

Appraisal Report

SR 509 Surplus Land | Des Moines, WA 98198

as of August 10, 2018



Prepared for
Port of Seattle
Mr. Daniel Alhadeff

Prepared by
David Chudzik, Ph.D., MAI, CRE

KM Job A19-0087

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March 8, 2019

Mr. Daniel Alhadeff
Port of Seattle
PO Box 1209,
Seattle, WA 98111

RE: SR 509 Surplus Land
XXX S. 216th Street
Des Moines, WA 98198

Dear Mr. Alhadeff:

At your request, we have prepared an appraisal of the above-referenced property, which is described in the attached report. The subject is a 623,734 sq ft or 14.32-acre vacant land parcel which is a portion of an earlier proposed extension of the SR 509 that was never built. We have inspected the subject property and obtained data regarding other similar real estate in the area. This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP), as formulated by the Appraisal Foundation. In addition, our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute as well as the WSDOT ROW manual.

The intended use of this appraisal is to assist Port of Seattle to support setting a purchase price for potential acquisition of the subject. This report may not be suitable for other uses.

As a result of our investigation and analysis, we have concluded on the following fee simple market value, subject to the limiting conditions and assumptions contained herein:

“As Is” Value, as of August 10, 2018\$2,900,000

Respectfully submitted,

A handwritten signature in blue ink that reads 'David Chudzik'.

David Chudzik, Ph.D., MAI, CRE
State-Certified General Real Estate
Appraiser #1102099

DMC/sh

Certification

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

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- 3) I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- 8) I have made a personal inspection of the property that is the subject of this report. The comparables were all confirmed with appropriate sources as indicated in the report.
- 9) David Chudzik has not provided professional appraisal or consulting services concerning the subject property once within the past three years.
- 10) No one provided significant real property appraisal assistance to the person signing this certification.
- 11) 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.
- 12) The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- 13) As of the date of this report, David Chudzik, Ph.D., MAI, CRE has completed the continuing education program for Designated Members of the Appraisal Institute.



David Chudzik, Ph.D., MAI, CRE
State-Certified General Real Estate
Appraiser #1102099

Limiting Conditions

Limiting conditions specific to this appraisal are:

- 1) The appraiser has made no survey of the property and assumes no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.
- 2) I assume that there are no hidden or unapparent conditions of the property, subsoil, or structures (including asbestos, soil contamination, or unknown environmental factors) that render it more or less valuable. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.
- 3) No responsibility is assumed for the legal description or for matters including legal or title considerations.
- 4) The information identified in this report as being furnished by others is believed to be reliable, but no warranty is given for its accuracy.
- 5) The appraiser is not required to give testimony or attendance in court by reason of this appraisal unless arrangements have previously been made.
- 6) The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately in conjunction with any other appraisal.
- 7) The appraiser is competent and qualified to perform the appraisal assignment.
- 8) Valuation Advisory Services is a subsidiary of Kidder Mathews, a full service commercial real estate brokerage firm. On occasion, employees or agents of the firm have interests in the property being appraised. When present, interests have been disclosed, and the report has been made absent of any influence from these parties.

RESTRICTION UPON DISCLOSURE & USE:

Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the appraisers. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus, or registration without the prior written consent of the appraisers.

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Summary of Appraisal

Summary of Appraisal

Identity of Property	SR 509 Surplus Land XXX S. 216th Street Des Moines, WA 98198
Property Description	<p>The subject is a 623,734 sq ft or 14.32-acre vacant land parcel which is a portion of an earlier proposed extension of the SR 509 that was never built. The subject site is located at the north side S. 216th Street in Des Moines. The subject lies to the east of 15th Avenue S. and to the west of 24th Avenue S. It extends northerly to a point where S. 212th Street would intersect the parcel, but this street ends further west. A narrow strip of subject extends toward S. 212th Street at the intersection 15th Avenue S. The site irregularly-shaped and reasonably level in most areas but moderately sloped toward the north. Wetlands and associated setbacks appear to significantly impact the property. Based on the wetland information available, it is estimated that wetlands and buffers impact about 75% of the site, leaving about 25% or 4.3 acres as usable area. The property is zoned Business Park (B-P) by the City of Des Moines.</p> <p>Based on the requirements in the WSDOT ROW manual, the appropriate method to value the subject is to consider its value enhancement to the adjoining property to the west which is owned by the Port of Seattle, the potential acquirer of the subject. This method is essentially a reverse Before and After appraisal. The difference between the value of both assembled parcels (After) and the value of the abutting Port of Seattle property's standalone value (Before) is market value for the subject.</p>
Scope	Comprehensive appraisal with sales comparison approach
Intended User/Use of Appraisal	The intended use of this appraisal is to assist Port of Seattle to support setting a purchase price for potential acquisition of the subject. This report may not be suitable for other uses.
Property Rights Appraised	Fee Simple Estate
Extraordinary Assumption	It is an extraordinary assumption that the information provided by the client particularly information regarding property area, boundary line delineation and potential wetland areas is reasonably accurate and as described in this report. The use of this extraordinary assumption may

have affected the results of this report.

**Hypothetical
Condition**

None

Highest & Best Use

As Vacant
Industrial use

Value Conclusion

	As Is on August 10, 2018
After Value	\$11,600,000
Before Value	\$8,700,000
Difference /Subject Value	\$2,900,000

Date of Report

March 8, 2019

**Date of Last
Inspection**

August 10, 2018

**Effective Dated of
Appraisal**

August 10, 2018

Exposure Time

Three to six months



Aerial Photograph of Subject (North at Top)

Subject Photographs

Looking west along S. 216th
Street with the subject on the
subject



Looking north from S. 216th
Street at the subject



Looking north along trail
leading northward through the
subject



Subject Photographs

Looking northward along trail



Wooded area in central part of subject looking roughly eastward



Wooded area in central part of subject looking roughly westward



Subject Photographs

In central part of the subject
looking westward along a
primitive pathway



Trail in northern part of the
subject leading toward S. 212th
Street/15th Avenue S.



Stairway leading to trail in
northwestern part of the subject
at S. 212th Street



Introduction

Introduction

Identity of Property The subject is a 623,734 sq ft or 14.32-acre vacant land parcel located in Des Moines.

ADDRESS XXX S. 216th Street
Des Moines, WA 98198

ASSESSOR'S TAX PARCEL NUMBER The subject does not appear to be associated with a King County tax parcel number. The parcel numbers corresponding to the Port of Seattle property are 092204-9042 and 092204-9303.

LEGAL DESCRIPTION The legal description for the subject provided by the client is as follows:

Beginning at a point opposite Highway Engineer's Station (hereinafter referred to as HES) 23+00 on the s 216th line survey of SR 509, SR 516 to Des Moines Way South and 60 feet Northerly, therefrom; thence Northeasterly to a point opposite HES 766+00 on the SR 509 line survey of said Highway and 220 feet Northwesterly therefrom; thence Northeasterly to a point opposite HES 772+05 on said line survey and 178.39 feet Westerly therefrom; thence Westerly, a distance of 75 feet to a point opposite said HES; thence Northerly 80 feet, more or less, to a point opposite HES 10+28.42 on the F6 line survey of said Highway and 85.26 feet Westerly therefrom, said point being on the Northerly line of the South half of the Northwest quarter of the Southwest quarter of the Northwest quarter of Section 9, Township 22 North, Range 4 East, W.M.; thence Easterly along said Northerly line to a point opposite HES F6 10+27.45 on said F6 line survey and 30 feet westerly therefrom; thence Northerly to a point opposite HES F6 12+91.08 on said F6 line survey and 25.45 feet Westerly therefrom; thence Northwesterly to a point opposite HES F6 14+13.05 P.T. on said line survey and 30 feet Southerly therefrom; thence Westerly parallel with said line survey to an intersection with the West line of said Section 9; thence northerly, along said West line 30 feet, more or less, to HES F6 19+84.89 A.P. on said line survey; thence Westerly along said line survey to HES F6 22+04.83; thence Northeasterly, to a point opposite HES F6 21+30 on said line survey and 50 feet Northerly therefrom; thence Easterly, parallel with said F6 line survey to a point opposite H.E.S. 777+00 on said SR 509 line survey and 155.03 feet Westerly therefrom; thence Southerly parallel with said Line Survey, to a point on the North line of the North 30 feet of the North half of the North half of the Northeast quarter of the Southwest quarter of the Northwest quarter of said section 9; thence easterly, along said north line to an intersection with the Easterly margin of said Highway, as described in Warranty Deed dated March 8, 1971, recorded May 6, 1971 under Recording No. 7105060274, said point being 110± feet easterly when measured at right angles or radially from said SR 509,

line survey; thence Southerly to a point opposite HES 775+00 on said line survey and 110.85 feet Easterly therefrom; thence Southeasterly to a point opposite HES 773+00 on said line survey and 175 feet easterly therefrom; thence Southerly to a point opposite HES 766+00 on said line survey and 295 feet Easterly therefrom; thence southeasterly to a point opposite HES 30+22.76 on the s 216th line survey of said Highway and 60 feet Northerly therefrom; thence Westerly parallel with said line survey to the point of beginning.

Containing 623,734 square feet or 14.32 Acres, more or less.

The adjoining Port of Seattle properties have the following abbreviated legal descriptions:

Tax parcel 0922049303

S 170 FT OF E 130 FT OF N HALF NW QTR SW QTR NW QTR STR
09-22-04 LESS E 15 FT THOF FOR ROAD (18TH AVE S)

Tax parcel 092204-9042

POR SW 1/4 - NW 1/4 LY WLY & NLY SR 509 LESS S 170 FT OF E 130
FT OF N 1/2 - NW 1/2 - SW 1/4 - NW 1/4 LESS E 15 FT FOR RD LESS
POR FOR RD PER REC #'S 7204250337 & 7201070230 & 7210300307
& 308 LESS POR FOR RD PER SCC #'S 767788 & 753046

Ownership History

The subject is currently owned by the Washington State Department of Transportation. The owner is contemplating selling the subject to the Port of Seattle. This appraisal will assist the Port of Seattle in determining an offer/sale price.

Extraordinary Assumption

It is an extraordinary assumption that the information provided by the client particularly information regarding property area, boundary line delineation and potential wetland areas is reasonably accurate and as described in this report. The use of this extraordinary assumption may have affected the results of this report.

Property Rights Appraised

This is an appraisal of the fee simple estate. The definition of “fee simple estate” is as follows:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

Source: [The Dictionary of Real Estate Appraisal](#), Sixth Edition. Chicago: Appraisal Institute, 2015.

Purpose of Appraisal The purpose of this appraisal is to estimate the market value of the subject property. The term “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 the buyer under conditions whereby:

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- e. 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: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [g].

Scope of Appraisal This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP). In addition, our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute as well as the WSDOT ROW manual. Based on the requirements in the WSDOT ROW manual, the appropriate method to value the subject is to consider its value enhancement to the adjoining property to the west which is owned by the Port of Seattle, the potential acquirer of the subject. This method is essentially a reverse Before and After appraisal. The difference between the value of both assembled parcels (After) and the value of the abutting Port of Seattle property’s standalone value (Before) is market value for the subject.

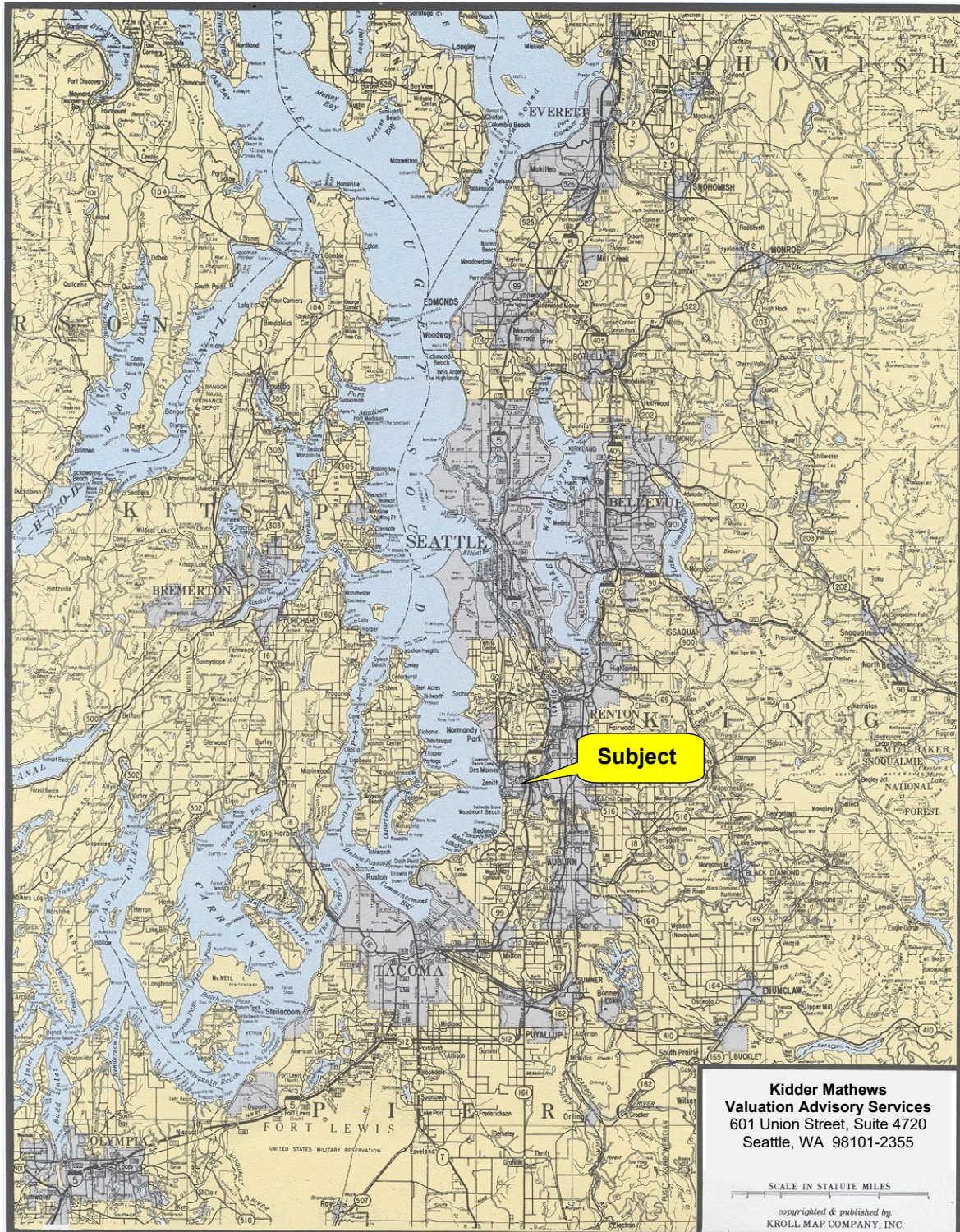
It is presented as a comprehensive appraisal report. In this report, the sales comparison approach is used as it is the primary method used to estimate land value. The cost and income approaches are not utilized as there are no significant improvements and land properties like the subject are not typically valued on an income basis.

