

October 29, 2018

Mr. Derek Speck
City of Tukwila
6200 Southcenter Blvd.
Tukwila, WA 98188

RE: Tukwila Parcels 242304-9034 and -9137
Tukwila, WA 98055
Contract #18-150

Dear Mr. Speck:

At your request, I have prepared an appraisal of the above-referenced property, which is more fully described in the attached report. As requested, I have determined the market value of the fee simple estate in the subject real estate. The undersigned has inspected the subject property and obtained data regarding other similar real estate in the area.

This appraisal is has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation. Our services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The intended users of this appraisal report include the City of Tukwila, Leuqar BB LLC, and their representatives. The intended use of this report will be to estimate the market value of both parcels as if legally combined into one property, along with the separate market values of each parcel, for internal decision making and marketing purposes, and possible sale negotiation, and may not be suitable for other uses.

As a result of my investigation and analysis, I have concluded that the market values of the fee simple interest in the subject real estate, subject to the limiting conditions, extraordinary assumptions, and the noted Hypothetical Condition contained herein, are:

Market Value, As If Both Parcels Combined Into One Legal Property (Hypothetical Condition), as of September 21, 2018:..... \$8,530,000

Market Value, Leuqar BB LLC Parcel only, as of September 21, 2018:..... \$4,560,000

Market Value, City of Tukwila Parcel only, as of September 21, 2018: \$1,560,000

Derek Speck
RE: Tukwila Parcels
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The value of the two parcels as if combined into one legal property is based on employing a Hypothetical Condition, which may have affected the assignment results.

The sum of the parts is not necessarily equal to the value of the whole as if legally combined into one property. The property has greater market value when combined than as separate.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'Stan Sidor', enclosed within a blue oval scribble.

Stan Sidor, MAI, AI-GRS
WA State Certified General Real Estate Appraiser
License No. 1100565

SRS/

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 represent 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.
- 9) I have not provided professional appraisal or consulting services concerning the subject property 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, Stan Sidor, MAI, AI-GRS, has completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



Stan Sidor, MAI, AI-GRS
WA State Certified General Real Estate Appraiser
License No. 1100565

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) 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 identities of the appraiser or the firm with which he is 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 appraiser. 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 appraiser.

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 Appraiser’s Experience Data

