

**BEFORE THE WASHINGTON UTILITIES
AND TRANSPORTATION COMMISSION**

UG-_____

NORTHWEST NATURAL GAS COMPANY

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

Exhibit B-2

August 22, 2013

Donald R. Palmer, MAI
PG Valuation Group, LLC
1516 NE 37th Avenue, Suite 210
Portland, OR 97232
(503) 781-7249

October 26, 2012

Steve Walti, Manager
Risk, Environment and Land Department
NW Natural
220 NW Second Avenue
Portland, Oregon 97209

RE: NW Natural Central Service Center
904 SE Division Street
Portland, Oregon 97202

Dear Mr. Walti:

Pursuant to your request, we have reviewed the appraisal prepared by George Donnerberg, MAI, of Real Property Consultants, dated July 25, 2012. This appraisal was prepared for Jillian Detweiler, Director of Real Estate for TriMet for the purpose of acquiring right of way for Portland to Milwaukie Light Rail (Orange Line) project.

This review is intended to conform to the *Uniform Standards of Professional Appraisal Practice* (USPAP), Uniform Standards of Federal Land Acquisitions (*49 CFR 24.103 and 24.104*) and Oregon condemnation law. This review is intended to satisfy the scope of work and requirements agreed upon by Mr. Steve Walti, NW Natural, and the appraiser. The review conforms to reporting guidelines presented in USPAP Standards Rule 3.2. This review is a combined effort of Don Palmer, MAI PG Valuation Group, LLC and Matt Call, MAI of Multnomah Valuation Group.

Clients and Intended Users: Mr. Steve Walti, Manager, Risk, Environment and Land, NW Natural.

Intended Use of the Review and Purpose: This review is to be used by Mr. Walti in negotiating just compensation for the right of way and other property interests to be acquired by TriMet. The purpose is to determine 1) if the report meets USPAP standards 2) whether the report complies with Oregon State Law regarding condemnation and 3) to be used by NW Natural in their negotiations with TriMet.

Scope of Work: 1) Inspection of the interior and exterior of the buildings on April 22, 2011 by Don Palmer, MAI and Matt Call, MAI when employed with Colliers International. As a part of this assignment, Don Palmer, MAI inspected the exterior of the buildings as of October 14, 2012.

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In addition a review of the appraisal prepared by Mr. Donnerberg dated July 25th, 2012 was performed, and we concluded the appropriateness of the highest and best use as well as the valuation analysis and value conclusions.

Identification

The property is located at 904 SE Division Portland, Oregon 97202 and is legally defined as Tax Lots 6900,7000,7100 and 7200, Map 1S-1E-11BA, Multnomah County, Oregon, also known as Assessor Parcel Numbers R328000, R327999, R328044 and R327986. The subject property is located in a desirable close southeast industrial area. The property is located between SE 9th Avenue and SE Clinton Street, north of SE Taggart and south of the Southern Pacific Railroad right of way.

Site Description

The site is IG-1 (General Industrial) and contains 5.18 acres (225,640 SF). Approximately 3.18 acres is level at street grade with the remaining 2.0 acres located in the southwest corner of the site located below grade. This area was formerly used to house natural gas holding tanks. The area that is being acquired and easements are level with street grade.

The site has good access form SE 9th avenue and SE Clinton and is conveniently located to SE Division, SE Powell and SE 11th streets which are major arterials providing linkage to other portions of the Metropolitan areas.

Improvement Description

The site is improved with 3 major buildings which Mr. Donnerberg identifies as Buildings A, B, and C. Yard improvements include two fueling stations, sheds, fencing and gravel and paved parking and shed.

Building A: The building is a concrete block building built in 1977 and contains 9,076 SF of gross building with 16 foot wall height. There is approximately 2,376 SF of office space, 1,584 SF of radio repair area, and 5,116 SF of storage area. The building is in average condition for its age. On page 14, one error is noted when describing the office area in Building A, the appraiser states the office is 44 x 54, or 2,376 SF, but in the report an office size of 4,752 SF is noted.

Building B: This is a concrete block, drive-through, truck service/maintenance building built in 1977 and contains 3,538 SF with a wall height of 18 feet. There are three 12 foot roll up doors located on the north and south side of the building. Attached to the building is a compressor shed that contains 84 SF.

Building C: This building was built in 1921 and is frame construction with a stucco exterior finish. This structure has 8,290 SF and was used as an industrial office space for communications with locker rooms and restroom. Considering the age of the structure and frame construction this building is in fair condition; however the space is serviceable for its use.