- The subject was inspected on August 10, 2018.

- The research included both general and specific data. Sources of general data included in the market trends and neighborhood description are obtained from various sources that include Kidder Mathews field investigation, as well as information from various organizations and governmental resources.
- Specific data concerning the subject were obtained from various sources, including King County (assessed values and real estate taxes), the City of Des Moines (zoning) and the owner (survey, legal description, wetland information).
- In the sales comparison approach, sales were researched of similar land value properties in the surrounding areas. All the sales data were confirmed with a party involved in the transaction and/or through private sources or public records.

Intended User/Use of Appraisal	The intended use of this appraisal is to assist Port of Seattle to support setting a purchase price for potential acquisition of the subject. This report may not be suitable for other uses.
Date of Report	March 8, 2019
Date of Last Inspection	August 10, 2018
Effective Dated of Appraisal	August 10, 2018

Market Overview



Regional Map

Regional Overview

Introduction

The subject is located in the Puget Sound region of western Washington. The core of the market is comprised of King, Snohomish, and Pierce counties. Thurston is at the south end and Kitsap is on the west side.

National Overview

The national recovery has now lasted eight years with job growth continuing with only minor pauses during the past two quarters. The gain outside of base wage jobs that started in 2015 has slowed but is still trending upward. 2017 ended with 2.09 million new jobs, an increase of 1.4%. This follows 2.69 million in 2016 and 2.89 million in 2015. The forecast for 2018 is a further increase by 1.4% for 2018, and 1.1% for 2019. Unemployment was 4.1% in March 2018, 40 basis points (bps) down from March 2017. The unemployment rate has held steady at 4.1% over the past six months.

The GDP growth rate for 2017 was 2.3%, up from 1.5% in 2016. Improvement to 2.8% is expected in 2018 and 2.4% for 2019. The change reflects downturns in private inventory investment, non-residential fixed investment, personal consumption, and in state and local government spending. These were partially offset by higher federal government spending and exports.

Inflation was up to 2.1% in 2017 compared to 1.3% in 2016 following 0.1% in 2015 and 1.6% in 2014. The forecast is 2.1% for 2018 as well as in 2019.

Regional and National Economic Indicators											Forecast	
	Annual Change	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Puget Sound Region												
Employment	-4.9%	-1.7%	1.6%	2.3%	2.8%	2.8%	3.0%	3.2%	2.9%	2.3%	1.4%	
Personal Income	-1.6%	2.5%	6.1%	4.9%	2.6%	6.2%	4.4%	4.7%	4.3%	4.5%	5.2%	
Consumer Price Index	0.6%	0.3%	2.6%	2.5%	1.3%	1.8%	1.4%	2.2%	3.0%	2.4%	2.3%	
Housing Permits	-50.1%	31.5%	11.9%	51.8%	8.9%	16.9%	22.5%	-4.4%	9.4%	-17.2%	-1.4%	
Population	1.5%	1.0%	1.0%	1.3%	1.4%	1.4%	1.7%	1.7%	1.5%	1.4%	1.2%	
United States												
Employment	-4.4%	-0.7%	1.2%	1.7%	1.7%	1.9%	2.1%	1.8%	1.5%	1.4%	1.1%	
Personal Income	-1.7%	3.7%	5.1%	4.2%	2.0%	4.4%	4.4%	2.4%	3.1%	4.5%	4.6%	
Consumer Price Index	-0.3%	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.1%	2.1%	
Housing Starts	-38.4%	5.6%	4.5%	28.0%	18.7%	7.8%	10.7%	6.1%	2.7%	5.2%	4.7%	

Source: The Puget Sound Economic Forecaster, March 2018

Income and sales tax revenues continue a path of sporadic increases, providing limited economic lift. Home sales continue to be strong, although

new homes were restricted somewhat by low inventory throughout 2017, a trend that has continued into 2018. Prices continue to move up, especially in the top markets. Consumer confidence as measured by the Thomas Reuters/University of Michigan Index of Consumer Sentiment edged upward from 95.7 in January 2018 to 101.4 in March 2018. On average, the index was higher in 2017 than any time since 2000. There is good probability that the US economy will experience some downturn over the next five years as the current expansion would be the longest in the past 150 years if the economy continues expanding over the next two years. Prospects for renewed spending gains will depend on continued growth in jobs and wages, low inflation, and low interest rates. The small increases in interest rates in December 2017 had minimal impact on spending and, combined with a mild slowdown in job creation, kept unemployment rates lower. These changes are all anticipated to be small over the next year. Real personal consumption increased by 3.0% in 2017 but is down 0.2% through February 2018. The Measure of CEO Confidence, which bounced back in the 4th quarter made further gains in the 1st quarter of 2018. The measure now reads 65 up from 63 in the 4th quarter 2017. A reading of more than 50 points reflects more positive than negative responses. In other positive news, the help wanted online listings increased by 102,100 in March 2018. This continued an upward trend that started in 2015. In April, the head of the Federal Reserve announced that they will likely increase interest rates at least three times in 2018, which could affect projected employment and production growths.

Regional Overview

The Puget Sound region continues to be one of the best performing areas of the nation. Employment growth was nearly double (93%) the national average in 2017 following 79% higher in 2016, 38% in 2015 and 47% in 2014 and 65% in 2013. Since the depth of the recession in early 2010, the region has added 295,600 new jobs through the end of 2017. Year over year (February 2017-February 2018) has gained 69,180 jobs. A positive trend over the past year was an expansion of the job growth out from the core companies, specifically Amazon and other tech firms. The growth has also been strong in the lower wage categories, even with the recent increases in the State and Seattle minimum wages. The retail category has done well as retail sales have improved for 27 quarters year over year. Employment growth was 2.8% in 2014 and 3.0% in 2015, 3.2% in 2016 and 2.8% in 2017. Recent forecasts were revised upward to 2.3% in 2018 and 1.4% in 2019. The prospect of Amazon creating a second and equal headquarters potentially slows their growth in the Puget Sound market in coming years. Regardless, the employment growth is anticipated to continue.

With the strong employment growth and geographic constraints, the region is in demand for national and international investors. Apartments remain at a plateau at the peak of the cycle as prices continue to increase even as a large number of new units were delivered to the market and rent growth has started to moderate. Most of the office-based employment growth has occurred in the Seattle and Bellevue CBDs in King County, and these two markets have seen the bulk of new development. Industrial real estate has strong occupancy and high prices with institutions looking for traditional warehouse product and owner users dominating close-in Seattle markets. The retail market is strong in core trade areas. Daily needs retail—food and drugs—is the strongest sector. New home inventories are low and infill construction is active.

Population

During the past 40 years, the population of Washington has grown by an average of approximately 20% per decade, according to the Puget Sound Regional Council (PSRC). The five counties that comprise the Central Puget Sound Region and account for 59% of Washington's 2017 population (7,310,300) experienced a population increase of 13.7% during the previous decade. The region's growth rate was 2.0% in 2017, 2.2% in 2016, and 1.6% in 2015, with in-migration fueled by job growth. A minor slowing was anticipated in 2017 to 1.5% (OFM data shows growth of 2.0%, June 2016-June 2017), then to 1.3% in 2018.

Employment

Regional employment is at an all-time high, well above the previous high in 2009. The recovery began in 2011. Year over year region wide employment growth was a robust 3.1%; 4.0% in King, 4.0% in Snohomish, 1.4% in Kitsap, 1.3% in Thurston, and 0.9% in Pierce.

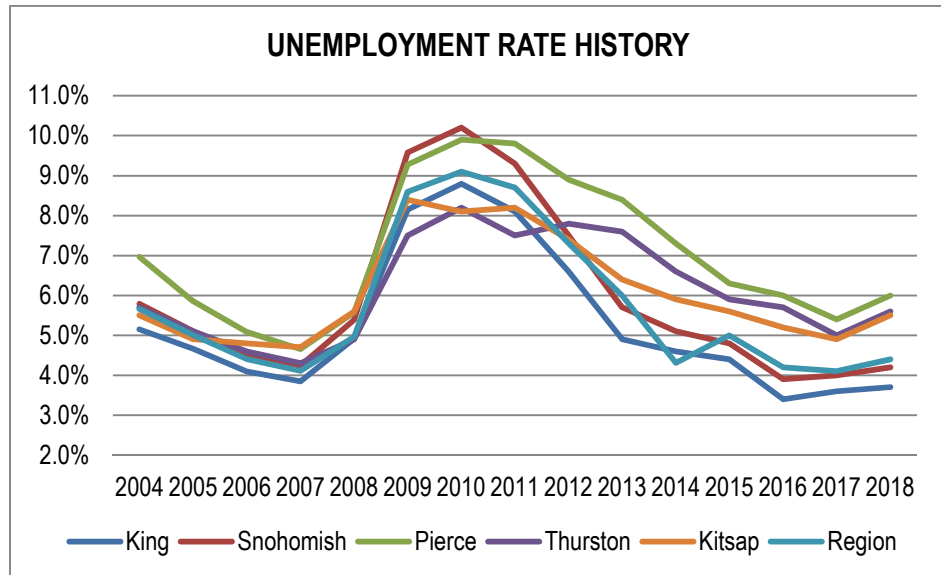
Non-Farm Employment

County	Feb-17		Feb-18	
	Jobs	Unemp.	Jobs	Unemp.
King	1,178,941	3.6%	1,225,543	3.7%
Snohomish	401,757	4.1%	417,729	4.2%
Pierce	390,988	5.9%	394,324	6.0%
Thurston	126,726	5.6%	128,423	5.6%
Kitsap	113,450	5.4%	115,023	5.5%
Region	2,211,862	4.3%	2,281,042	4.4%

Source: Washington State Employment Security Department

In the individual projections, King and Snohomish showed the fastest recovery. Pierce and Thurston took more time with the cutback of government jobs kicking the rate back up in 2012. In January, State Farm

announced they will be leaving Tacoma by the end of 2018. 1,400 jobs will be lost, although 800 of these are relocating to DuPont, so overall, a net loss of 600 jobs in the County.



Source: Washington State Employment Security Department

The unemployment rate has leveled off but remains at historic low levels that continue to decline, moderated slightly by the return to the labor force of those persons uncouncted (unemployed but not actively seeking employment) and under-employed, both of whom are not reflected in the current calculation.

Amazon has been the biggest single contributor to employment growth. The company's employment in the state is about 40,000, with more than 25,000 in Seattle. Amazon shows no signs of slowing anytime soon. The company's confidence in that was underlined by the completion of two 1.1 million sq ft office buildings for its own use, and the starting of a third, along with addition leases announced for over for 0.65 million sq ft in other Seattle projects. As mentioned above, Amazon is currently searching for a second headquarters location. Selection of the location is currently in progress. Amazon current speculates that both headquarter sites will have about 50,000 employees. Microsoft had more local employees at 47,113 as of June 2017 but the growth rate is much lower. The second headquarters will likely cap Amazon's local growth. Significant expansions are being made by Facebook, Tableau, Zillow, Apple, and Google.

The region's largest employer remains Boeing with a total of 65,829 in Washington as of the beginning of January 2018, down nearly 5,300 jobs in 2017. Almost all of those employees are in King, Snohomish, and

Pierce counties. Boeing employment was 6.3% of the region in 1997 and this has declined to 3.0% as of December 2017. There is less hope of future growth as Boeing continues to diversify in other states.

Economic Indicators

The finance, insurance, and real estate (FIRE) and construction sectors have recovered as commercial and residential construction continues to expand. Manufacturing losses were led by those Boeing jobs, with a myriad of smaller companies cutting back by smaller amounts. Many of those Boeing jobs have now been lost. Retail job gains follow the increases in retail sales volume. Sales growth continues its fifth plus year of increases with a robust gain in 2016. Growth was strongest in 2014, tapering slightly in 2015 and again in 2016. Retail sales through the first nine months of 2017 are up 6.1%.

