly emphasized the market participants interviewed. However, assuming (for the purpose at hand) an investor buyer, a stabilized vacancy and collection loss must be assumed. Based on current vacancy rates, the downward trend in vacancy rates, and the primary appeal of the subject to an owner-user, a stabilized vacancy rate between 5% and 10% would most likely be assumed. Emphasizing the owner-user profile, a stabilized vacancy rate at the low end of the range, i.e., 5%, will be assumed.

Collection Loss 0.50%

Delinquency trends are difficult to obtain. According to managers and brokers, delinquency typically ranges from 0.00% to below 1.00%. A delinquency contingency deduction of 0.50% of PGI will be assumed. Again, since this type of deduction would not be made by a potential owner-user, this deduction is essentially, like the vacancy estimate above, a contingency amount.

Rental Concessions Concessions were taken into consideration when estimating effective market rents earlier. No additional concessions in perpetuity are estimated herein.

Total Deductions from Gross Income **$28,894**

The total of vacancy and delinquency is 5.50% of PGI or $28,894.

EFFECTIVE GROSS INCOME ESTIMATE **$496,451**

Following from the above discussions of income lost to vacancy and collection loss, a stabilized effective gross income (EGI) estimate of $496,451 is indicated for the subject.

EXPENSE ESTIMATES & NET OPERATING INCOME

Operating Expense History

Again, as an owner-occupied property, the subject building would be vacant at the time of sale. No historic operating income was provided, and none would be considered by an investor.

Expense Comparables

As was stated earlier (and as was described in the comparable rentals summary table), triple net expenses for industrial properties in the submarket area typically range from $0.05 to $0.11 per square foot per month, with a central tendency of around $0.08 to $0.10 per square foot per month.

In the primary market, under a net lease the tenant is usually responsible for all expenses with the possible exception of management fees and/or structural maintenance and reserves. As a property most suitable for owner-occupancy or single-tenant use, operating expenses would typically be billed directly to the tenant without any pass-through efforts on the part of the property owner. Consequently, in keeping with typical market behavior, only those owner-paid expenses typically incurred under a triple net lease (management and reserve expenses) will be discussed below.

Operating Expenses

Management Fee

$9,929

Professional management fees for multi-tenant properties typically range from 3% to 5% of EGI, an arrangement that gives incentive to the property manager to keep the spaces full and the lease rates high. However, a lower management fee would be expected for a single-tenant property, where management costs should be significantly lower. For the purpose at hand, a modest 2% management fee will be assumed, which is equivalent to a stabilized expense estimate of $9,929, or $827 per month.

Structural Maintenance & Reserves

$0.20/SF/year

This expense is a contingency for structural replacements and is typically seen within a range from $0.10 to $0.20 per square foot per year. The subject buildings are more than 40 years old and are showing signs of their age. While the costs to cure the deferred maintenance will be considered at the end of this analysis, a contingency for structural maintenance and reserves going forward that is at the upper end of the typical range would be appropriate. A stabilized structural maintenance and reserve estimate of $0.20/SF/year is, therefore, assumed.

TOTAL EXPENSES CONCLUSION

$31,979

Total expenses, following from the above discussions, are estimated at $31,979, or 6.44% of EGI.

Net Operating Income **$464,472**

Subtracting the total expenses from the effective gross income indicates a net operating income estimate of $464,472.

DIRECT CAPITALIZATION TECHNIQUE

Overall Capitalization Rate Selection

Again, the typical buyer for a property of the subject type is an owner-user, and owner-users do not think in terms of overall capitalization rates. Consequently, extracting overall rate data for the subject from comparable sales (which typically sell to owner-users) is difficult at best. Consequently, our selection of an overall rate range will be based on a combination of national trends, somewhat weak comparable sales, and comments made by local market participants.

National Trends

The *PwC Real Estate Investor Survey* indicates an average 4th Quarter 2011 overall capitalization rates for industrial warehouse properties across the country of 7.48%, while data published in the 4th Quarter 2011 *RealtyRates* report indicates an average OAR range of 7.50% to 8.75%. Together, national trend data supports an overall rate selection for the subject of approximately 7.50% to 8.75%.

Comparable Sales Technique

As we have said, buildings of the subject age, size, and configuration are most often sold to owner-users; overall capitalization rates cannot typically be extracted from these sales. Overall rate data was not available for any of the comparable sales selected for use in the Sales Comparison Approach section of this appraisal. Overall rate data taken from multi-tenant/investment properties is provided below but, again, this data is of weak comparability because of the differences in the likely buyer profile.