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Outbuildings: There are two major outbuildings located on the property. One is a three-sided concrete block shelter with 12 foot wall heights that contains 1,050 SF. The second is a wood frame shed that is 80 SF in size with a 7 foot wall height.

Yard improvements: This property was used as a truck maintenance and fueling area. There are two fueling stations with grade tanks, dispensers and canopy shelters. The yard area is a mix of gravel and paved parking.

Highest Best Use

Mr. Donnerberg concluded the Highest and Best Use as vacant is for industrial land for development, and the highest and best use as improved is the existing use for Buildings A and B and Building C as an interim use. I agree with Mr. Donnerberg's conclusion regarding the Highest and Best use for the property as if vacant and as improved as an industrial office, truck and yard storage for a service center.

Before Situation Land Valuation

The land value is based on three land sales that ranged in size from 19,400 SF to 108,900 SF and ranged in sales price from \$21.12/ to \$30.00/SF. These are relative current sales in 2010 and 2011. We are familiar with these sales and have used these sales in previous assignments. This neighborhood is built up; therefore there are limited recent sales that are similar in size, zoning and location. His conclusion of \$23.00/SF is reasonable and supportable.

Value of the Acquisition

There are three parcels valued in the Donnerberg report as a part of the acquisition. Each parcel is discussed below with comments on the valuation analysis and the reviewer's opinion of value. Following the analysis of the fee acquisition and temporary construction easements, the site and building improvements within the acquisition will be discussed.

Compensation Estimate - Land

Parcel 1: Parcel 1 is a fee acquisition of 39,151 SF. The land component of the acquisition is valued in the Donnerberg appraisal at \$23.00/SF or **\$900,473** which is supported.

Parcel 2: Parcel 2 is a temporary construction easement totaling 19,634 SF. According to the appraisal report, the easement has a term of six months. However, there is no term listed in the legal description of the easement or on the easement map included in the report. Many temporary easements for this project are two years in length. As a result, a two year term is used in this analysis. If TriMet provides additional documentation that the easement term will be for a period of six months, the easement value concluded in the Donnerberg appraisal of \$22,578 is supported. At a two year term, and a 10% annual rate of return, a value of **\$90,316** is supported summarized below.

Parcel 2	Size (SF)	Unit Value	Rental %	Easement Length	Value
Temporary Construction Easement	19,634	\$23.00/SF	10.0%	2 Years	\$90,316

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Parcel 3: Parcel 3 represents a 114 SF temporary building encroachment easement which will be granted back to the property owner. The property owner will be able to use this easement area until the removal of the underlying building (Building B). The reviewer agrees with the analysis of this easement found in the Donnerberg report. No compensation is due as a result of this easement and the value of this easement to the property owner is to prevent additional building severance damages resulting from the location of Building B.

Compensation Estimate - Improvements

The acquisition valued in the Donnerberg appraisal results in the partial acquisition of Buildings A and C, two of the three main buildings on the subject property. The appraisal contains six comparable building sales that occurred from January 2011 to June 2012. The sales indicate per square foot values of \$28.82 to \$152.54. After adjusting for land value (based on the \$23.00/SF concluded in the report), the adjusted per square foot values range from \$18.62 to \$98.55. The chart below is an abbreviated summary of the sales in the appraisal report.

Sale	Address	Sales Date	Sales Price	Site SF	Bldg SF	Office %	Land Value	Sales Price/SF of Bldg.
1	111 SE Madison Street	Jun-12	\$650,000	10,000	22,554	30.3%	\$230,000	\$18.62
2	2609 SE 6th Avenue	Aug-11	\$825,000	17,000	18,230	27.4%	\$391,000	\$23.81
3	3440 SE Alder Street	Mar-12	\$550,000	11,050	11,000	0.0%	\$254,150	\$26.90
4	2353 NW 21st Avenue	Feb-11	\$1,780,000	30,000	20,000	18.7%	\$690,000	\$54.50
5	704 SE Washington Street	Jan-11	\$1,735,000	19,733	13,000	N/Av.	\$453,859	\$98.55
6	1024 NE Davis Street	Nov-11	\$900,000	20,000	5,900	52.0%	\$460,000	\$74.58

After analyzing the sales, the appraisal concludes a value of \$60.00/SF is concluded for Building A and a value of \$20.00/SF for Building C. After a review of the subject and comparable information it is concluded that slightly higher values are supportable for both buildings.