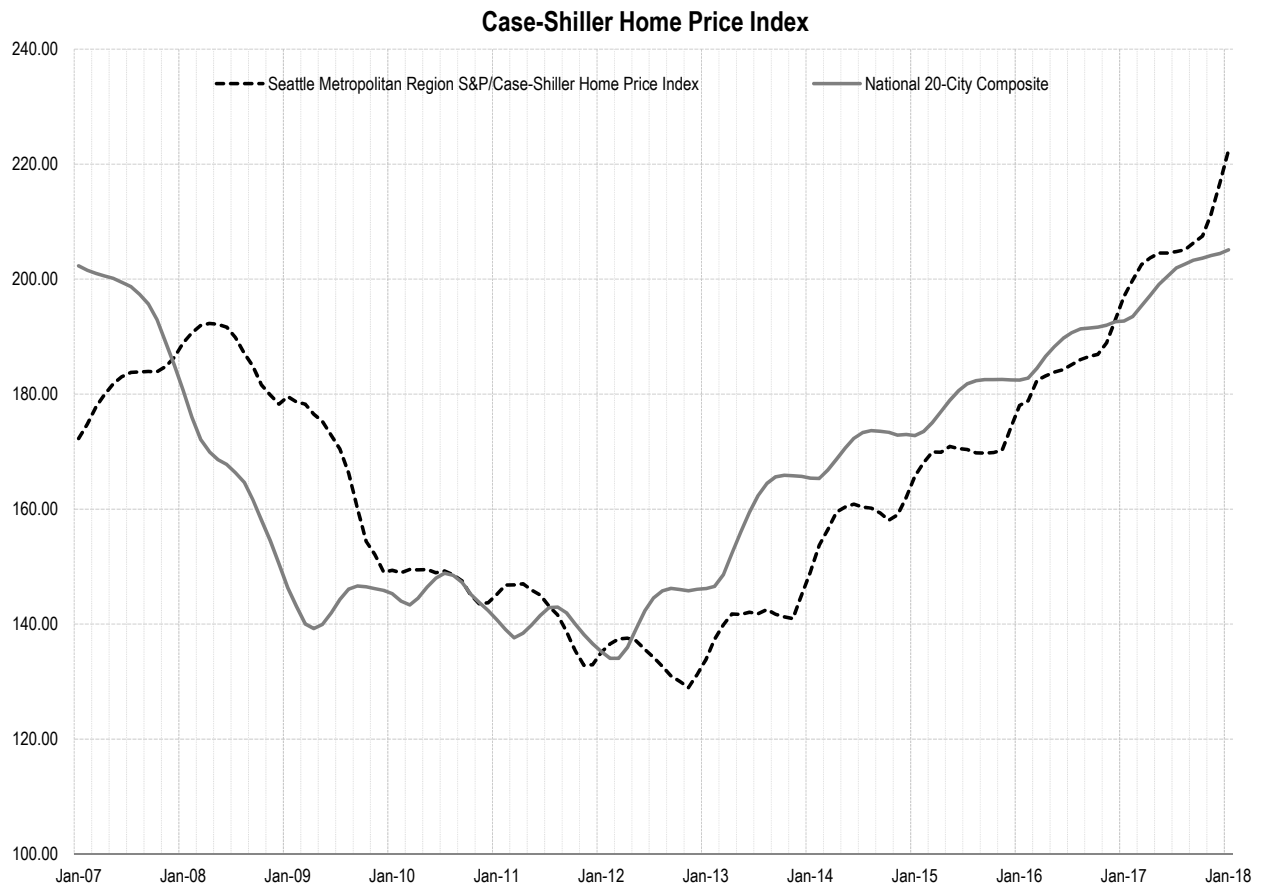
Washington State Retail Sales (\$,000)							
	2017	2016	2015	2014	2013	2012	2011
4Q		38,412,020	35,933,056	33,372,252	31,172,889	29,435,885	27,890,822
3Q	41,310,158	38,497,518	35,845,087	33,249,625	28,788,875	28,766,782	27,293,863
2Q	38,657,150	36,795,596	33,883,425	30,973,320	28,998,096	26,803,035	25,613,078
1Q	34,215,275	32,364,927	29,712,715	27,248,916	25,985,522	24,028,170	22,943,062
Total	114,182,583	146,070,061	135,374,283	124,844,113	114,945,382	109,033,872	103,740,825

Source: Washington State Department of Revenue

Personal income increased an average of 4.7% between 2010 and 2016, spiking at 6.2% in 2014 and dropping to 4.4% in 2015, but increasing to 4.7% in 2016 and 4.3% in 2017. The forecast for 2018 is to be slightly higher at 4.5% and 5.2% in 2019. These gains are amplified by low inflation, which averaged 1.9% over the past five years. The CPI did increase 3.0% in 2017 and is expected to increase to 2.4% in 2018 and 2.3% 2019.

Regional Housing Market

The housing market has shown varying levels of recovery, based on location and price point. Sales started to recover in 2012 with a 20% increase in King and Snohomish Counties. Pierce County remained soft, increasing only 3.5%, reflecting a lack of job growth. Values also first started to recover in 2012. These trends have continued through 2017. Median prices in King County increased by 14.4% over 2016, with new home sales up 7.1%. Snohomish was up 13.0% (also up 8.6% in new home sales) and Pierce gained momentum, up 11.6% (up 20.8% in new home sales). Smaller increases were experienced in Kitsap and Thurston counties. Sales volume in December 2017 totaled \$3.34 billion, up 15.2% from one year ago. Sales volume in March 2018 was \$3.38 billion up 9% from one year ago. This growth is across the board, felt in all five counties.



Standard & Poor's Case-Shiller Index improved for each month since May 2012 except for some minor seasonal dips during the 3rd quarters of select years. Improvement was 11.8% in 2013, 8.5% in 2014, 7.9% in 2015, 10.9% in 2016, and 12.7% in 2017. Prices surpassed the peak reached in July 2007 in March 2016. As of January 2018, the Seattle index was 234.19, up 12.9% over the past 12 months and now 20.4% above the 2007 peak. The national prices are also increasing but are still down 0.2% from their peak, but still up 6.4% over the past 12 months. Improvement has been stronger in Seattle's close-in neighborhoods and on the Eastside around Bellevue. In those markets, inventory levels are very low, creating over-bids in popular neighborhoods.

Housing-permit activity increased by 16.9% in 2014 and 24.4% in 2015. This reversed in 2016 with a 4.4% decrease in permits but increased 9.4% in 2017. That trend is expected to drop 17.2% in 2018 and -1.4% in 2019 as single-family and multi-family permits are expected to drop with all of the projects already in the pipeline and the expected slowdown in employment growth.

Commercial Real Estate Markets

The region ranks in the top five national investment markets. Class A core apartments, office, retail, and industrial properties are all still on the institutional buyers' list with strong demand and pricing. Apartments have been at the top of the cycle for several quarters now. The other categories are still ascending. Vacancy rates in the region are as follows:

Regional Vacancy Rates-1Q 2018

Segment	Seattle	King	Pierce	Snohomish	Kitsap	Thurston
Office	7.1%	7.2%	6.4%	7.2%	7.6%	6.5%
Industrial	1.6%	3.4%	2.7%	4.5%	1.0%	3.3%
Apartment	6.8%	6.1%	4.4%	4.8%	4.7%	4.6%
Retail	1.9%	3.4%	5.4%	5.1%	6.8%	4.5%

Source: CoStar

Even though rent growth in the apartment market has started to moderate, prices continue to increase as cap rates remain very low, tied to low interest rates and the low perceived risk. This will be tested as new construction deliveries peak in 2018 in both the apartment and office categories. The apartment market continues to expand with nearly 19,000 units under construction in the region. The bulk of those are in larger projects in the area around the Seattle CBD, but development has begun to increase in the suburban markets as well.

The office market has seen most demand in the core markets like Seattle and Bellevue CBDs. Amazon is building for itself and remains one of the top lessees as well. Developers are building space for Facebook, Google, and Tableau.

Industrial leasing is strong but saw a slight slowdown in the 1st quarter of 2018. Rents continue to increase. Retail has shown improvement, with vacancy down and rental rates moving up in stable and strong trade areas. Both industrial and retail markets have been boosted by increased retail sales.

The lodging market saw improvement, reflecting the tourist draw of the region and strong conference business. However, occupancy rates are beginning to decline slowly in areas with rapid hotel development. Long term, each sector's expansion is limited by available land, a major reason that investors rank the region so highly.

Investors have begun to back off on some pricing parameters with fewer rent spikes and increased terminal capitalization rates as eventual interest

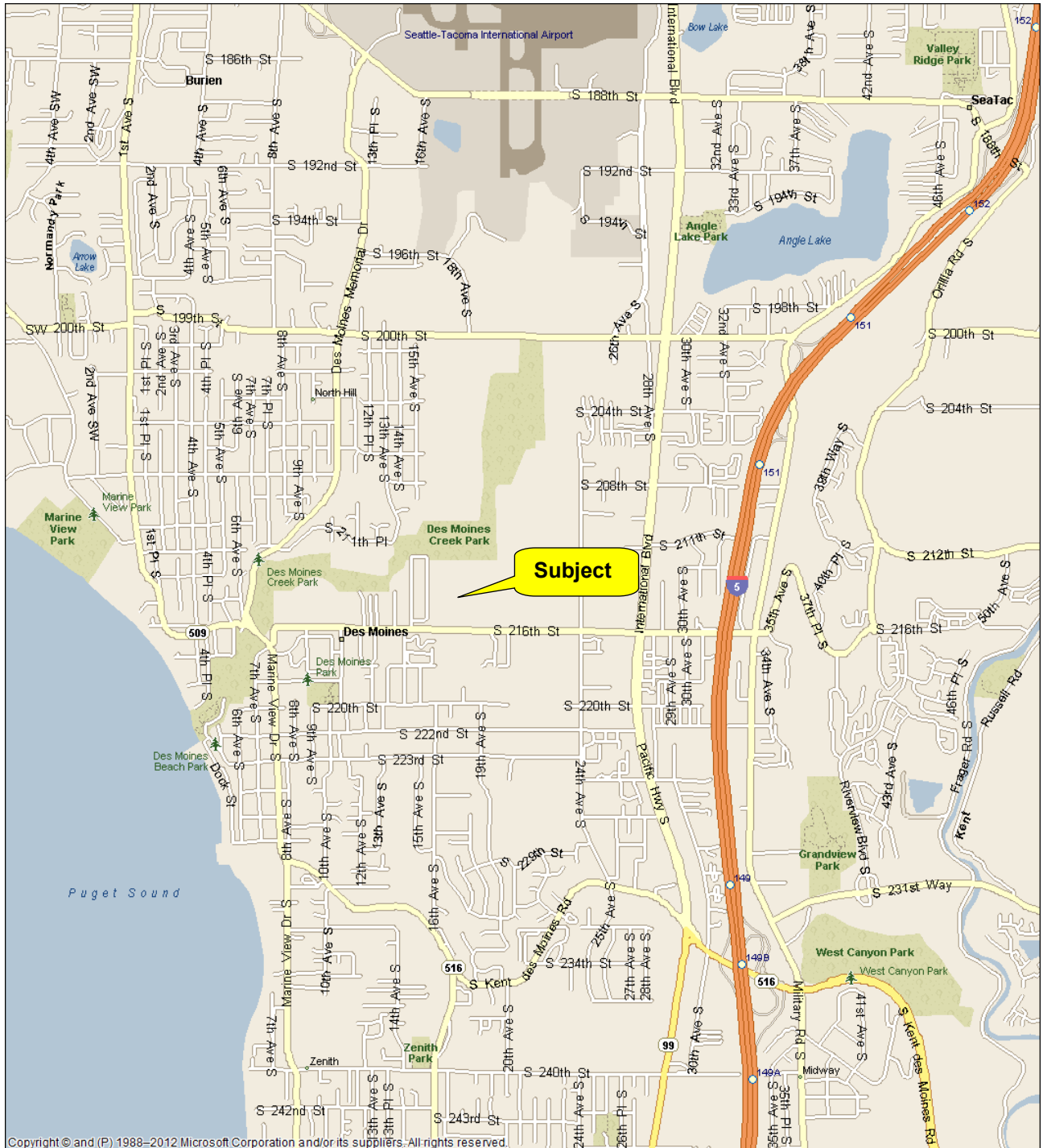
rate growth is acknowledged. That factor will likely have an effect on going-in rates at the next increase as the previous one was absorbed via lower equity return. Many investors do not plan to repeat that adjustment.

Area Market Summary

The long-term outlook for the region continues to be better than most markets nationwide. The recovery has been strong for five years. Job growth in 2017 was 2.9% following the 3.2% growth in 2016. Both of these were better than expected. The forecast for 2018 and 2019, but expected growth is to be lower. Retail sales have increased between 7.9% and 8.6% per year between 2014 and 2016. Through the first nine months of 2017, retail sales are up 6.1%. The region is expected to outperform most of the nation, based on the diversified core of the economy anchored by Microsoft, Amazon, and Boeing as specific examples. Even though Microsoft and Boeing shed jobs in 2014 and 2015 (and Boeing again in 2016 and 2017), those losses were covered by the growth of Amazon and other tech companies. The impact of Amazon's second headquarters on the regional economy remains to be seen, but it is sure to moderate growth.

Most of the local real estate markets are in some level of ascendance, or extended peak-plateau. Apartments are perched at a plateau. Pending supply is a major concern and there are some initial signs of vacancy increase and growing use of concessions. Still there are limited signs of descent near-term. Investment activity continues to increase primarily in the best quality properties in all categories by institutional investors. Sales have increased in the value-add sector of the office, apartment, and retail markets as the returns available on Class A properties are squeezed by high demand.

Slowing job growth in 2018 will test the apartment market since a large number of units are scheduled for completion in 2018 to 2019. This should have less effect on the office and retail categories where demand for space tends to lag job growth by a few quarters. The real estate markets in the region have solid fundamentals due to the broad-based economy.



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Neighborhood Map

Neighborhood Description

Introduction

The subject is located in the city of Des Moines in southwest King County. The city is about 13 miles south of Seattle, 10 miles north of Tacoma, and 1.5 miles southeast of Seattle Tacoma International Airport. The city is located on the shores of the Puget Sound and includes six miles of shoreline and an active marina. The strategic placement between the region's two strongest ports has led to this being one of the more convenient bedroom communities in the region. Residents have relatively short commutes to either CBD and very easy access to the industrial Kent Valley.

Neighborhood Character

The immediate neighborhood consists primarily of retail, professional services, residential and industrial uses. Commercial uses are located along primary arterials particularly SR 99 known alternatively as International Boulevard and Pacific Highway S. Single family uses are located off of arterials.

The older downtown core of Des Moines is located to the west along the shore of Puget Sound. It comprises older storefronts and retail strips that include a mix of retail uses including restaurants, flower shops, hair and nail salons, an older single screen movie theater, and clothing shops. There is a mix of older office spaces and newer office buildings and fuel service stations located along this street as well. Almost all of the tenants are local businesses often owned by city residents.

The subject is west of a significant new industrial development known as Des Moines Creek Business Park which is being constructed by Panattoni. This an 87-acre business park with about 2 million square feet with distribution warehouse uses as well as offices for the FAA. This project is significant and has greatly increased the stock of newer industrial buildings in the immediate area.

To the west of the subject are primarily single-family residential neighborhoods.

Access

Des Moines has good regional access, with proximity to I-5 and Pacific Highway South (SR 99), which serves as a primary arterial on the eastern border of the city on which many retail services are located. The subject is located along International Boulevard (SR-99) the principle north-south arterial through the eastern portion of the city.