OVERALL CAPITALIZATION RATES

No.	Designation/Location	Year Built	Sale Date	Sales Price	Size (SF)	OAR
1	Pacific Paper Tube 8545 N Columbia Blvd, Portland	1958	12/31/10	$5,338,000	114,825	7.77%
2	18th Street Business Park (3 bldgs) 5601 E 18th Street, Vancouver	2000	12/09/09	$2,120,000	28,800	9.85%
3	Class C Manufacturing Building 2315 NW 21st Pl., Portland	1970	12/18/08	$2,115,000	36,000	6.81%

Pacific Paper Tube

Address: 8545 N Columbia Blvd
City: Portland
Year Built: 1958
Rentable Area: 114,825 SF
Date of Sale: 12/31/10
Effective Sales Price: $5,338,000
NOI: $414,636
Contact: Patrick Wallace, buyer (503-241-4391)
OAR: 7.77%

Multi-tenant property; buyer is one of the tenants.

18th Street Business Park

Address: 5601 E 18th Street
City: Vancouver
Year Built: 2000
Rentable Area: 28,800 SF
Date of Sale: 12/9/09
Effective Sales Price: $2,120,000
NOI: $207,760
Contact: Unreturned messages left with Garret Harper, NAI Norris Beggs & Simpson (360-852-9619)
OAR: 9.85%

Class C Manufacturing Building

Address: 2315 NW 21st Pl.
City: Portland
Year Built: 1970
Rentable Area: 36,000 SF
Date of Sale: 12/18/08
Effective Sales Price: $2,115,000
NOI: $144,032
Contact: Buzz Ellis, Pacific Real Estate Partners, 503-972-8091
OAR: 6.81%

Capitalization rates among the comparables range widely from 6.81% to 9.85%.

Sale No. 1 is arguably the best comparable of the bunch. It is similar in age, size, and construction quality to the subject, and it is one of the most recent sales. However, this property is a multi-tenant property with a strong income stream, it has multiple dock-level bays, and it is rail served. This property sold with an overall rate of 7.77%; a higher rate would be expected for the subject.

The building improvements at Sale No. 2 are of significantly inferior quality and are divided into 24 1,200-square-foot spaces. The resulting tenant profile has higher risk than the subject, and represents an above-average management burden. Taken together, a reasonable OAR for the subject should be lower than 9.85%.

Sale No. 3 sold when market conditions were superior and, consequently, provides little insight into current capitalization rate potential, other than current capitalization rates should probably be higher. Certainly, an OAR for the subject should significantly exceed the 6.23% OAR exhibited by the FedEx Express World Center sale based on 1) the above-average tenant strength of the tenant, i.e., FedEx, and 2) deterioration of market conditions since December 2008.

Taken together, the sales discussed above support an OAR that is at the upper end of the 6.23% to 9.85% range; say 8.00% to 9.50%.

Market Participant Comments

Market participant comments suggest an overall rate selection for a free-standing restaurant between about 7.00% and 9.00%.

- Stu Peterson of Macadam Forbes, cited throughout this appraisal, stated that he has seen some overall rates as low as 7.00% and others as high as 10.00%, with the best-quality investments exhibiting the lowest overall rates. Mr. Peterson stated that, generally speaking, overall rates appear to be "back at historic levels."
- Evan Bernstein of Capacity Commercial (503-517-9874) said that identifying an overall rate trend is difficult because "there haven't been enough investment industrial sales." He stated that investors seem to be looking at rates between 7.00% and 8.50%, and that the days of rates above 8.5% "are over."
- Brett Bayne of Macadam Forbes (503-972-7280) stated that a good industrial property could probably sell today with an overall rate of around 7.00%, while an older property like the subject would probably see an overall rate range of 8.00% to 9.00%.
- Allen Patterson of Capacity Commercial (503-542-4347) said an overall rate of 8.00% to 8.50% would be reasonable for the subject.

While these opinions differ somewhat, a general range of 7.00% to 9.00% appears to be supported by market participants.

Band of Investment Technique

In calculating the mortgage equity technique, the following assumptions are made: 1) 70% loan-to-value ratio, 2) 7.00% interest rate, 3) 25-year amortization term, and 4) an 8.00%[1] equity dividend rate. The subsequent indication of subject OAR is summarized in the table on the following page.

BAND OF INVESTMENT TECHNIQUE
OAR Calculation

Ratio	Constant	Weighted Average
70%	x 8.5662[2]	= 5.996%
30%	x 8.00%	= 2.400%
R=		8.396%
(Rounded to)		8.25% to 8.50%

The band of investment technique would suggest an overall capitalization rate range for the subject of 8.25% to 8.50%.