Summary of Appraisal

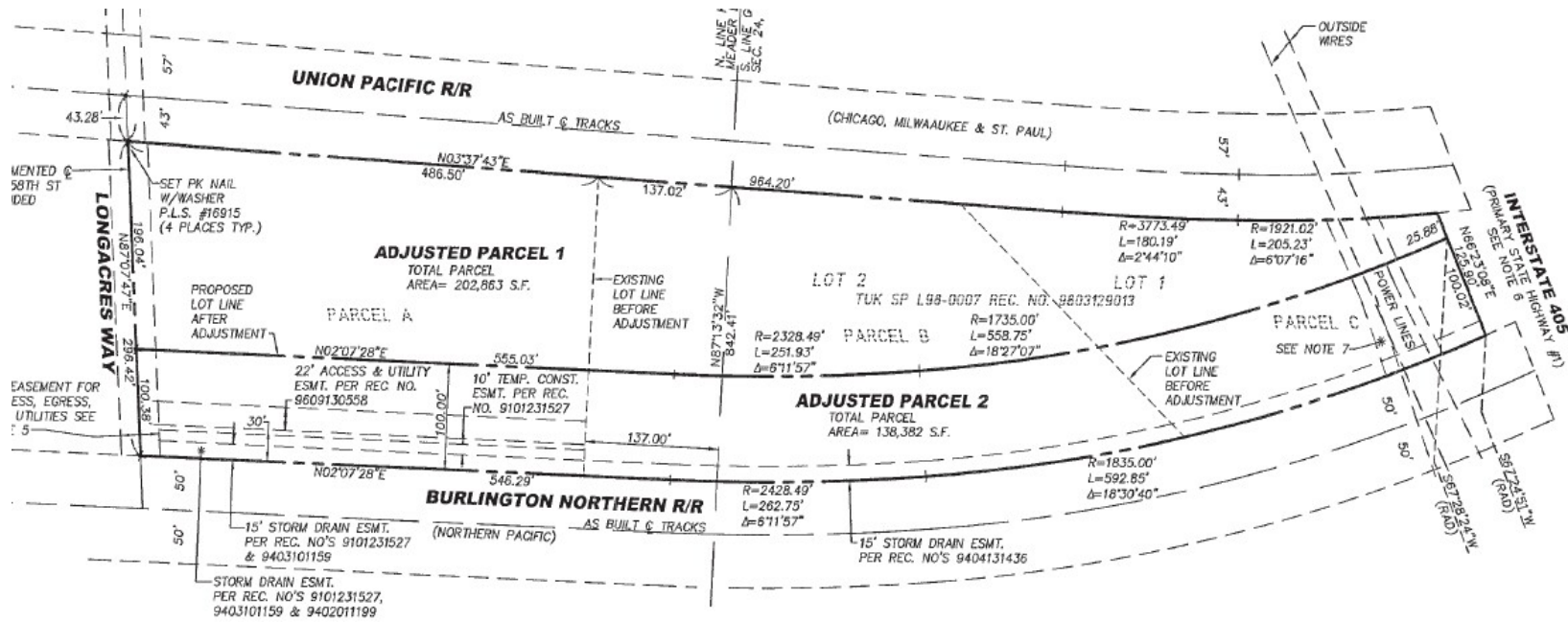
Summary of Appraisal

Identity of Property	King County Assessor Parcels 242304-9034 and -9137 Tukwila, WA 98055
Property Location	Between the Burlington Northern Santa Fe and Union Pacific railroad rights-of-way along the south side of I-405, northerly of Longacres Way, in Tukwila, WA.
Property Description	The property consists of vacant, undeveloped land in two parcels. One parcel contains 202,863 sq ft, or about 4.65 acres; the other parcel contains 138,382 sq ft, or about 3.18 acres. On a combined basis, the property consists of a site with 341,245 sq ft, or about 7.83 acres. The property is zoned TUC by the City of Tukwila.
Highest & Best Use	As Vacant Both parcels as if legally combined: Multi-family residential and/or mixed-use development, based on local market demand Leuqar parcel: Multi-family residential and/or mixed-use development, based on local market demand City of Tukwila parcel: Assemblage with the Leuqar parcel
Intended Users / Use of Appraisal	The intended users of this appraisal report include the City of Tukwila, Leuqar BB LLC, and their representatives. The intended use of this report will be to estimate the market value of both parcels as if legally combined into one property, along with the separate market values of each parcel, for internal decision making and marketing purposes, and possible sale negotiation, and may not be suitable for other uses.
Property Rights Appraised	Fee Simple Estate
Extraordinary Assumptions	None
Hypothetical Conditions	The valuation of both parcels as if combined legally as one site represents a Hypothetical Condition, which may have affected the assignment results.

Approaches to Value & Final Value Conclusions	Sales Comparison Approach – Land	As If Combined As One Property	\$8,530,000
	Sales Comparison Approach – Land	Leuqar BB LLC Parcel	\$4,560,000
	Sales Comparison Approach – Land	City of Tukwila Parcel	\$1,560,000

The value of the property as if combined into one legal parcel/property is based on employing a Hypothetical Condition, which may have affected the assignment results. The sum of the parts is not necessarily equal to the value of the whole as if legally combined into one parcel/property. The property has greater market value when combined than if separate.

Date of Report	October 29, 2018
Date of Last Inspection	September 21, 2018
Effective Date of Appraisal	September 21, 2018



Site Survey
 Leuqar BB LLC – Adjusted Parcel 1
 City of Tukwila – Adjusted Parcel 2
 (North is on the right)



Aerial Photograph

Subject Photographs

Longacres Way/SW 21st taken looking westerly, subject on right



Taken looking northerly from Longacres Way along primarily City of Tukwila parcel



Northerly view from near center of City of Tukwila parcel



Subject Photographs

Southerly view from near center of City of Tukwila parcel



Northerly view along gravel access driveway on westerly portion (Leuqar) parcel



View across site



Subject Photographs

View across site



Easterly view along Longacres Way. Subject property on left.



Westerly view along Longacres Way. Subject property on right.



Subject Photographs

View of site near its northerly boundary. I-405 in the background abuts the site.