Demographics Seattle and surrounding areas continue to grow reflecting the relatively good economic conditions and high quality of life of the region that stimulate native growth and continued in-migration. Population growth within the three- and five-mile rings are below the county and state. Income levels and home values within the subject's immediate area, as seen in the one- and three-mile ring are below the county and state, reflecting a significant working class component.

Summary of Demographics

Demographics	Radius From Subject			City	County	State
	1-Mile	3-Mile	5-Mile			
2010 Population by Census	14,516	72,794	180,580	29,673	1,931,249	6,724,540
2018 Population Estimate	16,247	79,666	198,881	32,264	2,199,247	7,452,102
2023 Population Projection	17,477	84,393	210,949	34,096	2,375,574	7,950,929
Average Annual Growth Rate ('10-'18)	1.9%	1.5%	1.6%	1.4%	2.2%	1.7%
Projected Annual Growth Rate ('18-'23)	1.5%	1.2%	1.2%	1.1%	1.6%	1.3%
Current Estimates 2018						
Number of Households	5,657	30,496	74,470	12,466	789,232	2,620,076
Number of Housing Units	6,245	32,937	79,696	13,541	949,319	3,142,423
% Owner Occupied	37.4%	49.5%	48.1%	55.0%	53.2%	57.5%
% Tenant Occupied	53.2%	43.1%	45.3%	37.1%	40.7%	34.0%
% Vacant	9.4%	7.4%	6.6%	7.9%	6.2%	8.5%
Average Household Size	2.71	2.57	2.63	2.55	2.42	2.54
Median Age	33.3	37.4	36.8	40.4	38.3	38.4
Median Household Income	\$51,840	\$59,751	\$60,923	\$68,902	\$84,072	\$68,734
Per Capita Income	\$25,222	\$31,045	\$31,184	\$34,784	\$47,839	\$36,796

Source: STDB, August 2018

The demographic is generally less affluent than the broader region. Home ownership rates are also lower than the broader region.

Major areas of employment in Des Moines include manufacturing (13.4%) retail (9.2%), transportation/warehousing (9.9%) and health care (11.7%). This is a more blue-collar demographic and reflects a location close to Boeing facilities, Southcenter Mall and SeaTac airport.

Highline Community College Highline Community College was founded in 1961 and is the first community college in King County, Washington. The main campus is located on 80 acres. As of 2015, there were approximately 17,000 students and 350,000 alumni of the college.

Summary The subject is located along an arterial in the city of Des Moines west of SR 99. The immediate neighborhood consists primarily of retail, professional services, multi-family residential and some industrial uses.

Commercial uses are located along primary arterials particularly SR 99 known alternatively as International Boulevard and Pacific Highway S. Single family uses are located off of arterials and primarily to the west. Demographics are somewhat below average, but the central location between Seattle and Tacoma is appealing to both businesses and residents.

Industrial Market Overview

Introduction

The subject is a vacant site with the most likely use as an industrial property. An overview of the region's industrial market is presented first followed by a discussion of the subject's sub-market focusing first on industrial trends followed by a brief discussion of the flex market.

Regional Overview

The Puget Sound region's industrial market saw an increased level of activity from the construction and leasing sides. Construction volume increased to 7,004,711 sq ft now under development (38 buildings) compared to 6.1 million sq ft (24 buildings) last quarter. The second quarter also saw delivery of 1.36 million sq ft of new product with the overall market supply standing at nearly 333 million sq ft. After a slow first quarter, net absorption totaled nearly 1.2 million sq ft this quarter, keeping close pace with deliveries. The region's vacancy rate held steady at 3.3%. During the quarter there were over 1.1 million sq ft of leases signed, but most of these will not be moving into their new spaces until the third or fourth quarters, so we expect the vacancy to continue to approach 3%. With 7.1 million sq ft under construction and another 14.4 million sq ft in the pipeline, the region is poised for additional growth assuming our economy continues to expand. The bulk of these proposed projects are in Pierce, Snohomish, and Thurston Counties. While the consensus is that at some point the market will likely hit some dips, the immediate outlook is still positive.

For starters, port activity is doing well. The Northwest Seaport Alliance reports the May 2018 imports reached their highest level since 2010 at 131,067 TEUs (20-foot equivalent units), an increase of 0.7% over last May. At 114,227 TEUs, export volumes were down 11.2%, but above the five-year average. Breakbulk cargo volume grew 34.8%, year to date, while auto volume continues to be down, currently at 15% year-to-date.

The region's employment also continues to perform well. Year over year growth (May 2017 to May 2018) grew by 3.0% (nearly 64,000 jobs). The key sectors that have an impact on the industrial market include Construction (+3,900 jobs), Transportation & Warehousing (+600 jobs) and Wholesale Trade (+1,600 jobs). Manufacturing, which has been showing declines in employment, actually was on the positive side at +1,500 jobs over the past 12 months. Looking ahead, The Puget Sound Economic Forecaster's 2nd quarter 2018 report projects employment growth of 2.4% in 2018 and 1.0% in 2019. The latest growth projections of 2018 are slightly above their prior projected growth of 2.3%, while the

2019 projection is below the prior estimated growth of 1.4%. Wholesale and retail trade are expected to grow by 8,400 jobs followed by Construction at 1,700 jobs and Transportation at 2,200 jobs. Manufacturing is expected to lose another 2,700 jobs, primarily in Aerospace.

Looking at key employers, while Boeing has been trimming jobs, they are planning to boost monthly production of the 737 and 787 jets in 2019 and the 767 in 2020. The biggest backlog on jet orders is the 737 at 4,656 jets. Microsoft is planning to expand their existing campus in Redmond with 18 new buildings over the next five to seven years, remodel several others, and demolish some. The end result is potentially adding 8,000 more workers. Amazon continues to hire in Seattle despite the recent drama of the approval, then repeal of the Seattle head tax. Nationally, the trade tariffs by the Trump administration and the potential impacts on our local economy will need to be watched as that is played out over the next several months.

Regional Industrial Inventory- 2nd Qtr 2018

Sub-Market	Size (Sq ft)	% of Market	New Construction
Seattle Close-In	58,222,992	17.5%	661,075
South King County	111,377,876	33.5%	1,978,352
East King County	21,756,297	6.5%	65,000
Snohomish	51,621,658	15.5%	446,863
Pierce County	76,818,329	23.1%	3,243,593
Thurston County	13,023,304	3.9%	609,828
Total	332,820,456	100.0%	7,004,711

Source: KM & CoStar

Regional Vacancy / Absorption / Rent Forecast

As noted above, absorption was positive at 1,196,710 sq ft for the 2nd quarter. Pierce County led the way (772,921 sq ft), followed by South King (360,955 sq ft) and Snohomish County (281,561 sq ft). A list of notable 2nd quarter leases is included in the Significant Transactions section.

A total of 1,355,847 sq ft was delivered in the 2nd quarter. In addition, some older buildings were removed from the total supply (approximately 67,000 sq ft). With positive net absorption of 1,196,710 sq ft, the region's vacancy held steady at 3.3%. There are several leases signed but the tenants have not yet moved in, which should continue to boost the market.

Rental rates over the past three months saw an increase in three of the six markets. Overall, for the region, the average asking rental rates continue to grow on a quarterly basis.

Regional Industrial Vacancy

Sub-Market	2013	2014	2015	2016	2017	1Q 2018	2Q 2018
Seattle Close-In	3.3%	2.1%	1.7%	2.0%	1.5%	1.6%	2.09%
South King County	5.9%	4.7%	4.1%	2.3%	3.4%	4.0%	3.66%
East King County	7.9%	6.6%	5.3%	2.7%	3.2%	3.2%	3.33%
Snohomish	8.3%	5.6%	5.7%	5.0%	4.7%	4.5%	4.30%
Pierce County	5.3%	6.2%	6.9%	5.9%	2.2%	2.7%	3.18%
Thurston County	8.1%	7.5%	5.7%	2.9%	3.0%	3.3%	2.01%
Total	5.9%	4.9%	4.7%	3.5%	3.0%	3.3%	3.29%

Source: KM & CoStar

Regional Industrial Absorption

Sub-Market	2013	2014	2015	2016	2017	2Q 2018	YTD 2018
Seattle Close-In	(107,094)	565,919	183,596	(402,455)	337,373	(322,746)	(381,764)
South King County	975,514	1,731,629	1,951,046	2,191,388	-90,309	360,955	(32,908)
East King County	(172,671)	118,399	329,707	706,020	-73,717	(62,960)	(68,226)
Snohomish	372,391	1,409,096	539,023	446,803	639,719	281,561	373,727
Pierce County	1,911,425	1,106,767	1,670,102	3,030,113	4,635,584	772,921	693,207
Thurston County	(39,591)	69,164	262,934	339,472	800,273	166,979	155,527
Total	2,939,974	5,000,974	4,936,408	6,311,341	6,248,923	1,196,710	739,563

Source: KM & CoStar

Submarket Review

Seattle Close-In Review

The Seattle Close-In market vacancy rose to 2.1% this quarter. The biggest challenge in this market is for tenants to find space and ultimately many end up looking south for opportunities. Absorption was a negative 322,746 sq ft for the quarter, but the outlook remains positive. Two projects are under construction, including Prologis Georgetown Crossroads (589,615 sq ft) targeted to be completed later this year. West Woodland Business Center (71,460 sq ft) recently broke ground. One notable sale this quarter was Village Investment Partners purchase of the Hathaway Building for \$12,250,000 (\$306/sq ft). Also, Seattle Goodwill Industries purchased the Brick Building for \$5,175,000 (\$187/sq ft).

The forecast for the Seattle Close-In market for the next six months is for lease rates to range from \$1.00 to \$1.80/sq ft/month, NNN for medium- and high-grade buildings. Overall, where rents are actually quoted, the average asking rent increased from \$1.06/sq ft to \$1.09/sq ft, blended. Demand for sale properties continues to remain high with a very limited

supply. Better quality buildings will sell between \$200 and \$300/sq ft. When available, depending on size and whether it is paved, graveled, and fenced, yard rates will vary from \$0.22 to \$0.25/sq ft going south to north.

South King County Review

After seeing a slight rise in vacancy last quarter, the South King submarket's vacancy rate dropped back down to 3.7% with positive net absorption of 360,955 sq ft. Notable recent leases include Talking Rain (95,533 sq ft) at North Valley 64, and Dealer Tire (84,251 sq ft) at Auburn Distribution Center. Development continues to be active, with Seattle Gateway Center 1 & 2 (458,490 sq ft combined), DCT Hudson Distribution Center (287,832 sq ft), Des Moines Creek Business Park Phase IV, Buildings A & B (514,121 sq ft), North Auburn Logistics (261,553 sq ft), and 234 Distribution Center (125,400 sq ft). All are approaching construction completion and experiencing significant leasing activity. Pacific Logistics North (163,894 sq ft) also just broke ground. There were no deliveries in the quarter, but nearly 1.8 million sq ft are on target to be completed this year. On the sales side, LBA Realty was active buying side, with the \$19.5 million purchase of 200 SW 34th Street in Renton (\$133/sq ft) and two smaller buildings at 720-790 Andover Park East (Tukwila) and the Allied Building (Kent) for a combined \$14.5 million or \$141/sq ft. We also note that Blackriver Corporate Park sold (\$28.8 million or \$121/sq ft), but that project is comprised primarily of office buildings with a few flex buildings. Laird Norton Properties was the buyer.

Average asking rents (blended) continue to climb, now at \$0.72/sq ft, \$0.02/sq ft higher than last quarter. Shell rates on newly constructed buildings are in the mid \$0.60s/sq ft with office add-on now \$1.00/sq ft. Older existing buildings are achieving rents in the lower to mid \$0.60s. Office add-on rates vary from \$0.75 to \$0.95, depending on age and quality of the build-out. Building sale prices are expected to range from \$115 to \$170/sq ft. Land values will range from \$25 to \$28/sq ft for fully improved sites, with the higher prices further north.

East King County Review

East King County had mix results this quarter. Total supply shrank due to some older buildings removed from the inventory (about 32,000 sq ft). Net absorption was a negative 62,960 sq ft for the quarter resulting in a slight increase in vacancy from 3.2% to 3.3%. The majority of leases signed are under 10,000 sq ft, which is typical for this predominantly flex

market. One project in Redmond (7310 185th Ave. NE) is underway and totals 65,000 sq ft. Delivery is expected before the end of this year. Kennedy-Wilson purchased Redmond East Business Campus, an 8-building office and flex development from The Blackstone Group for \$52.125 million (\$179/sq ft). Compact Information Systems purchased the Nexus Corporate Park in Snoqualmie for \$16 million or \$209/sq ft. Nexus Properties, Inc. out of San Diego was the seller.

The forecast is for NNN warehouse lease rates with high-bay warehouse manufacturing space to range between \$0.70 and \$1.00/sq ft/month, with most in the \$0.75 to \$0.95/sq ft range. In some markets such as Bellevue, the rate is pushing closer to \$0.95/sq ft and above. Office rates are in the \$1.40 to \$1.65/sq ft range. Flex space rents to range between \$1.00 and \$1.40/sq ft/month, NNN. Building sale prices are between \$175/sq ft to \$220/sq ft of building area for industrial (owner/users at the high end) and over \$200 to close to \$300/sq ft for flex properties. Land prices will run from \$15 to nearly \$40/sq ft for a premium site, although there is a limited amount of available land ready for development.

Snohomish County Review

Snohomish County continues to be very active on the industrial side. Seaway West Buildings A & B were delivered this quarter (186,977 sq ft). Net absorption totaled 281,561 sq ft, outpacing deliveries. End result is a drop in vacancy to 4.3%. On the development side, Dermody Development's LogistiCenter @ Woodinville, Buildings A & B (409,500 sq ft) broke ground earlier this year, while Leifer Industrial Park 2 (37,363 sq ft) is nearly done. Also, GS Venture Partners last quarter announced that their Gateway Business Park, a 54-acre development of the former Northwest Hardwoods and Weyerhaeuser log mill site in Arlington was nearly pad ready for a 300,000 sq ft industrial building and should start construction soon. Up to 1.0 million sq ft is planned. Harbour Point Tech Center in Mukilteo was acquired by a local investment group for \$25 million or \$76/sq ft. The Bauman Family Investment acquired two smaller properties in Monroe for \$4.4 million (\$110/sq ft) and \$3,925,000 (\$109/sq ft).