Reconciliation of Overall Rates

8.00% to 8.50%

Again, national data suggests an overall rate range for the subject of approximately 7.50% to 8.75%, while comparable sales would support an overall rate selection between 8.00% and 9.50%. Market participants suggest an overall rate range of 7.00% to 9.00%, and the band of investment technique points to an overall rate range of 8.25% to 8.50%.

Once again we reiterate that a property of the subject size, type, and configuration would be most appealing to an owner-user; that type of prospective buyer would not typically depend significantly on a direct capitalization analysis. For that reason, the market data available for use in a direct capitalization analysis is limited and is relatively weak. Nowhere in this analysis is the problem of limited, weak data more evident than in the preceding overall capitalization rate discussion.

However, among the differing indications of overall rate potential for the subject, a central tendency of 8.00% to 8.50% is generally supported. This range is supported by all of the indicators and appears to best align with market expectations. Consequently, an overall rate range of 8.00% to 8.50% is selected for the subject.

Direct Capitalization Value Estimate, Preliminary Value

$5,475,000 to $5,800,000

When the subject's stabilized net operating income estimate of $464,472 is capitalized at an overall rate range of 8.00% to 8.50%, a preliminary subject value range of $5,475,000 to $5,800,000, rounded, is indicated. However, this preliminary value range must be adjusted to reflect the cost to cure the leaky roof and other deferred maintenance items.

[1] This is not an equity yield rate; this is an equity dividend or cash-on-cash rate.
[2] This annual constant calculation assumes a 1.0% loan fee and is, subsequently, based on an assumption of 101.00% of loan amount.

Deferred Maintenance

A specific cost estimate for the roof repairs and other less significant deferred maintenance items was not provided. However, as will be shown in the next chapter of this appraisal, properties of the subject age and type commonly sell with these types of maintenance issues, and the sale prices are adjusted downward by approximately $100,000 to $200,000 as credit toward the repairs.

The sale price of Comparable Sale No. 1, for example, was discounted by $215,000 for a combination of roof and mechanical deferred maintenance items, and the sale price of Comparable Sale No. 4 was reduced by $175,000 for roof repairs.

Both of these buildings are more than twice the size of the subject's Building B, which is where the roof problems are found. Consequently, while an adjustment of approximately $200,000 might be supported for a larger building, for the purpose of this analysis, an adjustment for deferred maintenance of $100,000 is considered reasonable.

Final Estimate of Value

$5,375,000 to $5,700,000

Reducing the preliminary value range estimate ($5,475,000 to $5,800,000) by $100,000 in deferred maintenance costs leads to a final estimate of value, as indicated by a direct capitalization analysis, of $5,375,000 to $5,700,000, or $49 to $52 per square foot.

An operating statement outlining the calculations used in this analysis is provided on the following page.

PRO FORMA OPERATING STATEMENT

As If Presently at Stabilized Occupancy

Category	Area		$/%		Type			Totals
Potential Gross Rental Income								
Base Rent	110,250	sf @	$0.32	/SF/month	NNN	=		$423,360
Office surcharge	13,205	sf @	$0.55	/SF/month	NNN	=		$87,153
Potential Gross Rental Income	110,250	SF total				=		$510,513
Other Income	cell tower lease							$14,832
Potential Gross Income								$525,345
Less: Vacancy, Delinquency, TI's, Concessions								
Vacancy Contingency			5.00%	PGI	=		$26,267	
Collection Loss Contingency			0.50%	PGI	=		2,627	
Concessions			0.00%	PGI	=		0	
Total Income Deductions			5.50%	PGI	=			$28,894
Effective Gross Income Estimate								$496,451

Operating Expenses	***%/EGI***	***$/SF***	***Amount***	
Management	2.00%	$0.09	$9,929	
Capital Reserves	4.44%	$0.20	$22,050	
Total Deductions	6.44%	$0.29		$31,979
Net Operating Income				$464,472

Estimated Value @	**8.00%**	**OAR**	$5,805,900
Estimated Value @	**8.50%**	**OAR**	$5,464,376

Preliminary Value Estimate:	**Rounded:**	**$5,475,000**	**to**	**$5,800,000**
	Equivalent to:	**$49.66 /SF to**	**$52.61 /SF**	
Less Cost to Cure Deferred Maintenance:			Estimated at:	$100,000
Final Estimate of Value:	**Rounded:**	**$5,375,000**	**to**	**$5,700,000**
	Equivalent to:	**$48.75 /SF to**	**$51.70 /SF**	

DISCOUNTED CASH FLOW ANALYSIS

Again, the subject is currently owner-occupied. While an owner-user might use a direct capitalization analysis to confirm the value indicated by a review of comparable sales, and while an investor would utilize a direct capitalization analysis, neither buyer would likely undertake a more extensive discounted cash flow analysis. An owner-user would certainly not use this technique, and without any long-term leases in place, even an investor would be unlikely to utilize a discounted cash flow analysis when contemplating a purchase of the subject property. The discounted cash flow technique will not be used in this analysis.