Based on the information in the Donnerberg report, Building A contains 26.2 percent of office space and additional radio shop space of 1,584 SF that has some buildout above typical warehouse space. In comparing Building A to the comparables, the report notes that Comparables 4, 5, and 6 are the most similar to Building A. Building A has more office space than Comparable 4 at \$54.50/SF and less office space than Comparable 6 at \$74.58/SF. According the report, Building A as built in 1977 while Comparables 4 and 6 were built in 1954 and 1950 respectively. Considering the newer age of Building A, and the percentage of office area, a value above the \$60.00/SF concluded in the report is supported. Recognizing the higher percentage of office in Comparable 6, a value below this sale of **\$70.00/SF** is concluded for Building A. Applying this conclusion to the 3,644 SF within the acquisition indicates a value of **\$255,080** (\$70.00/SF x 3,644 SF).

Comparables 1, 2, and 3 are used to conclude a value for Building C. These sales range from \$18.62 to \$26.90 per square foot. The value concluded in the report, of \$20.00/SF, is near the low end of the range. The only lower comparable, Comparable 1 is a multi-story industrial building with the square footage including lower level parking/storage area. In addition, the marketing materials for this property indicate a very motivated seller that needed to dispose of the property. As a result, a value closer to this comparable than Comparables 2 and 3 is not supported. The majority of Building C has been converted to industrial office, with additional locker and restroom facilities. While the interior improvements are dated, considering this factor and the smaller size of Building C, a value near the upper end of the bracketed range of

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\$26.00/SF is concluded. Applying this conclusion to the 1,436 SF within the acquisition indicates a value of **\$37,336** ($\$26.00/\text{SF} \times 1,436 \text{ SF}$).

In addition to the acquisition of a portion of Buildings A and C, an 84 SF wood-framed compressor building attached to Building B will be acquired. This building is valued at **\$1,575** based on a depreciated cost analysis which appears reasonable. The chart below summarizes the value of the portions of Buildings A, B, and C within the acquisition area.

Building Improvements Acquired Summary			
Component	Size	Value Per SF	Value of Taking
Building A	3,644 SF	\$70.00	\$255,080
Building B	84 SF	\$18.75	\$1,575
Building C	1,436 SF	\$26.00	\$37,336
Total:			\$293,991

Site Improvements

The site improvements valued in the report are summarized below.

Site Improvements Acquired Summary	
Component	Size
Large Shed	1,050 SF
Small Shed	80 SF
8 Foot Chain Link Fence	655 LF
24 Foot Gate/Actuator	1 Each
Paving	36,000 SF
24 Foot Pole/Lamp	1 Each
30 Foot Pole/Lamp	1 Each

In reviewing the value conclusions for these items, the reviewer generally agrees the value conclusions are reasonable. The only exception is the value of the paving within the acquisition. There is a math error on page 33 of the appraisal report where the cost new of \$2.43/SF is depreciated twice. As valued in the report, the value of the asphalt should be \$65,520 not the \$49,140 used in the value conclusion.

However, the asphalt used in the report is for a 4" rock base and 2" of paving. While specifications were not available, asphalt on sites designed for truck traffic is often built to higher levels than the asphalt valued in the report. It is noted that the asphalt proposed in the cost to cure analysis by Phil McCurdy is 10 inches of gravel with a 2 inch asphalt cover. While there are different combinations of rock base and asphalt used on similar sites, using the same specifications in the cost to cure analysis indicates a cost new of \$4.18/SF, depreciated to \$3.14/SF. This indicates an asphalt value of **\$113,040** ($\$3.14/\text{SF} \times 36,000 \text{ SF}$).

The site improvements within the acquisition area are summarized below.

Site Improvement Value Summary	
Component	Value
Large Shed	\$15,616
Small Shed	\$1,500
8 Foot Chain Link Fence	\$9,623
24 Foot Gate/Actuator	\$3,146
Paving	\$113,040
24 Foot Pole/Lamp	\$1,122
30 Foot Pole/Lamp	\$4,762
Total:	\$148,809

Building & Site Improvement Value Summary

Based on the analysis above, the reviewer’s concluded values for the building and site improvements are summarized below.