The forecast over the next six months is for warehouse lease rates to range between \$0.60 to \$0.70/sq ft/month, NNN in the closer-in submarkets and lower (\$0.50 to \$0.55/sq ft) in the outlying markets. Office rents are \$1.25 to \$1.35/sq ft for second generation space and \$1.35 to \$1.40/sq ft for new space. Building sale prices are predicted to range from \$140 to \$170/sq ft for buildings in the 5,000 to 20,000 sq ft

range; \$110 to \$150/sq ft for buildings in the 20,000 to 60,000 sq ft range. Flex space will be higher (over \$200/sq ft). There is a lack of larger buildings offered for sale in the market. Land values should range from \$5 to \$16/sq ft with an ample supply of industrial-zoned sites, particularly up north in Arlington and Marysville.

Pierce County Review

Pierce County's net absorption for the quarter was nearly 773,000 sq ft. However, with nearly 1.2 million sq ft in deliveries, vacancy rose from 2.7% to 3.2%. The County remains very active on the construction front with 11 projects totaling 3,243,593 sq ft or about 46% of the total for the region. Development hot spots include Port of Tacoma/Fife, Puyallup, Lakewood, and DuPont. The largest project completed this quarter was IPT Tacoma Logistics Buildings A & B (1,109,145 sq ft), with SBS Transportation leasing 444,428 sq ft in Building B. Another large tenant moving in this quarter was Tiger Logistics at Building D-Prologis Park Tacoma. Three notable sales this quarter include Fife I-5 Commerce Center for \$37,250,000 (\$149/sq ft). Blackrock is the buyer and The Carlyle Group the seller. Sumner West sold on a sale/leaseback for \$19,750,000 or \$160/sq ft by DCT Industrial Trust. In another sale/leaseback, Jesse Engineering Company sold their building at 1840 Marine View Drive for \$16.7 million (\$27.58/sq ft on the land area) to CenterPoint Properties.

Pierce County's forecast is for shell rates to range between \$0.55 to \$0.62/sq ft/month, NNN, plus add-on office rates of \$0.90 to \$1.00/sq ft/month. Industrial building sale prices will range from \$80/sq ft for older buildings to \$155 to \$165/sq ft for new or smaller buildings. Land values typically range between \$16/sq ft and \$18/sq ft.

Thurston County Review

Thurston County saw its vacancy rate drop to 2.0% from 3.3% with 166,979 sq ft in positive net absorption. Construction activity picked up this quarter with two projects at Hawks Prairie III Lots 10 and 19 (226,550 sq ft) and Meridian Campus Corporate Park (9045 Polaris) at 318,028 sq ft. Total construction volume stands at 609,828 sq ft. With an abundance of land, the County has a substantial amount available for development. Currently, there is about 5.0 million in the pipeline with a potential of about 1.8 million sq ft that could start before the end of 2018. Endangered gopher habitat issues continue to have an impact on development.

Shell rents are ranging between \$0.38 to \$0.40/sq ft on larger spaces and office add-on rates from \$0.75 to \$0.90/sq ft. Smaller spaces are \$0.45 up to \$0.55/sq ft on the shell with office add on at \$0.85 to \$0.90/sq ft. Building sales are expected to range from \$50 to \$100/sq ft. Land values range from \$4.00 to \$7.00/sq ft, with some smaller lots being offered at up to and over \$8.00/sq ft.

Investment Market

Sales activity through the first half of 2018 was active with 118 transactions totaling \$917.4 million. Cap rates are now in the 4% to 4.5% range. Notable sales over \$20 million that sold this quarter include Redmond East Business Campus (\$52.125 million or \$179/sq ft) to Kennedy-Wilson Properties. Fife I-5 Commerce Center (\$37.5 million or \$149/sq ft) to Black Rock (The Carlyle Group was the seller). Harbour Point Tech Center acquired by MRM Mt. Vernon LLC & GT Mukilteo LLC for \$25 million (\$76/sq ft). The seller was Prescott Realty Group; Sumner West at \$19,750,000 (\$160/sq ft) to DCT Industrial Trust on a sale/leaseback.

REGIONAL INDUSTRIAL SALES

Year	Sales	Total SF	Total \$ Volume	Avg Size SF	\$/SF	Avg Cap Rate
2018*	118	5,238,434	\$917,413,190	47,193	\$175.53	5.49%
2017	205	6,221,386	\$1,031,004,151	31,905	\$153.73	6.42%
2016	250	10,507,780	\$1,458,135,537	43,601	\$133.06	6.46%
2015	222	10,134,650	\$1,609,337,910	48,032	\$121.60	6.69%
2014	233	9,916,744	\$926,615,006	43,686	\$89.33	6.97%
2013	172	6,553,111	\$712,341,402	39,477	\$105.53	6.28%
2012	200	8,195,968	\$920,922,952	43,829	\$87.68	6.82%
2011	113	6,927,319	\$528,284,088	64,142	\$74.51	7.78%
2010	99	4,115,634	\$361,919,782	41,996	\$86.86	7.84%
2009	94	3,317,301	\$281,514,709	35,670	\$84.66	8.54%
2008	201	6,993,731	\$751,544,060	35,501	\$105.86	6.21%

Source: CoStar

* 2018 through June 23, 2018

Other Development News, Trends & Significant Transactions

Development News & Trends

Notable projects under construction include:

- Panattoni's Lakewood Tacoma Gateway (467,526 sq ft)-expected delivery-3rd quarter 2018
- IPT Sumner Distribution Center (229,016 sq ft)-expected delivery 3rd quarter 2018
- DCT Blair Logistics-Buildings A & B (542,750 sq ft and 428,228 sq ft)-expected delivery 3rd quarter (Building A) 4th quarter 2018 (Building B)
- Seattle Gateway Center 1 & 2 (325,290 sq ft & 133,200 sq ft)-

- expected delivery 3rd quarter 2018
- Prologis Georgetown Crossroads project (589,615 sq ft) is underway, delivery by 3rd quarter 2018
 - Des Moines Creek Business Park Phase IV-Buildings A and B (514,121 sq ft)-delivery by 4th quarter 2018
 - North Auburn Logistics (261,553 sq ft) is targeted for 3rd quarter 2018 delivery
 - LogstiCenter @ Woodinville-Buildings A & B (275,500 sq ft and 134,000 sq ft)-expected delivery-4th quarter 2018.
 - DCT Hudson in Auburn (287,832 sq ft)-delivery expected by 3rd quarter 2018
 - The Viking in Pierce County (438,065 sq ft)-delivery expected by 1st quarter 2019
 - Gayteaway Business Park in Arlington is ready to move forward with 300,000 sq ft. A 12-month construction period is projected
 - DCT 167 Landing, Buildings A & B (360,955 sq ft)-delivery expected by 1st quarter 2019
 - Meridian Campus Corporate Park (318,028 sq ft)-delivery by 3rd quarter 2018
 - Hawks Prairie III-Lots 10 and 19 (226,550 sq ft)-delivery by 1st quarter 2019
 - Fennell Creek Industrial Park in Pierce County (257,000 sq ft)-delivery by 4th quarter 2018

Significant Transactions-2nd Quarter 2018

Notable Sales include:

- Redmond East Business Campus sold for \$52.125 million (\$179/sq ft). Buyer is Kennedy-Wilson Properties and the seller is The Blackstone Group.
- Fife I-5 Commerce Center sold for \$37.5 million (\$149/sq ft). Buyer is Black Rock. Seller is The Carlyle Group.
- Harbour Point Tech Center sold for \$25 million (\$76/sq ft). Buyer is MRM Mt Vernon LLC GT Mukilteo LLC and seller is Prescott Realty Group.
- Sumner West sold for \$19,750,000 (\$160/sq ft). Buyer is DCT Industrial Trust Inc. and the seller is Sound Sleep.

Notable leases include:

- SBS Transportation (444,428 sq ft) at IPT Tacoma Logistics Center
- Tiger Logistics (160,000 sq ft) at Prologis Park Tacoma, Building D
- Talking Rain (95,533 sq ft) at North Valley 64

Conclusion

The region's industrial market continues to perform well and is very active with 7.0 million sq ft currently under construction and another 14.4 million sq ft in the pipeline. The majority of the pipeline are in Pierce and Thurston Counties. In addition, several notable leases have been signed with targeted move-in dates in the next six months should provide a continued boost to the market, which saw nearly 1.2 million sq ft of positive net absorption in the 2nd quarter. The Northwest Seaport Alliance reports that May import volumes reached their highest volume since 2010, but export volumes were down. Finally, rental rates continue to increase in most markets and holding steady in others.

Burien/Seatac Industrial Submarket

Quarter	Inventory Bldgs	Inventory SF	Vacant SF Total	Vacant Percent % Total	Net Absorption SF Total	Deliveries Bldgs	Deliveries SF	Under Construction Bldgs	Under Construction SF	All Service Type Rent Overall
QTD	122	4,530,457	64,070	1.4%	5,516	0	0	1	246,108	\$7.78/nnn
2018 Q2	122	4,530,457	69,586	1.5%	233,500	1	268,013	1	246,108	\$7.91/nnn
2018 Q1	121	4,262,444	35,073	0.8%	3,364	0	0	2	514,121	\$7.97/nnn
2017 Q4	121	4,262,444	38,437	0.9%	9,808	0	0	2	514,121	\$8.85/nnn
2017 Q3	121	4,262,444	48,245	1.1%	(24,129)	0	0	2	514,121	\$7.80/nnn
2017 Q2	121	4,262,444	24,116	0.6%	566,056	1	150,103	0	0	\$7.62/nnn
2017 Q1	120	4,112,341	440,069	10.7%	7,390	1	352,800	1	150,103	\$7.62/nnn
2016 Q4	119	3,759,541	94,659	2.5%	147,572	0	0	2	502,903	\$7.24/nnn
2016 Q3	119	3,759,541	242,231	6.4%	5,361	0	0	2	502,903	\$6.96/nnn
2016 Q2	119	3,759,541	247,592	6.6%	374,973	0	0	2	502,903	\$6.43/nnn
2016 Q1	119	3,759,541	622,565	16.6%	65,648	0	0	0	0	\$6.34/nnn
2015 Q4	119	3,759,541	688,213	18.3%	(24,213)	3	501,659	0	0	\$6.12/nnn
2015 Q3	116	3,257,882	162,341	5.0%	(19,827)	0	0	3	501,659	\$7.95/nnn
2015 Q2	116	3,257,882	142,514	4.4%	51,153	0	0	3	501,659	\$8.10/nnn
2015 Q1	116	3,257,882	193,667	5.9%	(22,813)	0	0	3	501,659	\$7.71/nnn
2014 Q4	117	3,263,842	176,814	5.4%	(4,919)	0	0	2	267,956	\$7.77/nnn
2014 Q3	117	3,263,842	171,895	5.3%	(487)	0	0	2	267,956	\$6.99/nnn
2014 Q2	117	3,263,842	171,408	5.3%	(10,671)	0	0	2	267,956	\$6.16/nnn
2014 Q1	117	3,263,842	160,737	4.9%	84,808	0	0	0	0	\$6.32/nnn
2013 Q4	117	3,263,842	245,545	7.5%	(12,011)	0	0	0	0	\$6.15/nnn
2013 Q3	117	3,263,842	233,534	7.2%	35,475	0	0	0	0	\$5.99/nnn
2013 Q2	117	3,263,842	269,009	8.2%	29,850	0	0	0	0	\$5.87/nnn
2013 Q1	117	3,263,842	298,859	9.2%	(19,996)	0	0	0	0	\$5.61/nnn
2012 Q4	117	3,263,842	278,863	8.5%	(36,804)	0	0	0	0	\$5.63/nnn
2012 Q3	117	3,263,842	242,059	7.4%	17,730	0	0	0	0	\$6.10/nnn
2012 Q2	117	3,263,842	259,789	8.0%	(5,678)	0	0	0	0	\$6.25/nnn
2012 Q1	117	3,263,842	254,111	7.8%	36,243	0	0	0	0	\$6.51/nnn

**Burien/Seatac
Submarket**

The subject is located within the Burien/Seatac submarket. This district is part of the South King County industrial submarket, which is the largest of the five submarkets that comprise the greater Puget Sound industrial market. The table on the previous page summarizes inventory trends over the past seven years by quarter from 2012 through the current quarter.

**EXISTING
INVENTORY & NEW
CONSTRUCTION**

As of the current quarter, there is about 4.5 million sq ft of industrial building stock with one 246,108 sq ft project currently under construction. Since 2014, about 1.3 million sq ft were delivered across six developments include nearly distribution warehouses developed by Panattoni. Increasing demand from the strong economy and increase in internet retailing has spurred increased industrial development. Many new projects have been delivered recently in South King County. Since 2015, Panattoni delivered about 800,000 sq ft of new warehouse space in the Des Moines Creek Business Park on land leased from the Port of Seattle to the south Sea-Tac International Airport. This project is east of and close to the subject. Lease-up was rapid. To the south, several large distribution warehouse developments have been constructed in the past four years as noted previously.

**VACANCY &
OCCUPANCY**

Vacancy rates have declined steadily and current vacancy at 1.4% is a slight increase over the 0.8% reported at the beginning of the year.