Drainage ditch culvert



Introduction

Introduction

- Identity of Property** The subject of this appraisal consists of the land commonly referred to as Tukwila Parcels 242304-9034 and -9137. The property consists of vacant, undeveloped land. One parcel contains 202,863 sq ft, or about 4.65 acres; the other parcel contains 138,382 sq ft, or about 3.18 acres. On a combined basis, the property consists of a site with 341,245 sq ft, or about 7.83 acres. The property is zoned TUC by the City of Tukwila.
- Property Addresses** Neither parcel has an identified street address. The property lies north of Longacres Way, south of I-405, and between the BNSF and Union Pacific rail lines, in Tukwila, WA 98055
- Legal Description** The legal description of the subject property is as follows:
- Adjusted Parcel 1 (Leuqar site) – PAR 1 OF TUKWILA BLA #L06-077
REC #20071011900001 SD BLA LOCATED IN E 1/2 OF SW 1/4 OF 24-23-04
- Adjusted Parcel 2 (City of Tukwila site) – PAR 2 OF TUKWILA BLA #L06-077
REC #20071011900001 SD BLA LOCATED IN E 1/2 OF SW 1/4 OF 24-23-04
- The property is commonly identified as King County Assessor's Tax Parcel Numbers 242304-9034 and 242304-9137.
- Ownership History** The current owner of record of Parcel 242304-9034 is the City of Tukwila, while the current owner of record of Parcel 242304-9137 is Leuqar BB LLC. There are no known sales of either property in the past five years. The properties are not currently listed for sale, though the City of Tukwila is actively soliciting proposals to develop the larger site, including offers to acquire the properties.
- Site History** For reference, which will be taken into consideration in the analysis and highest and best use of the property, the following provides an overview summary of key historic (since 1994) background of the property:
- March 28, 1994 City and McLeod Development Company enter into a development agreement for public and private infrastructure improvements (City contract number 94-063). It covered an area that included the parcels currently owned by the City and Leuqar (APNs 242304-9034-02 and 242304-9137, respectively). McLeod's plan was to build an exhibition center.

- January 10, 1996 McLeod Development Company and Boeing enter into an easement agreement providing parking on Boeing property to benefit the McLeod Property. It covered an area that included the parcels currently owned by the City and Leuqar.
- March 12, 1998 the City approves a short plat (requested by McLeod) creating Lots 1 and 2 which are a portion of the parcels currently owned by the City and Leuqar. Recorder's No. 9803129013
- February 12, 2002 the McLeod Development Company signed a memorandum confirming they have abandoned development for an exhibition center and terminating the development agreement with the City. Recorder's No. 20020221001268
- April 28, 2005 Pacific Commercial Properties receives design review approval by City's Board of Architectural Review (City file number L05-015) and a conditional use permit by City's Planning Commission (file number L05-014) to develop 294 multi-family residential units and 5,000 sf of retail space.
- August 18, 2005 the City enters into a development agreement with Pacific Commercial Properties (City contract #AG05-090) that included provisions to exchange property and grant easements for parking, etc. This agreement was intended to enable the City to move the Union Pacific tracks to be adjacent to the BNSF tracks and for Pacific Commercial Properties to develop a 300-unit mixed use development (Tukwila Station).
- November 7, 2006 the City and Fountain Park LLC enter into a development agreement (City contract #AG 06-097) that was very similar to the previous development agreement with Pacific Commercial Properties. Fountain Park is a wholly owned subsidiary of Prium Companies. Recorder's No. 20061120001126
- May 7, 2007 the City approves a Boundary Line Adjustment requested by the City and Fountain Park LLC that created the lot configuration currently in place. Recorder's No. 20071011900001
- May 24, 2007 Fountain Park, LLC grants City certain property (the parcel the City currently owns) related to the boundary line

adjustment. Recorder's No. 20071011000106

- September 4, 2008 the City and Mastro Properties enter into a development agreement (City contract 08-082) to enable Mastro to vest to development rights previously held by Fountain Park. Vesting ended in 2011. Recorder's No. 20081003000213
- January 5, 2015 the City entered into an agreement to sell its parcel to Leuqar, LLC for a public event facility accommodating at least 15,000 attendees or parking for such a facility. Recorder's No. 20170711000012. Leuqar's purchase option expired in July 2017.

**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, Fifth Edition. Chicago: Appraisal Institute, 2010.

Purpose of Appraisal

The purpose of this appraisal is to determine 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].