Building & Site Improvement Value Summary	
Component	Value
Building A	\$255,080
Building B	\$1,575
Building C	\$37,336
Large Shed	\$15,616
Small Shed	\$1,500
8 Foot Chain Link Fence	\$9,623
24 Foot Gate/Actuator	\$3,146
Paving	\$113,040
24 Foot Pole/Lamp	\$1,122
30 Foot Pole/Lamp	\$4,762
Total:	\$442,800

Land & Improvements Taken Summary

The values concluded above indicate a total value for land and improvements within the acquisition of \$1,432,153 as summarized below. Please note, this estimate is based on a two year temporary easement term. If the six month term indicated in the report is supported through further documentation, a downward adjustment of \$67,738 is supported.

Land & Improvement Value Summary	
Component	Value
Land	\$990,789
Improvements	\$442,800
Total:	\$1,433,589

Damages to the Remainder

In the Donnerberg appraisal report, damages to the remainder are concluded as a result of damages to Buildings A, B, and C as well as for site work required on the remainder. Portions of this analysis is based on information provided by Philip R. McCurdy, architect. Mr. McCurdy's analysis is included in the addenda of the Donnerberg appraisal and has been relied on by the reviewer. Damages to each component are discussed below.

Building A

Damages will be the summation of the loss in value to the remainder due to a change in utility and the cost to cure analysis or damages to the remainder whichever is the lower amount. Building A was originally 9,076 SF, but after the taking has been reduced to 5,432 SF. Considering the remainder has an irregular configuration, with a long, diagonal wall, and the resulting loss in utility the after value is estimated at \$60/SF. The remainder value would be \$60/SF X 5,432SF or \$325,920.

The cost to cure from the McCurdy report is \$359,985. In the appraisal report Mr. Donnerberg does not adjust this cost to cure up for profit to the property owner, which does not adequately compensate the property owner for the time and effort to coordinate the work necessary to reconfigure and enclose the remainder. As described in the *Uniform Appraisal Standards for Federal Land Acquisitions*

“it must be remembered that the remainder property is still to be valued in its uncured condition. Therefore, it is important that any cost to cure estimate of damage include not only the direct costs of the cure, but also the indirect cost, any effects of delay, and if appropriate, an entrepreneurial profit factor. ‘To give no consideration whatsoever to entrepreneurial profit when estimating an appropriate cost to cure adjustment is ludicrous’”

In the case of the subject, a buyer purchasing the property in its uncured condition would be buying a property with two building severed and additional site work necessary to restore the functionality of the property. It is unrealistic to think any buyer would purchase the property without some level of profit to account for the delay to repair the buildings and to account for the time, risk, and effort associated with enclosing the buildings and restoring their functionality. Developer's profit and overhead typically ranges from 10% to 20% of the total construction costs. Considering the cut is diagonal and that there are unknowns in cutting a building, developer's profit of 15% is concluded. Using a 15 percent profit applied to the cost to cure analysis is appropriate which would indicate profit of \$53,998 (\$359,985 x 15%). Therefore, the adjusted cost to cure including profit is \$413,983 (\$359,985 + \$53,998).

This amount is higher than the contributory value of the Building A remainder of \$325,920. However, as indicated in the Donnerberg appraisal, to remove the building would require additional demolition costs of approximately \$54,320, which when added to the remainder value would indicate a remainder value of \$380,240 which is less than the cost to cure.

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The following is the estimated damages:

Building 'A' Damages Summary	
Component	Value
Loss in Value due to Change in Utility (\$10/SF x 5,432 SF)	\$54,320
Remainder Value Plus Demolition Cost	\$380,240
Total:	\$434,560

Building B

In the Donnerberg appraisal, damages to Building B were concluded from two sources. The first is the cost to reconstruct the compressor shed and to reconfigure the plumbing and electrical to Building B estimated at \$20,688. Based on the available information, this conclusion is reasonable if the building is maintained on site.

The second source of damages to Building B is based on the loss in utility of the overhead doors and the change in the highest and best use of this building from a drive-through vehicle service building to a general industrial use. Mr. Donnerberg estimates this damage based on the cost difference between a concrete wall and overhead doors for two doors that no longer function adequately for larger vehicle drive-through vehicle repair.

It is our opinion, following the acquisition, the functional utility of Building B has changed from a service garage to a storage building. In the after situation, the structure encroaches into TriMet's right of way, which changes use from an outright allowed use to a non-conforming use. Since buildings A and C have been damaged out, Building B represents the only remaining building on-site. At 3,538 SF, Building B is undersized based on the large size of the remainder. While it could provide some temporary utility during redevelopment of the site, it is very unlikely it would be incorporated into a redevelopment of the site following the demolition of Buildings A and C. Therefore, there is no demand for building B as a storage building with its small size and non-conforming status, and it is our opinion building B has been damaged.