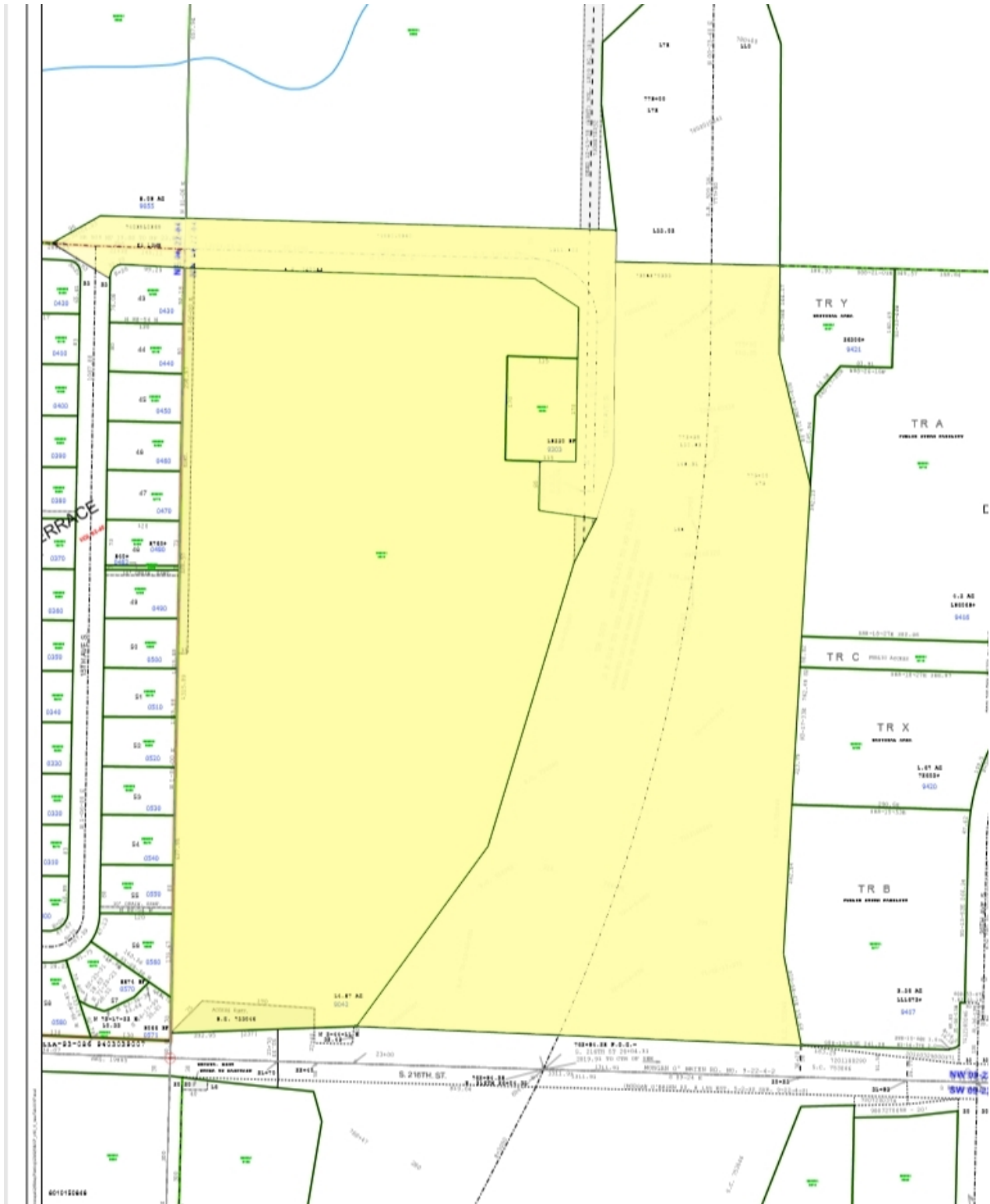
**ABSORPTION, DEALS
& LEASE RATES**

Since the beginning of 2012, nearly 1.5 million sq ft have been absorbed. Average asking rates declined to \$0.47/sq ft/month in late 2012 but have generally been increasing since. Current asking rental rates are now \$0.65/sq ft/month NNN.

Conclusion

The subject submarket remains healthy and weathered the downturn associated with the 2008-2009 recession relatively well. Limited new construction and a desirable location allowed the market to stabilize relatively quickly. Recent new development has absorbed rapidly. Demand for industrial space continues to remain strong. The area is well-positioned to remain a healthy industrial submarket.

Property Description - After

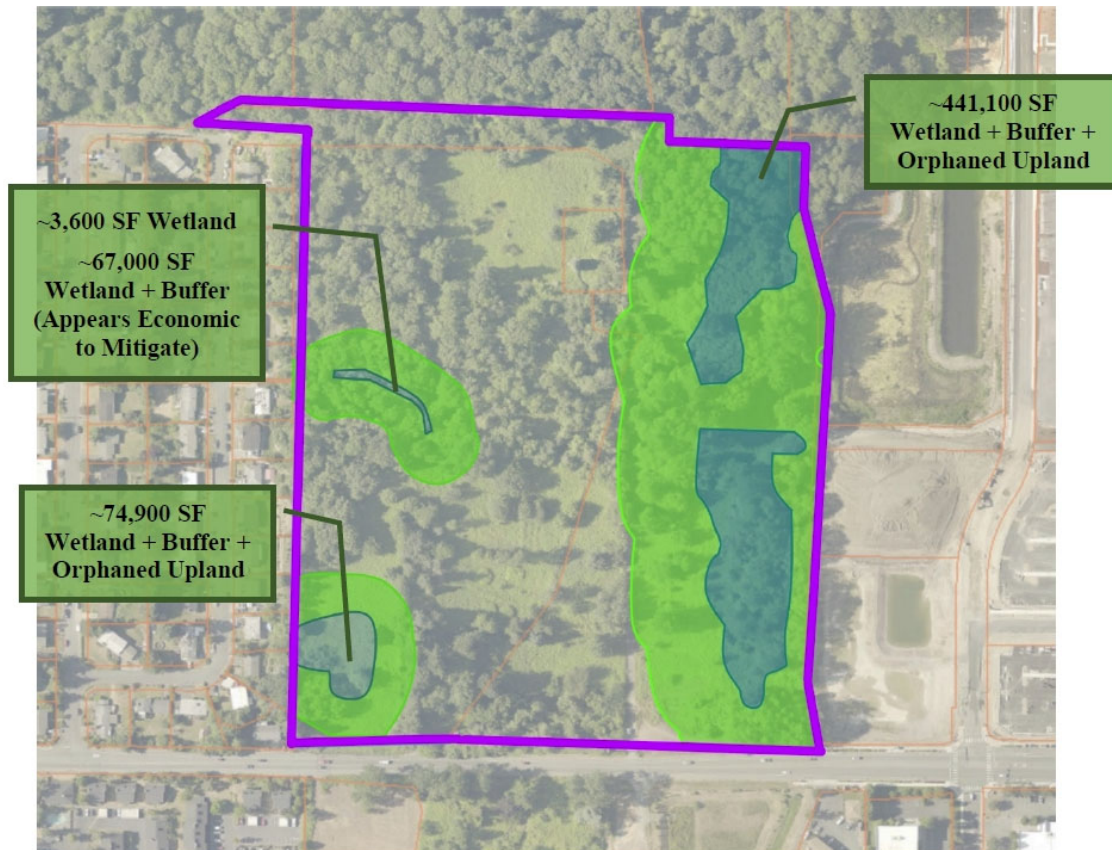


Parcel Map - After

Site Description - After

Introduction	Based on the requirements in the WSDOT ROW manual, the appropriate method to value the subject is to consider its value enhancement to the adjoining property to the west which is owned by the Port of Seattle, the potential acquirer of the subject. This method is essentially a reverse Before and After appraisal. The difference between the value of both assembled parcels (After) and the value of the abutting Port of Seattle property's standalone value (Before) is market value for the subject. In this report, the subject in the After condition when assembled with the adjoining property owned by the Port of the Seattle is first valued. Then in the Before scenario, the adjoining Port of Seattle property is valued. The value for the subject is reconciled as the difference between the Before and After values. This section and subsequent sections pertain to the After condition. Later in the report, corresponding sections pertain to the Before condition.
Street Address	XXX S. 216th Street Des Moines, WA 98198
Site Dimensions & Land Area	In the After scenario, the subject is a 1,300,796 sq ft or 29.86-acre vacant land parcel. The site is about 1,300 feet north to south and 1,300 feet east to west at its greatest extent at the north. As discussed in this section, the subject's wetlands are limiting factors in development.
Streets, Access & Exposure	The irregularly-shaped site is located at the north side S. 216th Street in Des Moines. It has about 1,025 lineal feet along S. 216th Street. A narrow strip of subject at the north end of the subject extends toward S. 212th Street at the intersection 15th Avenue S. Visibility from S. 216th Street is good. Access to I-5 is via the S. 200th Street or SR 516 interchanges each about 2.2 miles away. The subject's access and exposure are good.
Topography & Soil Conditions	Much of the subject is fairly level in its southern extent but has a downward grade at the northern portion of the subject. The maximum grade change is about 100 feet across the entire site with the highest point in the southeast and lowest in the northwest part of the subject. No soils reports were provided for review. It is an assumption that soils are sufficient to support the proposed building improvements. The client provided the following map indicating potential wetlands impacting the subject. This information appears is based on a 2007 draft

Map of Potential Wetlands



Environmental Impact Study (EIS) for the Des Moines Creek. As shown, three areas of suspected wetlands impact the site. According to Port of Seattle documents, the two wetland areas on the west side are Class III wetlands. With setback buffers included, about 45% of the property appears to be impacted. The potential presence of wetlands appears to significantly impact the use of the subject. This information from the client is the best available and is presumed to be accurate. Mr. Glenn Price a Review Appraiser at WSDOT has reviewed the wetland and determined the following areas:

	Area (SF)
Upland	717,796
Southwest wetland + buffer	74,900
West wetland + buffer	67,000
East wetland + buffer	441,100
Total	1,300,796

I have reviewed Mr. Price's estimates and they appear to be sufficiently

accurate and are used in this report. About 717,796 sq ft is dry upland area. The remainder comprises wetland in three separate locations. The largest wetland is along the entire east side of the property. Two smaller wetlands are along the west side of the property. It is an extraordinary assumption that the wetland impact and resulting usable area conclusion are accurate.

Flood Zone

The site is located in an area not prone to flood risk, per FEMA community panel 53033C0966F. This is a non-printed panel. The subject is located in Zone X, which is an area determined to be outside the 100-year floodplain.

Earthquake Zone

The International Building Code (IBC) is the building code in Washington State. The IBC uses a parameter called the Seismic Design Category rather than seismic zones used in previous building codes. The Seismic Design Category is a function of three parameters: ground motion, soil type and building occupancy. The typical Seismic Design Category in the Puget Sound is category "D" or greater, but because these parameters interact, this category can vary. The higher the category (A is lowest, F is highest), the more stringent the structural requirements. As the appraiser does not possess the expertise in seismic, structural & geotechnical engineering, further analysis is required to determine the subject's degree of risk.

Utilities

Public utilities are available to the subject include sewer, water, storm drainage and electricity.

**Easements,
Encroachments,
Covenants &
Restrictions**

No title report was provided. The City of Des Moines' Des Moines Creek Trail passes through the subject and there may be an easement associated with that use. It is an assumption of this report that no easement, encroachment, covenant or restricts negativity impacts the use or marketability of the subject.

**Recognized
Environmental
Conditions**

Environmental reports were not provided. For the purpose of this appraisal, it is assumed that the subject property is free of contamination of any kind. This assumption should not be construed as a guarantee that such conditions do not exist. The reader is referred to Item 2 of the Limiting Conditions at the beginning of this report. The subject is located south of the central runway at Sea-tac International Airport. During the inspection, with aircraft take-offs to the south over the subject, frequent aircraft noise was observed.

Zoning

The subject is zoned B-P (Business Park) by the City of Des Moines.

(1) The primary purpose and objective of the Business Park (B-P) Zone is to provide areas of the City for development of compatible business, professional office, light industrial, research and development, service uses, wholesale trade, and limited retail uses. Such uses shall be developed within master planned sites in park-like settings pursuant to development standards.

(2) It is also the purpose of this zone to ensure compatibility between business parks and adjacent uses in terms of height, bulk, scale, and design; to mitigate potential adverse environmental impacts and nuisance effects on-site and off-site through careful planning, the use of buffering and screening, and the imposition of environmental performance standards and appropriate off-site mitigation requirements; to provide for the planned economic development of the City; to ensure that business park development is coordinated with the provision of adequate infrastructure by private applicants and the City, such as roads, drainage, and other utility systems; to require that business park developments pay their fair share of the costs of needed services and facilities; and to ensure that development occurs consistent with the goals and policies of the City of Des Moines Comprehensive Plan.

(3) Further, it is the purpose of this zone to establish standards to ensure that development occurs in a manner that is compatible with the Des Moines Creek Park, Des Moines Creek Trail, Steven J. Underwood Memorial Park, City of Des Moines Activity Center and adjacent residential-designated properties.

In this zone, development by master plan is required. Allowable uses include a variety of commercial uses including retailing, office, warehouse and light manufacturing uses. Residential use is not permitted. Development standards include a minimum lot size of 2 acres; maximum coverage ratio is 75%, building height limit of 75 feet, setbacks of 20 feet along the arterials, 30 feet from adjacent residential properties, and 15 feet from non-arterial streets and 10 feet from properties other than residential properties.

On-site parking is required depending upon use. For manufacturing and warehousing uses, the minimum is two parking spaces for each three employees or one space for each 1,500 sq ft of gross floor area; use whichever is greater. For office use, the minimum is one stall per 350 sq ft of gross floor area.

Taxes & Assessment Information The subject property is government-owned and exempt from property taxes except for minor special assessments. These potential minor assessments are unknown.

Conclusion In the After scenario as assembled with the Port of Seattle properties, the subject is a 1,300,796 sq ft vacant land parcel with an irregular shape. It has reasonably level areas, but the northern portion is impacted by moderate slopes. All typical utilities are available. Surrounding properties are a mix of industrial uses to east, then commercial uses along SR 99. To the west are mainly single-family residences. Based on the wetland information available, it is estimated that wetlands and buffers impact about 45% of the site. However, the as discussed previously, a portion of the wetlands appears to be suitable for mitigation. It is important to note that this conclusion is based on the best available information at hand and no formal wetland delineation was been performed. It is an extraordinary assumption that this information is accurate. The subject's irregular shape, particularly the extension to the west in the northern part, is a limiting factor in development. Apart from the wetlands and shape, given the location, size, utility and topography of the site's usable area, the subject is conducive to any permitted use under zoning.

Highest & Best Use - After

Highest & Best Use - After

“Highest & Best Use” is defined by the Appraisal Institute as:

The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.

AS VACANT

The subject is zoned B-P (Business Park) by the City of Des Moines. Allowable uses include a variety of commercial uses including industrial uses. Residential use is not permitted. Development standards include a minimum lot size of 2 acres; maximum coverage ratio is 75%, building height limit of 75 feet, setbacks of 20 feet along the arterials, 30 feet from adjacent residential properties, and 15 feet from non-arterial streets and 10 feet from properties other than residential properties.