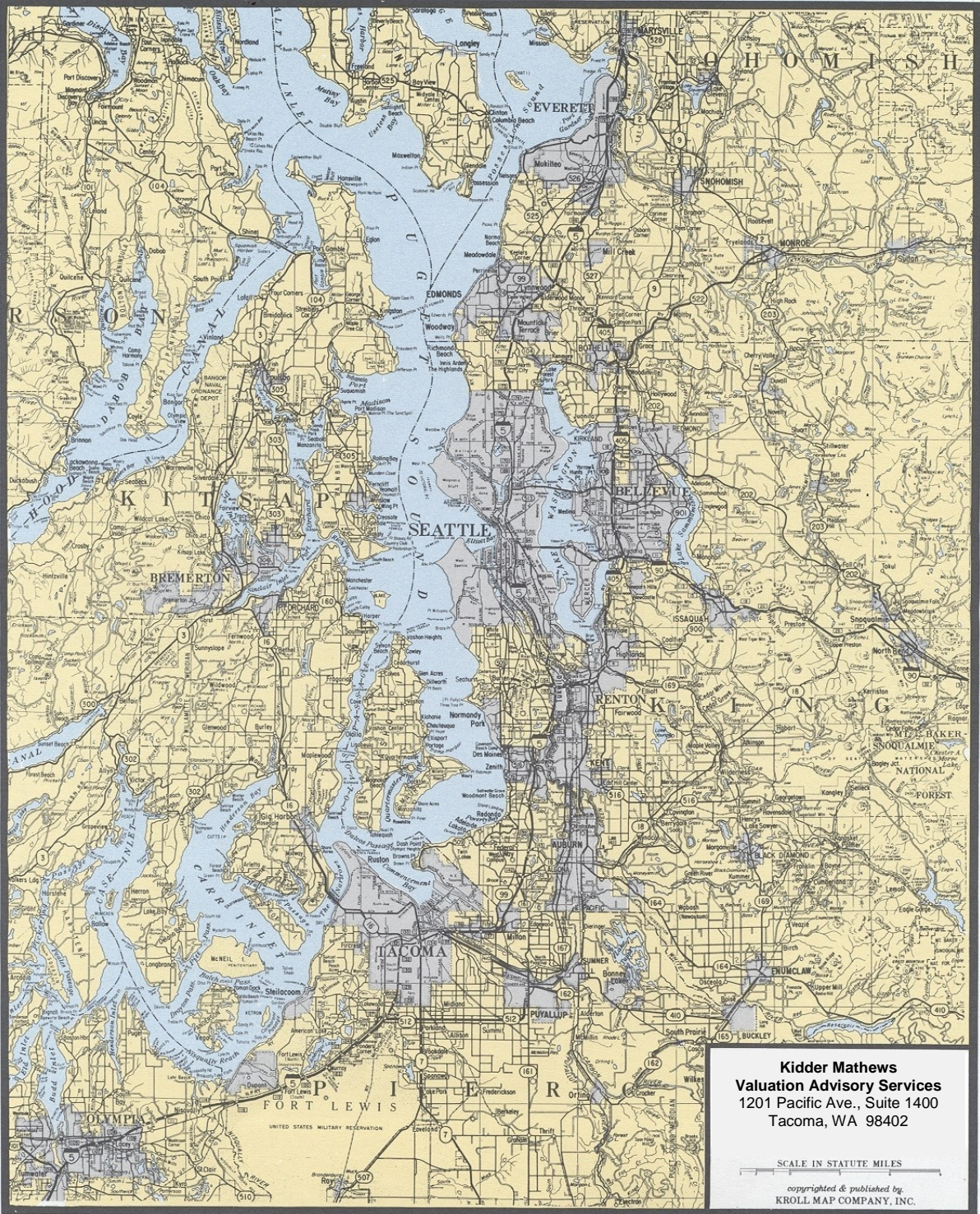
Scope of Work

The subject property is appraised based on the following scope of work.

- The Sales Comparison Approach was developed to value the properties, which consist of undeveloped land, with Corridor Valuation also completed to value the City of Tukwila parcel only. Neither the Cost nor Income Approaches to value have been developed. Exclusion of these two approaches does not affect the credibility of the appraisal or value conclusions.
- The research of data included both general and specific data. Sources of general data that are included in the market trends and neighborhood description were obtained from various private and governmental sources.
- Specific data concerning the subject was obtained from various sources including the City of Tukwila (zoning, site survey, site background), and King County (assessed values and real estate taxes).
- Data compiled in the analysis of the land sales was obtained from CoStar, CBA (Commercial Broker Association), as well as Kidder Mathews' own in-house data files.
- The Sales Comparison Approach is based on an analysis of price per sq ft of land area. The area of research of comparable land sales was the market surrounding Tukwila, including Renton, Kent, Federal Way and Auburn.
- For the valuation of the City's parcel, Corridor Valuation methodology has been applied (refer to the report details)
- All of the sales data was confirmed with a party involved in the transaction and/or through public records and each was inspected.