INCOME CAPITALIZATION APPROACH CONCLUSION

$5,375,000 to $5,700,000

Only the direct capitalization technique has been used to estimate the subject's *As Is* value. Subject value is, therefore, estimated at $5,375,000 to $5,700,000, as indicated by the direct capitalization analysis.

The *Sales Comparison Approach* to value follows.

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SALES COMPARISON APPROACH

INTRODUCTION

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

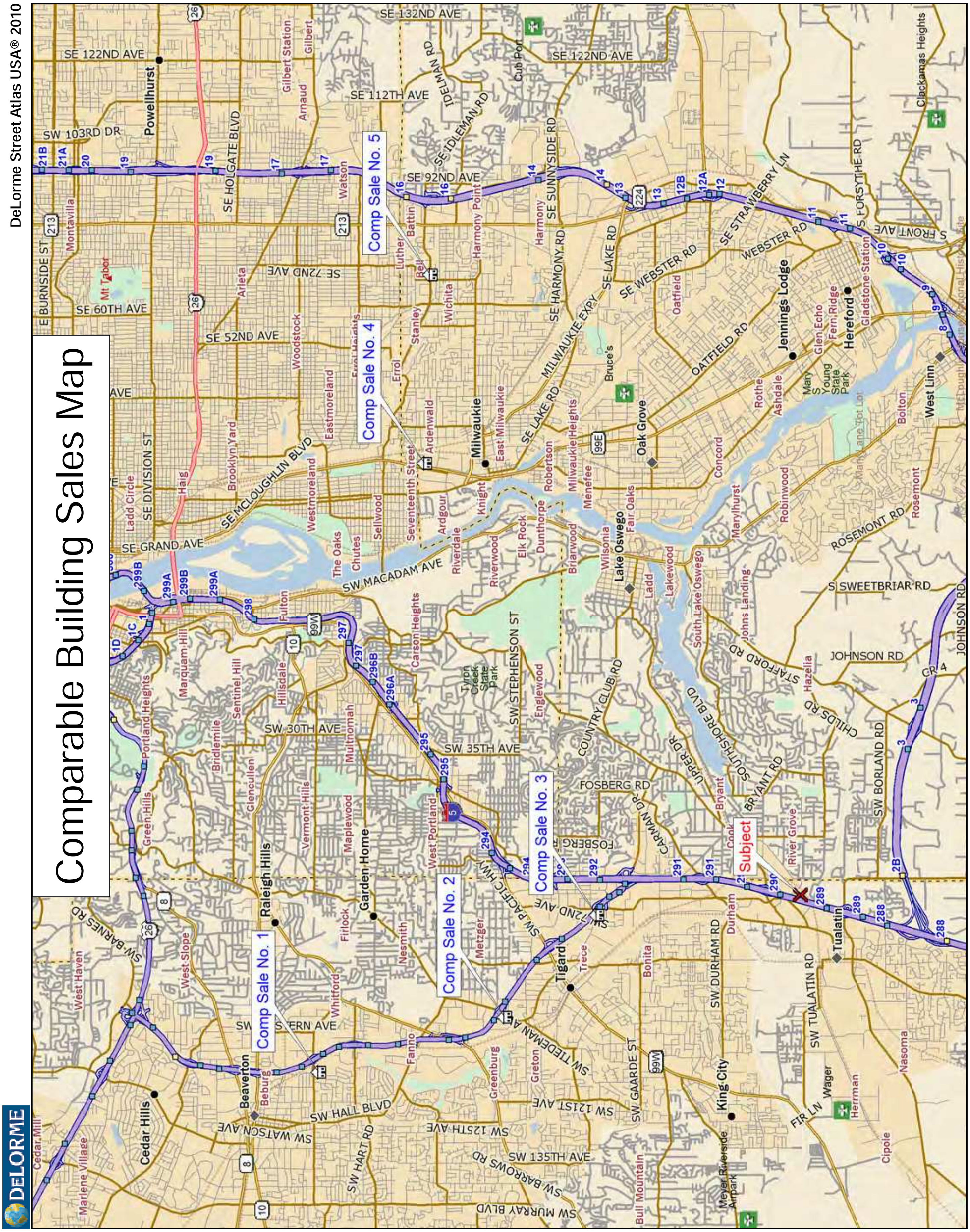
As we have said, market data indicates that the most likely buyer of the subject property is another owner-user. This buyer-profile relies most heavily on the Sales Comparison Approach to value. Consequently, the value indicated in this section of the appraisal will be given the greatest weight in the final reconciliation of value.