In the After scenario when assembled with adjacent Port of Seattle property, subject is a 29.86-acre vacant land parcel with an irregular shape. It has reasonably level areas, but the northern portion is impacted by moderate slopes. All typical utilities are available. Surrounding properties are a mix of industrial uses to east, then commercial uses along SR 99. To the west are mainly single-family residences.

With setback buffers included, about 45% of the property appears to be impacted. The potential presence of wetlands appears to significantly impact the use of the subject.

	Area (SF)
Upland	717,796
Southwest wetland + buffer	74,900
West wetland + buffer	67,000
East wetland + buffer	441,100
Total	1,300,796

The largest wetland is along the entire east side of the property. Two smaller wetlands are along the west side of the property. The west wetland is smallest and based on data from the Port of Seattle, the actual wetland (not including buffer) is only 2,316 sq ft. Given its orientation in

the midsection of the property with upland areas all around as well as its relatively small size and category III type, it is financially feasible to mitigate this wetland. Based on data from Ms. Megan Webb of King County Water & Land Resources Division, wetland mitigation fees depend on a variety of wetland characteristics including the size and type of wetland. Category I wetlands are rarely mitigated with Category III and IV more commonly mitigated. The likely cost to purchase mitigation credits (\$50,000 per credit) for this wetland will range from about \$40 to \$50/sq ft or between \$92,640 and \$115,800. Mitigation costs are not the only cost to mitigate and convert wetlands to uplands. Other costs include consultant fees, permit fees, overhead and a reasonable profit to incur the risk and effort of eliminating wetlands. However, as shown in this report, the value of the subject usable land is \$15/sq ft suggesting a potential value of \$871,000 for this wetland and associated buffer. Assuming this wetland and buffer were mitigated, total upland usable area would be 784,796 sq ft.

The subject has good visibility and access to I-5. Surrounding uses include mainly industrial and commercial uses. The larger industrial market is healthy with a low vacancy rate and rising rents. Speculative industrial development has been on-going and successful in the larger Seattle industrial market. It is currently financially feasible. In recent years, Panattoni has successfully developed and sold several industrial buildings directly east as part of the Des Moines Creek Business Park. Retail, office and services are also possible in this area, but industrial development is more likely given the location adjacent to other new industrial development and the impact of airport noise.

**AS VACANT
CONCLUSION**

Considering all factors, the highest and best use of the subject in the After scenario is industrial use with mitigation of the west wetland.

Sales Comparison Approach - After

Sales Comparison Approach - After

Introduction

The Sales Comparison Approach is based on the premise that market value of the property is directly related to recent sale prices of competitive properties and the availability of substitute properties with similar utility and desirability. The most similar sales of properties within this area were investigated and compared to the subject in this analysis. A summary of pertinent details to the comparable sales selected is presented on the facing page with a location map and photographs on the preceding pages.

Comparable Sales Data

The value of land is strongly influenced by its potential highest and best use. Therefore, land is customarily valued as though unimproved and available for development for the use, which would justify the highest price and the greatest net return. Land valuation involves the same principles and methodology of the physical unit of comparison method discussed later in the Sale Comparison Approach. Sales of unimproved land similar to the subject are investigated and the most appropriate transactions are analyzed and compared to the subject.

As noted previously, the subject site comprises land zoned for commercial and industrial use and is located in Des Moines. The highest and best use will be for industrial use. Four sales of similar properties located in the area were selected for analysis. The comparables are analyzed by the price per square foot of usable land area, the most common indicator of value for properties of similar value and utility when compared with the subject.

As discussed in the Highest and Best Use section, mitigation of the west wetland is financially feasible. The Sales Comparison Approach is performed assuming the west wetland and associated buffer are converted to usable upland area bringing the total upland area to 784,796 sq ft. Then costs to mitigate the wetland are deducted to yield the After value indication.

SALE COMPARISON NO. 1

This is the sale of a 6.7-acre regular site in an industrial area in Pacific. The property was assembled by the seller for owner use, but the seller decided to sell after recognizing the challenge of relocating his business. The broker approached Panattoni directly without listing the property for sale. Panattoni made an offer that was accepted. Wetlands reduced usable area is about 5.85 acres. The property sold for \$17.45/sq ft of usable land in May of 2018.



Comparable Land Sales Map

Land Sale Photographs

Comparable 1
942 Valentine Avenue
Pacific, WA



Comparable 2
NEC of S. 216th Street & 24th
Avenue S.
Des Moines, WA



Comparable 3
6600 & 6603 S. 287th Street
Auburn, WA



Land Sale Photographs

Comparable 4
2801 78th Avenue E
Fife, WA



Land Sale Comparisons

No.	Address City Tax Parcel	Zoning	Land Area (Sq ft) Land Area (Acres)	Sale Date	Sales Price	Price/Sq ft	Buyer Seller	Comments/Confirmation
1	942 Valentine Avenue Pacific, WA 449540-0130, -0100, -0120, -0110	LI	254,826 5.85	May-18	\$4,446,483	\$17.45	Panattoni Development A-1 Pallets Inc.	Purchased for development of a proposed warehouse. Site is about 6.7 acres but impacted by wetlands to reduce usable to about 5.85 acres. <i>Jeff Crane, Andover, (206) 336-5336</i>
2A	Portion of Property 21202 - 21402 24th Avenue S Des Moines, WA 092204-9399	PR-C	15,842 0.36	Jul-17	\$800,000	\$50.50	Panattoni Development Jaspal & Parneet Cheema	Sale of a portion of the site improved with a single family residence. <i>Internal Files/Costar</i>
2B	Portion of Property 21202 - 21402 24th Avenue S Des Moines, WA 092204-9083, -9053, -9069, -9126, -9135, -9320	PR-C	601,087 13.80	May-17	\$9,000,000	\$14.97	Panattoni Development Robert Furney	Sale of a portion of the site improved with a nursery. <i>Internal Files/Costar</i>
2C	Portion of Property 21202 - 21402 24th Avenue S Des Moines, WA 092204-9134	PR-C	15,561 0.36	Jun-17	\$560,000	\$35.99	Panattoni Development Shirley Stalgis	Sale of a portion of the site improved with a single family residence. <i>Internal Files/Costar</i>
2D	Portion of Property 21202 - 21402 24th Avenue S Des Moines, WA 092204-9003	PR-C	351,672 8.07	May-17	\$6,015,000	\$17.10	Panattoni Development Ono Yoshikatsu	Sale of a portion of the site <i>Internal Files/Costar</i>
2E	Portion of Property 21202 - 21402 24th Avenue S Des Moines, WA 092204-9142	PR-C	10,005 0.23	Jun-17	\$600,000	\$59.97	Panattoni Development Wayne Carlson	Sale of a portion of the site improved with a single family residence. <i>Internal Files/Costar</i>
	Total Property Des Moines, WA	PR-C	994,167 22.82	Nov-16 to Jul-17	\$16,975,000	\$17.07		
3	6600 & 6603 S. 287th Street Auburn, WA 98001 352204-9024, -9016	M-1	666,300 15.30	Nov-16	\$9,715,840	\$14.58	Panattoni Development SVR South 287th Auburn LLC	Purchased for development of a proposed distribution warehouse. Price included plans, SEPA, land, building permit. <i>Internal Files/Costar</i>
4	2801 78th Avenue E Fife, WA 042008-4088, -4089, -4090	I	574,052 13.18	Jul-16	\$7,710,374	\$13.43	Trammell Crow Company Benaroya Company	Purchased for industrial development. Sale price included included compensation for pre-development costs and office mitigation fees. <i>Internal Files</i>

After Scenario	B-P	784,796	Appraisal	\$11,771,940	\$15.00
XXX S. 216th Street		18.0	(Rounded)	\$11,800,000	
Des Moines, WA 98198			Less: Wetland Mitigation	<u>\$200,000</u>	
			"As Is" Value	\$11,600,000	

Upward adjustment is warranted for location. Downward adjustment is made for site condition and shape/topography. The shape adjustment will be significant given that the northern portion of the usable land area is elongated and of little value apart from access and potentially assembling with the adjacent parcel.

**SALE
COMPARISON
NO. 2**

This is the sale of a site located just east of the subject that includes five separate sale transactions that closed between May and July of 2017. The overall price is \$17.07/sq ft although three of transactions reflect sales of single-family residences with indicated price based on land at or above \$35/sq ft. The other two sales indicate prices between about \$15/sq ft and \$17/sq ft. The overall sale price is analyzed. This is a reasonably level and mostly cleared and graded site between Pacific Highway S. and 24th Avenue S. north of S. 216th Street.

Downward adjustment is made for site condition and shape/topography. Upward adjustment is made of sale date.

**SALE
COMPARISON
NO. 3**

Sale 3 is the November 2016 sale of a 15.3-acre industrial site in Auburn for \$9,715,840 or \$14.58/sq ft. The buyer, a partnership that includes Panattoni Development, plans to develop the site with a proposed distribution warehouse. The regularly-shaped site is in an area with minor flood risk. The developer will add fill to raise the grade somewhat.

Upward adjustment is warranted for sale date and location. A downward adjustment is made for shape/topography.

**SALE
COMPARISON
NO. 4**

Sale 4 is the July 2016 purchase by Trammel Crow of a site on the west side of Freeman Road E., south of 26th Street E. in Fife. It consists of an 11.51-acre development site that is zoned Industrial by the City of Fife. The buyer is developing a speculative 250,010 sq ft distribution building. The confirmed sale price is \$7,710,374, or \$13.43/sq ft which included compensation for pre-development costs and office mitigation fees to the City of Fife. The site will be ready-to-build and is located within the Benaroya Business Park in Fife.

Upward adjustment is warranted for sale date and location. Downward adjustment is made for shape/topography.

**Adjustments to
Comparable Data**

Pertinent market factors, along with property characteristics, were taken into consideration in the analysis, and all sales were adjusted to account for the differences between the comparables and the subject. In the table below, adjustments are made to the indicated comparable sales prices as previously described.

Land Sales Approach Adjustment Grid

Name No.	\$/sq ft	Sale Conditions	Sale Date	Current Indicator	Location	Zoning	Size	Site Condition	Shape/ Topography	Final Indicators
092204-9003 1	\$17.45	0.0% \$0.00	0.0% \$0.00	0.0% \$17.45	5.0% \$0.87	0.0% \$0.00	0.0% \$0.00	-5.0% (\$0.87)	-10.0% (\$1.74)	-10.0% \$15.70
21202 - 21402 24th Aven 2	\$17.07	0.0% \$0.00	3.0% \$0.51	3.0% \$17.59	0.0% \$0.00	0.0% \$0.00	0.0% \$0.00	-5.0% (\$0.88)	-10.0% (\$1.76)	-12.0% \$14.95
6600 & 6603 S. 287th Str 3	\$14.58	0.0% \$0.00	5.0% \$0.73	5.0% \$15.31	10.0% \$1.53	0.0% \$0.00	0.0% \$0.00	0.0% \$0.00	-10.0% (\$1.53)	5.0% \$15.31
2801 78th Avenue E 4	\$13.43	0.0% \$0.00	7.0% \$0.94	7.0% \$14.37	10.0% \$1.44	0.0% \$0.00	0.0% \$0.00	0.0% \$0.00	-10.0% (\$1.44)	7.0% \$14.37

Average	\$15.08
Median	\$15.13
Conclusion	\$15.00

Land Value Conclusion

After adjustments, comparables indicate a range of values from \$14.37/sq ft to \$15.70/sq ft with an average of \$15.08/sq ft. Most emphasis is placed on the average indicator and Sale 2, the sale of the site closest to the subject indicating \$14.95/sq ft. Overall, considering all factors, the market value of the subject site is estimated \$15.00/sq ft of usable land area.

$$784,796 \text{ sq ft @ } \$15.00/\text{sq ft of usable land} = \$11,771,940$$

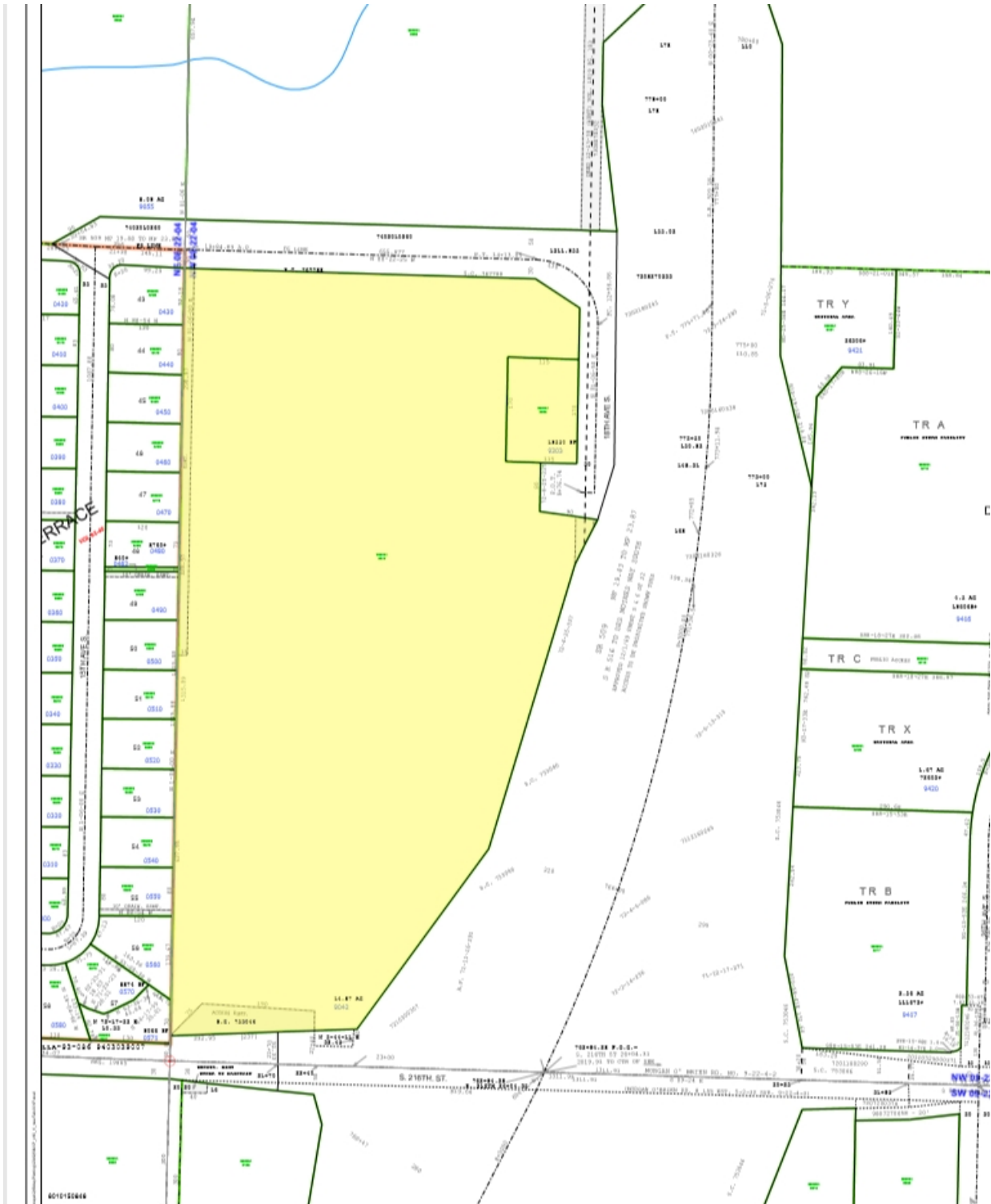
$$(Rd) \quad \$11,800,000$$

As discussed, mitigation of the west wetland is financially feasible and assumed in this analysis. Mitigation credits are estimated to cost \$45/sq ft or \$104,220. Other costs include consultants, permit fees, management oversight as well as a reasonable profit for the risk of mitigating the wetland. While it difficult to precisely estimate these costs an estimate of \$50,000 is used. A profit of 25% is deemed appropriate bringing to total cost to mitigate the west wetland to \$192,775 which is rounded to \$200,000.