Intended Use & Intended Users	The intended users of this appraisal report include the City of Tukwila, Leuqar BB LLC, and their representatives. The intended use of this report will be to estimate the market value of both parcels as if legally combined into one property, along with the separate market values of each parcel, for internal decision making and marketing purposes, and possible sale negotiation, and may not be suitable for other uses.
Extraordinary Assumptions	None
Hypothetical Conditions	The valuation of both parcels as if combined legally as one site represents a Hypothetical Condition, which may have affected the assignment results.
Date of Report	October 29, 2018
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Market Overview



Regional Map

Regional Overview

Introduction

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

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 had added 295,600 new jobs through the end of 2017. Year over year (June 2017-June 2018) has gained 38,871 jobs, a slowing of job growth from earlier YoY results this year. Growth has continued to be strong in the region's tech businesses, but also in the lower wage categories. No significant negative effect resulted from increases in State and Seattle minimum wages. The retail category has done well as retail sales have improved for 29 quarters year over year. Employment growth was 2.8% to 3.2% over the past five years. Forecasts show a slowing to 2.4% in 2018 and 1.0% in 2019. The prospect of Amazon creating a second and equal headquarters would slow their growth in the Puget Sound in coming years, a significant change from the past 10 years.

Regional and National Economic Indicators

Annual Change	2009	2010	2011	2012	2013	2014	2015	2016	2017	Forecast	
										2018	2019
Puget Sound Region											
Employment	-4.9%	-1.7%	1.6%	2.3%	2.8%	2.8%	3.0%	3.2%	2.5%	2.4%	1.0%
Personal Income	-1.6%	2.5%	6.1%	4.9%	2.6%	6.2%	4.4%	7.5%	4.1%	4.6%	5.1%
Consumer Price Index	0.6%	0.3%	2.6%	2.5%	1.3%	1.8%	1.4%	2.2%	3.0%	1.9%	2.3%
Housing Permits	-50.1%	31.5%	11.9%	51.8%	8.9%	16.9%	22.5%	-4.9%	8.5%	-7.1%	-11.2%
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%	1.6%	1.5%	1.2%
Personal Income	-1.7%	3.7%	5.1%	4.2%	2.0%	4.4%	4.4%	2.4%	3.1%	4.5%	4.9%
Consumer Price Index	-0.3%	1.6%	3.2%	2.1%	1.5%	1.6%	0.1%	1.3%	2.1%	2.6%	2.2%
Housing Starts	-38.4%	5.6%	4.5%	28.0%	18.7%	7.8%	10.7%	6.1%	2.8%	8.6%	2.9%

Source: The Puget Sound Economic Forecaster, June 2018

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 2018 population (7,427,570) experienced a population increase of 13.7% during the previous decade. The region's growth rate was 1.7% in 2018, 2.0% in 2017, 2.2% in 2016, and 1.6% in 2015, with in-migration fueled by job growth. The lower population growth in 2018 mirrors the slightly lower year over year region wide growth rate

Employment

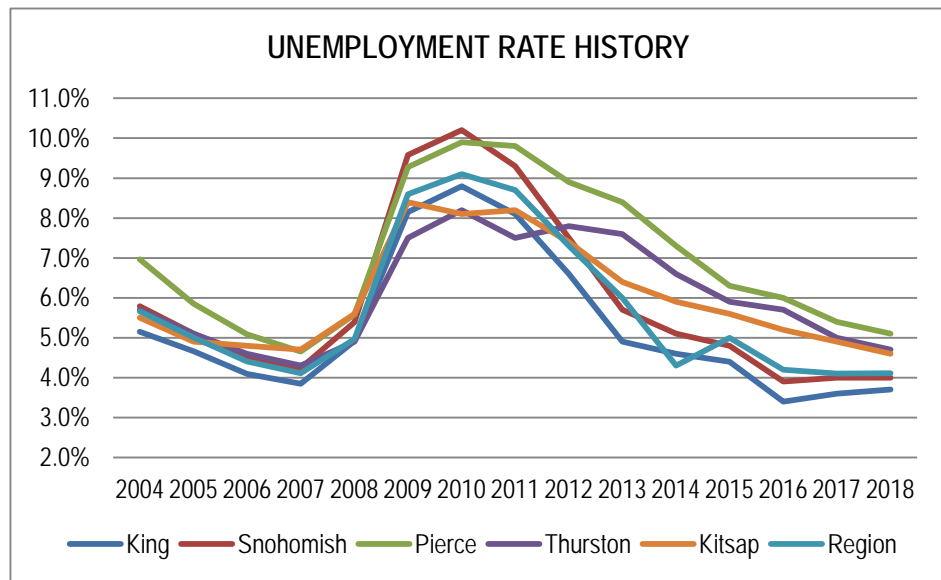
Regional employment is at an all-time high, well above the previous high in 2009. The recovery began in 2011. Year over year region wide employment growth for June 2018 was modest at 1.8%; 1.9% in King, Snohomish and Thurston, 1.7% in Pierce and 0.3% in Kitsap.