COMPARATIVE SALES TECHNIQUE

Comparable Sales Summary

Our search for comparable sales focused on light industrial properties of a similar age and size in the general Portland market area. The five sales deemed most comparable to the subject and, thus, most indicative of subject market value were selected; each was confirmed with a party to the transaction. Photographs, maps, descriptions, and analyses of these sales are provided on the following pages.

DeLorme Street Atlas USA® 2010



Scale 1 : 100,000

1" = 1.58 mi

Data Zoom 11-0

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COMPARABLE BUILDING SALES SUMMARY

#	Designation/Location	Sale Date	Effective Sales Price	Year Built	Floor Area (SF)	Price per SF	Office Build-out	Clear Height	Comments/Verification
1	6220 SW 112th Ave Beaverton	12/2/10	$4,850,000 (see comments)	1973	88,844	$55	11%	20'-22'	S: Mainlander Telecom LLC B: Tualatin Hills Park and Recreation District Arm's-length, cash-equivalent transaction. Concrete tilt-up building (one building) with 15 dock-high doors and 2 oversized street-level doors. The property included excess land which the buyer plans to develop with athletic fields. The total recorded purchase price was $6,124,000 (which reflected a $60,000 discount for wetlands and a discount of approximately $215,000 for needed roof and mechanical repairs). However, the broker states that approximately $1,273,000 of the total was applicable to the excess land (at $6.50/SF), resulting in an effective price to the industrial property of $4,850,000, as shown here. When the excess land area is excluded, this comparable's FAR is 25%. This property, which is zoned for light industrial use by the city of Beaverton, is located near the southwest corner of Highway 217 and Allen Boulevard; it is clearly visible from Highway 217. The building was vacant at the time of sale and was purchased for owner-occupancy. The building is rail-served and has ample outdoor (yard) storage. Asking lease rate for the property at the time of sale was $0.33/SF/month, NNN Source: Stu Peterson, Macadam Forbes, 503-972-7288
2	10655-10685 SW Greenburg Road Tigard	4/13/11	$3,260,000	1966-1971	50,749	$64	21%	25'	S: Lanphere Properties V, LLC/Beaverton Motorcycles B: Ewing Irrigation Products Arm's-length, cash-equivalent transaction. This property consists of a 22,000-SF metal-frame building constructed in 1966 and a 28,749-SF reinforced concrete building constructed in 1971. With a total land area of 4.25 acres, this property's FAR is 27%. The larger of the two buildings has several dock-high loading doors. The lot is fenced and offers some yard storage area. This property, which is at the intersection of Highway 217 and SW Greenburg Road, was purchased for owner-occupancy (although the seller will continue to occupy the smaller building on a short-term basis). The property is clearly visible from SR-217; access is above-average. The broker reported no deferred maintenance. To close the sale the buyer had to obtain a land-use permit for a change in use. Source: Christy Bailey and Andy Kangas, CBRE, 503-221-4874

Table continued on following page

Table continued from previous page

#	Designation/Location	Sale Date	Effective Sales Price	Year Built	Floor Area (SF)	Price per SF	Office Build-out	Clear Height	Comments/Verification
3	7924 SW Hunziker St Tigard	2/25/11	$2,612,500	1965	82,150	$32	26%	22'-27'	S: Dawn New Hunziker LLC B: Gould Family Properties VI LLC Arm's-length, cash-equivalent transaction. Masonry building with one dock-high and multiple grade-level doors. The property had been on the market for two years and was vacant at the time of sale. The buyer plans to occupy half of the building; the rest was recently leased at a rate of $0.35/SF/month, NNN. The broker reports that the property was impacted by some environmental contamination and some minor deferred maintenance. The building does not have a rail spur but it did sell with four cranes and a built-in freezer. The FAR at this comparable is 26%. This property is located on a quiet road dominated by industrial uses that stretches between SR-217 and Highway 99W. Access is average. The broker stated that this "was an excellent deal for the buyer." Source: Evan Bernstein, Capacity Commercial Group, 503-517-9874
4	2300 SE Beta St Milwaukie	5/6/11	$8,025,000	1960	207,615	$39	3%	24'	S: Hawthorne Investment Co/Holman Distribution Center of Oregon B: G&B Milwaukie LLC/Grand and Benedicts Arm's-length, cash-equivalent transaction. Of concrete and steel construction, this building is quite compartmentalized but has good storage, lots of dock-high loading bays, covered loading bays, and rail access. The building is adjacent to and clearly visible from Highway 99E; access is good. The building needed roof repairs; a $175,000 credit was given for that deferred maintenance. This comparable, which is on a corner parcel, has an FAR of 63%. This building was purchased for owner-occupancy. The buyer owner the adjacent property but, according to the broker, that fact did not impact the price. The buyer was unwilling to pay more than market value for the site and based the purchase offer on an analysis of comparable sales. Source: Brett Bayne, Macadam Forbes, 503-972-7280