Wetland Mitigation Credits	\$104,220
Other Costs	\$50,000
Subtotal	<u>\$154,220</u>
Profit at 25%	<u>\$38,555</u>
Total	<u>\$192,775</u>

Deducting \$200,000, the indicated "as is" value in the After scenario is \$11,600,000.

Property Description - Before



Parcel Map - Before

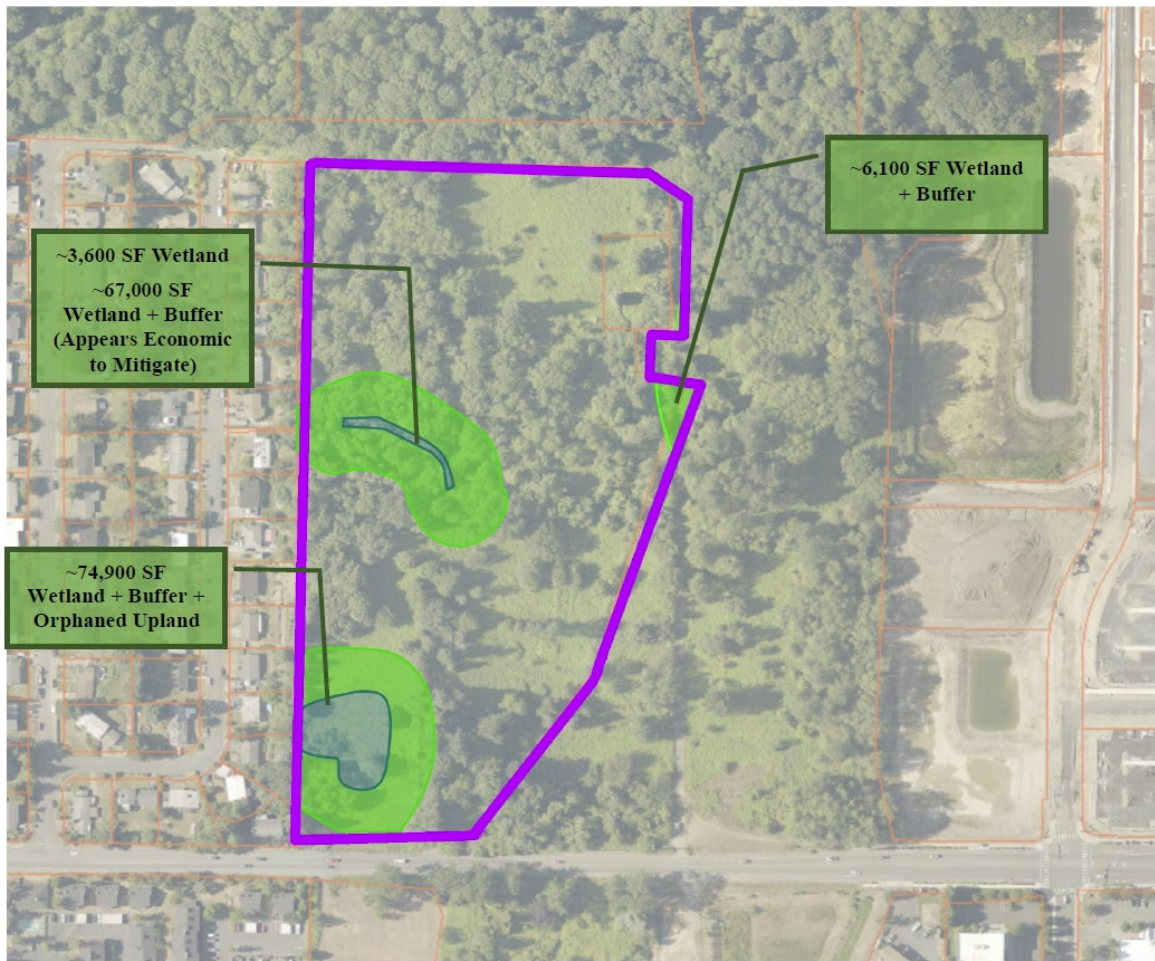
Site Description – Before

Street Address XXX S. 216th Street
Des Moines, WA 98198

Site Dimensions & Land Area This section and following sections pertain to the Before scenario. In the Before scenario, the property comprises only the adjoining Port of Seattle property which totals 677,062 sq ft or 15.54-acrea. The site is about 1,250 feet north to south and 675 feet east to west at its greatest extent. The subject’s wetlands are limiting factors in development.

Streets, Access & Exposure The irregularly-shaped site is located at the north side S. 216th Street in Des Moines. It has about 310 lineal feet along S. 216th Street.

Map of Potential Wetlands



**Topography & Soil
Conditions**

Much of the subject is fairly level in its southern extent but has a downward grade at the western and northern portions of the subject. The maximum grade change is about 65 feet across the entire site with the highest point in the southeast and lowest in the northwest part of the subject. With setback buffers included, about 22% of the property appears to be impacted.

	Area (SF)
Upland	529,062
Southwest wetland + buffer	74,900
West wetland + buffer	67,000
East wetland + buffer	6,100
<u>Total</u>	<u>677,062</u>

Two wetlands are along the west side of the property. The west wetland is smallest and based on data from the Port of Seattle, the actual wetland (not including buffer) is only 2,316 sq ft. Given its orientation in the midsection of the property with upland areas all around as well as its relatively small size and category III type, it is financially feasible to mitigate this wetland as previously discussed. The east wetland is minor. It is an extraordinary assumption that the wetland impact and resulting usable area conclusion are accurate.

Conclusion

The subject is a 677,062 sq ft vacant land parcel with an irregular shape. It has reasonably level areas, but the western and northern portions are impacted by moderate slopes. Based on the wetland information available, it is estimated that wetlands and buffers impact 22% of the site. However, the as discussed previously, a portion of the wetlands appears to be suitable for mitigation. Apart from the wetlands, given the location, size, utility and topography of the site's usable area, the subject is conducive to any permitted use under zoning.

Highest & Best Use - Before

Highest & Best Use - Before

“Highest & Best Use” is defined by the Appraisal Institute as:

The reasonably probable use of property that results in the highest value. The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

Source: [The Dictionary of Real Estate Appraisal](#), Sixth Edition. Chicago: Appraisal Institute, 2015.

AS VACANT

In the Before scenario, the subject is a 677,062 sq ft vacant land parcel with an irregular shape. It some reasonably level areas but the northern and western portions are impacted by moderate slopes. All typical utilities are available. Surrounding properties are a mix of industrial uses to east, then commercial uses along SR 99. To the west are mainly single-family residences. Based on the wetland information available, it is estimated that wetlands and buffers impact 22% of the site. However, the as discussed previously, the west wetlands appears to be suitable for mitigation. Assuming this wetland and buffer were mitigated, total upland usable area would be 596,062 sq ft.

AS VACANT CONCLUSION

Considering all factors, the highest and best use of the subject in the Before scenario is industrial use with mitigation of the west wetland.

Sales Comparison Approach - Before

Sales Comparison Approach - Before

Comparable Sales Data The subject in the Before scenario will be sufficiently similar to the After scenario. The same sales comparables and unit value conclusion of \$15.00/sq ft of usable land are appropriate.

Land Value Conclusion Overall, considering all factors, the market value of the subject site is estimated \$15.00/sq ft of usable land area.

596,062 sq ft @ \$15.00/sq ft of usable land	=	\$8,940,930
	(Rd)	\$8,900,000

As discussed, mitigation of the west wetland is financially feasible and assumed in this analysis. Total wetland mitigation cost is estimated at \$200,000. Deducting \$200,000, the indicated "as is" value in the Before scenario is \$8,700,000.

Reconciliation & Final Value Opinion

Reconciliation & Final Value Opinion

Introduction

Based on the requirements in the WSDOT ROW manual, the appropriate method to value the subject is to consider its value enhancement to the adjoining property to the west which is owned by the Port of Seattle, the potential acquirer of the subject. This method is employed in this appraisal and is essentially a reverse Before and After appraisal. The difference between the value of both assembled parcels (After) and the value of the abutting Port of Seattle property's standalone value (Before) is market value for the subject.

	As Is on August 10, 2018
After Value	\$11,600,000
Before Value	\$8,700,000
Difference /Subject Value	\$2,900,000

Value Conclusion

It is concluded the evidence best supports the following "as is" value conclusion for the subject property:

\$2,900,000

Exposure Time

The definition of "exposure time" is as follows:

The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Source: The Dictionary of Real Estate Appraisal, Sixth Edition. Chicago: Appraisal Institute, 2015.

Brokers are reporting more market interest with most land properties selling within 1 to 3 months. Sale 1 sold immediately. The subject, with its irregular shape and wetland impact, is less appealing. An exposure time for the subject of 3 to 6 months is reasonable.

ADDENDUM

Appraiser's Experience Data



David M. Chudzik, Ph.D., MAI, CRE

Vice President

Valuation Advisory Services

CAREER SUMMARY

Since joining Kidder Mathews' Valuation Advisory Services in October of 2004, David has provided valuation and consultation services for a wide variety of commercial property types including office, industrial, retail, multifamily, hospitality, marina, and development properties. His experience includes complex properties like biotechnology research facilities, data centers, sawmills, shipyards, and other specialized property types. He has performed biotechnology valuation and market analysis on a national basis and authored the National Biotechnology Real Estate Market Analysis for GVA Worldwide. Assignments have included valuation of leasehold interests, air rights, condemnation compensation, conservation easements as well as market rent studies.

David's professional experience includes venture capital investing with emphasis in the life sciences industry. He has also worked as a development analyst and project manager at Seattle area real estate development companies. His development experience includes multifamily residential, commercial office, and marina developments.

David brings unique qualifications to real estate valuation and consulting making him well-qualified in the analysis of some of the most complex and sophisticated real estate.

EDUCATION

- Doctor of Philosophy, Biochemistry, University of Washington
- Master of Business Administration, Management, University of Washington
- Bachelor of Science, Biochemistry, University of Washington
- Bachelor of Arts, Spanish, University of Washington

PROFESSIONAL LICENSES

- Washington Certified General Real Estate Appraiser (No. 1102099)
- Oregon Certified General Real Estate Appraiser (No. C00182)
- California Certified General Real Estate Appraiser (No. 3004403)
- Idaho Certified General Real Estate Appraiser (No. CGA-4877)
- Virginia Certified General Real Estate Appraiser (No. 4001017780)
- Washington Real Estate Broker (No. 127896)

PROFESSIONAL AFFILIATIONS

- Member of Appraisal Institute (MAI)
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PARTIAL CLIENT LIST

Allstate Life Insurance Co.	KeyBank	Puget Sound Bank
Alexandria Real Estate Equities	King County	Puget Western
Archdiocese of Seattle	Low Income Housing Institute	San Juan County Land Bank
Bank of America	Memorial Medical Center	Schnitzer West
BECU	Merrill Lynch	Seattle BioMed
Bloch Properties	Morgan Stanley	Seattle Monorail Project
Citibank	Morton McGoldrick, PS	Server Farm Realty
City of Seattle	Moss Adams	Stockbridge Capital Group
City of Renton	National Real Estate Advisors	Todd Shipyards
Davis Wright Tremaine	Nexus Properties	Unico Properties
East West Bank	Northwest Diabetes Research Center	Union Bank
First Sound Bank	Northwest Kidney Center	University of Washington
First Mutual Bank	Novartis	US Bancorp
GE Capital	Olympus Real Estate Partners	Vulcan Real Estate
H5 Capital	Overlake Medical Center	Washington Federal
Heritage Bank	Perkins Coie	Washington Trust Bank
Jefferson County	Port of Port Townsend	Wells Fargo
JPMorgan Chase Bank	Portland State University	

STATE OF WASHINGTON

DEPARTMENT OF LICENSING – BUSINESS AND PROFESSIONS DIVISION



THIS CERTIFIES THAT THE PERSON OR BUSINESS NAMED BELOW IS AUTHORIZED AS A

CERTIFIED GENERAL REAL ESTATE APPRAISER

DAVID MATTHEW CHUDZIK
7047 51ST AVENUE NE
SEATTLE WA 98115

1102099

License Number

03/17/2011

Issued Date

11/02/2020

Expiration Date

Teresa Berntsen

Teresa Berntsen, Director