Non-Farm Employment

County	Jun-17		Jun-18	
	Jobs	Unemp.	Jobs	Unemp.
King	1,182,631	3.9%	1,204,627	3.7%
Snohomish	403,384	4.3%	410,948	4.0%
Pierce	391,944	5.2%	398,585	5.1%
Thurston	126,822	4.8%	129,197	4.7%
Kitsap	115,306	4.8%	115,600	4.6%
Region	2,220,087	4.3%	2,258,957	4.1%

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 600 of these are relocating to DuPont, so overall, a net loss of 800 jobs in the County.



Source: Washington State Employment Security Department

The unemployment rate has leveled off but remains near-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 45,000, with more than 30,000 in the Seattle CBD. Amazon continues to hire and fill office space. That plan was underlined by the completion of two 1.1 million sq ft office buildings for its own use, the starting of a third, and additional leases signed for over for 1.35 million sq ft in other Seattle projects. As mentioned above, Amazon is now finalizing the selection of a second headquarters location. Amazon plans for Seattle and the new headquarter site will house about 50,000 employees each at build-out. Microsoft had more local employees at 47,113 as of June 2017 and their growth rate is positive, but slower. Amazon’s created a tech hub in Seattle that has now prompted significant local expansions by Facebook, Google, Tableau, Zillow, Apple, eBay and Alibaba.

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’s total in 1997. This had declined to 3.0% as of December 2017 (the company now will report employees by state only on an annual basis). 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 in 2017 were up 6.5%, and also up 9.7% through the first three months of 2018.