Table continued on following page

Table continued from previous page

#	Designation/Location	Sale Date	Effective Sales Price	Year Built	Floor Area (SF)	Price per SF	Office Build-out	Clear Height	Comments/Verification
5	6803 SE Johnson Creek Blvd Portland	12/5/11	$5,350,000	1950-1985	165,572	$32	<3%	20'-26'	S: Rigby Investments LLC B: Oregon Worsted Company Cash-equivalent transaction. One of the owners in the purchasing entity is also one of the owners of the business occupying the space. Broker reports, however, this this was a fair market transaction This facility consists of three buildings; the largest was built in 1950 and the others were built in 1985. All are of wood-frame or combination wood and concrete construction. The property's FAR is 36%; there is a fenced 3-acre storage yard onsite. The access drive is narrow and was congested on the day of our inspection. This facility is located about one mile west of I-205 in an area of mixed uses. Access is average. The facility includes two cranes and an in-ground truck scale. Most of the loading doors are at grade, but there is one dock-high door in one of the buildings. Source: Allen Patterson, Capacity Commercial, 503-542-4347
S	**7100 SW McEwan Rd Tualatin**	**N/A**	**N/A**	**1968**	**110,250**	**N/A**	**12%**	**17'-25'**	**The two larger buildings are of concrete construction; the third (smallest) building is of metal construction. The largest building does not have any dock-high doors.** **The property has I-5 frontage and an FAR of 25%.**

Discussion of Comparables

Among the comparable sales listed above, effective prices per square foot range from $32 to $64. Each is pictured and discussed below.

Comparable Sale No. 1

Of the five comparables, Comparable No. 1 is most similar to the subject in terms of both effective FAR (25%) and office build-out (11%). Like the subject, this comparable 1) needed some roof repairs at the time of sale, 2) is zoned for light industrial use, 3) has excellent highway frontage, and 4) has average accessibility. At the same time, this comparable is a little smaller than the subject, and unlike the subject this comparable has numerous dock-high loading doors and is rail-served.

6220 SW 112th Ave

As was discussed in the summary table, this comparable sale included some excess land which the buyer plans to develop for a different purpose. When the contributory value of the excess land is extracted from the purchase price (based on information provided by the broker), the effective price paid for this comparable—which sold for owner-occupancy—is equivalent to $55 per square foot. While the comparable is a good comparable for the subject in terms of age, build-out, FAR, clearance heights, condition at the time of sale, zoning, accessibility, and visibility, it is superior to the subject in terms of loading facilities and rail service. It is also a little smaller than the subject, suggesting that a lower-per-square-foot price would be indicated for the subject (all else being equal). Together, subject value would be expected to approximate or be a little lower than $55 per square foot, the per-square-foot price paid for this comparable.

Comparable Sale No. 2

Comparable No. 2 consists of two buildings—one of concrete construction and one of metal construction—at the Highway 217/Greenburg Road interchange. Like the subject and Comparable No. 1, this property has excellent visibility. However, this property has above-average access and is superior to the subject and to Comparable No. 1 in this regard.

10655 SW Greenburg Road, front building

10655 SW Greenburg Road, back building

In addition to its superior access, this comparable has about half as much building area as does the subject and about twice as much office build-out (on a percentage basis). The larger of the two buildings at this comparable also has numerous dock-high doors, while the subject's primary building has none.

This comparable sold for a price equal to $64 per square foot. For all of the reasons described above, subject value should, on a per-square-foot basis, be less.

Comparable Sale No. 3

Comparable No. 3 is a single building on a quiet industrial street. Access is good (Highway 99W is a few blocks to the north, and SR-217 is a few blocks to the south), but subject accessibility and visibility are superior. Although this comparable sale included some cranes and a freezer, this comparable had some deferred maintenance at the time of sale and was impacted by environmental contamination. On the other hand, this comparable has about twice as much office build-out as does the subject (on a percentage basis).

7924 SW Hunziker

This comparable sold for a price equal to $32 per square foot. Again, although this comparable has more office build-out than does the subject, considering the subject's superior accessibility, visibility, and lack of environmental contamination it is reasonable to conclude that subject value should be higher, on a per-square-foot basis.