Considering the sales that were presented in Mr. Donnerberg's appraisal, the estimated value of the service garage in the Before Situation would be \$50/SF or a Before Value of \$176,900.

The following is the estimated damages:

Building 'B' Damages Summary	
Component	Value
Chang in Use and Non-Conforming Status	\$176,900
Remainder Value Plus Demolition Cost	\$35,380
Total:	\$212,280

Building C

Following the acquisition of 1,436 SF, Building C has been reduced from 8,290 SF to 6,854 SF. At a value of \$26.00/SF, as a part of the whole, the remainder contributes \$178,204 (6,854 SF x \$26.00/SF). According to the Donnerberg report, the owner would be responsible for all demolition costs for the building at a total cost of \$82,900 indicating an adjusted contributory value for the building of \$261,104. The cost to cure totals \$251,773. Adjusting this up for a profit allowance indicates an adjusted cost to cure of \$276,950. As the cost to cure exceeds the contribution of the building, the damages represent the building contribution of **\$261,104**.

Site Improvements

Damages related to site work were estimated by architect Phil McCurdy at \$152,170. If the cost to cure approach is taken, a profit allowance to account for the time, risk, and effort associated with completing this work is appropriate. Using a 10 percent profit allowance indicates an adjusted cost of **\$167,387**.

However, in reviewing these costs they are primarily based on the assumption the buildings will be retained on the site. As it is our opinion the buildings have been damaged out, these costs have been excluded from our analysis.

Damages Summary

The chart below summarizes the various components of the concluded damages.

Damages Summary	
Component	Value
Building A	\$434,560
Building B	\$212,280
Building C	\$261,104
Site Work	\$0
Total:	\$907,944

Valuation Summary & Review Conclusions

The reviewer generally agrees with the valuation methodology used in the Donnerberg report. The difference in the concluded compensation relates to a combination of different building value conclusions, a math error in the asphalt conclusion, additional damages, and the inclusion of profit to the property owner for undertaking the cost to cure. The chart below summarizes the reviewer's opinion of the value of the acquisition and compares them with the conclusions in the Donnerberg appraisal. In addition to the values presented previously in this review report, the chart below includes fixtures value as presented in the Donnerberg report. The reviewer is not an expert in the appraisal of fixtures and has relied on the conclusions in the fixtures appraisal included in the Donnerberg appraisal.

Reviewer Concluded Valuation Summary		
Component	Reviewer Value Conclusion	Donnerberg Value Conclusion
<u>Taking</u>		
Land	\$990,789	\$923,051
Improvements	\$442,800	\$333,844
Fixtures	\$6,985	\$6,985
Total:	\$1,440,574	\$1,263,880
<u>Damages</u>		
Building A	\$434,560	\$359,985
Building B	\$212,280	\$28,540
Building C	\$261,104	\$219,980
Site	\$0	\$152,170
Fixtures	\$5,670	\$5,670
Total:	\$913,614	\$766,345
Special Benefits	\$0	\$0
Total:	\$2,354,188	\$2,030,225

Sincerely,

PG VALUATION GROUP, LLC



Donald R. Palmer, MAI

MULTNOMAH APPRAISAL GROUP



Matthew P. Call, MAI

DRP:ays
P120042

CERTIFICATION OF APPRAISAL REVIEW

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

- The facts and data reported by the reviewer and used in the review process are true and correct.
- The analyses, opinions, and conclusions in this review report are limited only by the assumptions and limiting conditions stated in this review report and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of the work under review and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignments results or assignment results that favors the cause of the client, the attainment of stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
- My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- I, Donald R. Palmer, MAI, have made a personal inspection of the subject property of the work under review.
- No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the persons signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, I, Donald R. Palmer, MAI, have completed the continuing education program of the Appraisal Institute.
- I am competent to review this type of property.
- PRIOR SERVICES: I have performed no other services, as appraisers or in any other capacity, regarding the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.



Donald R. Palmer MAI
CERTIFIED GENERAL REAL ESTATE APPRAISER
NO. C000060 – OREGON (EXP. 1/31/2014)

CERTIFICATION OF APPRAISAL REVIEW

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

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- I am competent to review this type of property.
- **PRIOR SERVICES:** I have performed no other services, as appraisers or in any other capacity, regarding the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment.



Matthew P. Call, MAI
CERTIFIED GENERAL REAL ESTATE APPRAISER
No. C000759 – OREGON (EXP. 8/31/2014)