Comparable Sale No. 4

Comparable No. 4 has excellent visibility and access. However, this comparable is about 10 years older than the subject, is nearly twice as large, and has significantly less yard storage area and office build-out. On the other hand, this comparable has numerous dock-high loading bays, covered loading bays, and rail access. The interior configuration of the building is similar to that of the subject's main building (i.e., compartmentalized but clean and in average repair).

2300 SE Beta Street

This comparable sold for a price equal to $39 per square foot. Weighing this comparable's superior loading docks and rail access against its much larger size and inferior storage and office build-out percentage, it is reasonable to conclude that subject value should, on a per-square-foot basis, be a little higher than the price paid for this comparable.

Comparable Sale No. 5

Comparable No. 5 is, like the subject, comprised of three separate buildings on a site that is similar in size to the subject. However, these buildings are of inferior construction quality and they offer inferior visibility and accessibility. Furthermore, site ingress/egress is poor. As with the subject, there is only one dock-high loading bay at this comparable. The sale did include an in-ground truck-scale and several cranes, but this comparable's percentage of office build-out is significantly lower than that of the subject.

6803 SE Johnson Creek Blvd

This comparable sold for $32 per square foot. A higher per-square-foot value would be expected for the subject for the reasons given above.

Comparable Sales Discussion

In the table on the following page, a "+" indicates that the comparable is inferior to the subject and the sale price should be adjusted upward to reflect subject value potential, while a "-" indicates that the comparable is superior to the subject and the sale price should be adjusted downward.

QUALITATIVE ADJUSTMENT SUMMARY TABLE

Adjustment Category	Sale 1	Sale 2	Sale 3	Sale No. 4	Sale No. 5
Effective Price per SF:	$55	$64	$32	$39	$32
Qualitative Adjustments:					
Sale Condition					
Age/Condition		-	+	+	+
Environmental Concerns			+		
Size		-		+	
Relative Location					+
Access/Linkages		-			
Percent Build-out		-	-	+	+
Office Finishes					
Clearance Height					
Parking					
Visibility/Exposure			+		+
Loading Bays	-	-		-	
Rail Access	-			-	
Cranes, Scales, Freezers, Etc.			-		-
Purchaser Profile					
Subject Value Potential per SF:	**<$55**	**<$64**	**>$32**	**>$39**	**>$32**

Based on the preceding analysis, subject value should fall within the range of $40 to $55 per square foot. Of these comparables, Comparable No. 1 requires the fewest adjustments and is considered the strongest indicator of subject value, suggesting that a subject value conclusion at the upper end of the $40- to $55-per-square-foot range is justified.

PRELIMINARY CONCLUSION

$4,950,000 to $6,075,000

Based on the preceding analysis, a subject value range of $45 to $55 per square foot appears best supported. This range reflects the subject's deferred roof maintenance (a fairly common matter as evidenced by the comparable sales described above) and the subject's other physical and functional characteristics that would be important to a potential buyer. A subject value range of $45 to $55 per square foot is, therefore, concluded. Applied to the subject's rentable area (110,250 SF), a preliminary subject value range of $4,950,000 to $6,075,000 is concluded.

CONTRIBUTORY VALUE OF WIRELESS TOWER

$200,000

The income stream from the cell tower on the subject site contributes additional value to the subject. As was discussed earlier, the current cell tower lease runs through July 2016, with annual rent increases and renewal options in place thereafter.

The current monthly lease rate paid by Cingular Wireless (and/or assigns) is $1,211.79; that rate is scheduled to increase to $1,260.26 in August of this year. The subject property owner does not have any maintenance, utility, or management expenses related to the cell tower, and the likelihood that the cell tower lease will be renewed is high, based on trends seen for other cell tower leases throughout the Portland metropolitan area.

The risks associated with the cell tower lease income are relatively low, as is the impact of physical deterioration. Consequently, while overall capitalization rate data specifically for cell tower income is not widely available, it is reasonable to assume that a lower overall rate would be justified for the cell tower income than for the subject property as a whole.

As was discussed in the previous section of this appraisal, market data suggests that market participants are using overall rates of approximately 7% to 9% for industrial properties like the subject. We reconciled this range to 8.00% to 8.50% for the subject as a whole in the Income Capitalization Approach analysis; for the purpose at hand an overall rate of 7% will be applied to the cell tower income alone.

With six months of lease income at $1,211.79 per month and six months at $1,260.26, anticipated income from the cell tower during the coming 12-month period is $14,832.30. Capitalizing this income stream at 7% indicates a contributory value from the cell tower of $211,890, or approximately $200,000, rounded.

FINAL VALUE CONCLUSION

$5,150,000 to $6,275,000

When the estimated contributory value of the cell tower income is added to the estimated value of the site and primary improvements, an overall subject value range of $5,150,000 to $6,275,000 is indicated.

The *Cost Approach* section follows.

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COST APPROACH

INTRODUCTION

Purchasers of existing industrial buildings in the greater Portland market typically do not employ the cost approach when formulating offers. This is particularly true for buildings that are, like the subject, more than 40 years old because, in recent years, economic conditions have not supported values that mirror depreciated replacement costs. Consequently, significant subjectivity is involved when estimating reproduction costs and subsequent depreciation for existing buildings, and the potential exists for a misleading conclusion. Consequently, in conformity with typical market behavior, the cost approach is not used in this report.

The *Reconciliation and Final Estimate of Value* follows.

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RECONCILIATION & FINAL ESTIMATE OF VALUE

INTRODUCTION

The two valuation approaches used in this report (the Income Capitalization Approach and the Sales Comparison Approach) are discussed individually on the following pages.

VALUE ESTIMATE & PROJECTED MARKETING PERIOD

Value Indications Summary by Approach

A summary of conclusions for each valuation approach appears in the following table.

APPROACHES TO VALUE SUMMARY
Value Estimates

Valuation Approach	Applicable Date	As Is Value Estimate
Income Capitalization Approach	1/26/11	$5,375,000 to $5,700,000
Sales Comparison Approach	1/26/11	$5,150,000 to $6,275,000
Cost Approach	NA	NA

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

Discussion of Approaches

Accuracy and Adequacy of Data and Analyses

The income capitalization approach used extensive data and analyses when estimating market rent levels, expenses and overall capitalization rates. Although slowing leasing activity has resulted in a smaller pool of potential comparable rentals, the quantity, accuracy and adequacy of data and analyses in the income capitalization approach is considered satisfactory.

The data and analyses used in the sales comparison approach essentially involved values per square foot. The extent of data and analyses was considered adequate.

The cost approach was not applicable and was not used.

Strengths and Weaknesses of Each Approach

As stated earlier, the cost approach is the weakest of the three approaches due to the generally weak correlation between reproduction cost and market value for existing properties more than a few years old. Furthermore, while land values and improved property values have fallen during the past couple of years as a result of depressed market conditions, actual construction costs have remained, in most cases, relatively constant. As a result, the Cost Approach has not been a good indicator of subject value for most properties during the past couple of years, and as would be expected, development activity across the

Portland metropolitan area has slowed dramatically. Until rental rates and sale prices catch up with construction costs, the feasibility of new development will generally be unlikely and the applicability of the Cost Approach for estimating value will remain weak.

Of the remaining two approaches, the income capitalization approach generally provides the best indication of potential value for income producing properties, while the sales comparison approach is generally preferred by potential purchasers of owner-user properties.

Market Perceptions

With respect to estimating the value of industrial buildings, the market perception is that the income capitalization approach is the best indication of market value for multi-tenant properties or those with long-term, arm's-length leases in place, while the sales comparison approach is emphasized by owner-users. Again, the cost approach is given little or no consideration by investors.

Final Estimate of Value **$5,700,000**

Again, the most likely buyer of the subject property, As Is, is another owner-user. This user profile favors the Sales Comparison Approach which, in this case, points to a subject value range of $5,150,000 to $6,275,000. The Income Capitalization approach suggests a value range ($5,375,000 to $5,700,000) that is within the range indicated by the Sales Comparison Approach, but the center point of the Sales Comparison Approach range--$5,725,000—is a little above the high end of the Income Capitalization Approach range. Because the subject purchaser profile would most likely be an owner-user, the Income Capitalization Approach value range of $5,375,000 to $5,700,000 is of weaker applicability. Both valuation approaches point to a general subject range of approximately $5,000,000 to $6,000,000, but the Sales Comparison Approach supports a value estimate that is higher within that range.

In keeping with typical, anticipated market behavior, greater emphasis in this final reconciliation will be given to the value range indicated by the Sales Comparison Approach. Again, the mid-point of the Sales Comparison Approach value range is $5,725,000, while the Income Capitalization Approach value range is $5,375,000 to $5,700,000. With most weight given to the Sales Comparison Approach, but still giving some consideration to the value indicated by the Income Capitalization Approach, a final value estimate of $5,700,000 appears best supported and is concluded. This estimate is supported by both valuation approaches, reflects an emphasis on the Sales Comparison Approach, and is reasonable based on our analysis of available market data.

Marketing/Exposure Time

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

Based on our review of active listings and sold properties, and after discussions with the brokers cited throughout this appraisal, the marketing time for the subject is estimated at 12 months or less.

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

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