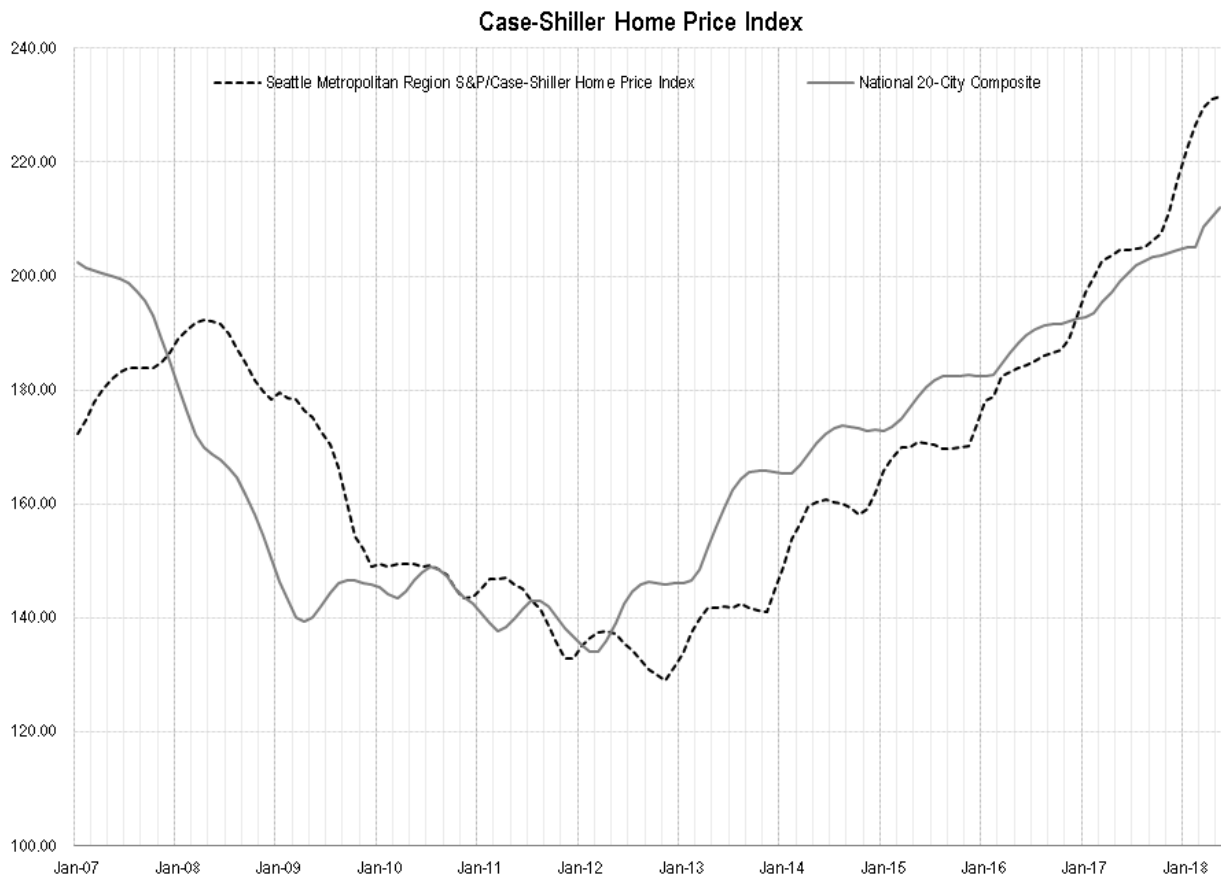
Washington State Retail Sales (\$,000)								
	2018	2017	2016	2015	2014	2013	2012	2011
4Q		41,415,190	38,412,020	35,933,056	33,372,252	31,172,889	29,435,885	27,890,822
3Q		41,310,158	38,497,518	35,845,087	33,249,625	28,788,875	28,766,782	27,293,863
2Q		38,657,150	36,795,596	33,883,425	30,973,320	28,998,096	26,803,035	25,613,078
1Q	37,550,231	34,215,275	32,364,927	29,712,715	27,248,916	25,985,522	24,028,170	22,943,062
Total		155,597,773	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 7.5% in 2016 before settling back at 4.1% in 2017. The forecast for 2018 is to be slightly higher at 4.6% and 5.1% 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 then back to the 1.9% average increase in 2018 and up to 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 showing 10.3% average annual appreciation between 2012 and 2017. Prices surpassed the peak reached in July 2007 in March 2016. As of May 2018, the Seattle index was 257.19, up 14.2% over the past 12 months and now 21.8% above the 2007 peak. The national prices are also increasing and are now back to 4.8% over their 2007 0.2% peak, showing 6.0% improvement over the past 12 months. Improvement was stronger in Seattle's close-in neighborhoods and on the Eastside around Bellevue. In those markets, inventory levels are low, but very recently are increasing, reducing pressure on prices.

Housing-permit activity increased by 16.9% in 2014 and 22.5% in 2015, then dropped -4.9% in 2016. Activity picked back up in 2017, increasing by 8.5%. That trend is expected to reverse in 2018 and 2019, falling by -7.1% and -11.2% respectively as single-family and multi-family developers work through projects already in the pipeline. Slowing those starts are the forecasts of decreasing employment growth and increasing interest rates.

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 high on the institutional buyers' list. Demand continues although pricing has become somewhat more cautious. Vacancy rates in the region are as follows:

Regional Vacancy Rates-August 2018

Segment	Seattle	King	Pierce	Snohomish	Kitsap	Thurston
Office	6.5%	7.0%	6.1%	7.4%	7.5%	3.8%
Industrial	1.9%	2.9%	3.3%	3.6%	0.7%	2.5%
Apartment	5.5%	5.5%	3.8%	4.0%	4.3%	4.3%
Retail	2.7%	3.0%	4.1%	4.3%	5.2%	3.1%

Source: CoStar

Rent growth in the apartment market has moderated over the past three quarters, but buyers remain active and prices strong 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 2019/2020 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 increased 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 for Seattle. Developers are building space for Facebook, Google, and Tableau, with projects in Seattle, Bellevue and Kirkland.

Industrial leasing is strong. After a slight slowdown in the 1st quarter of 2018, it picked up significantly in the 2nd quarter. 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 buoyed 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

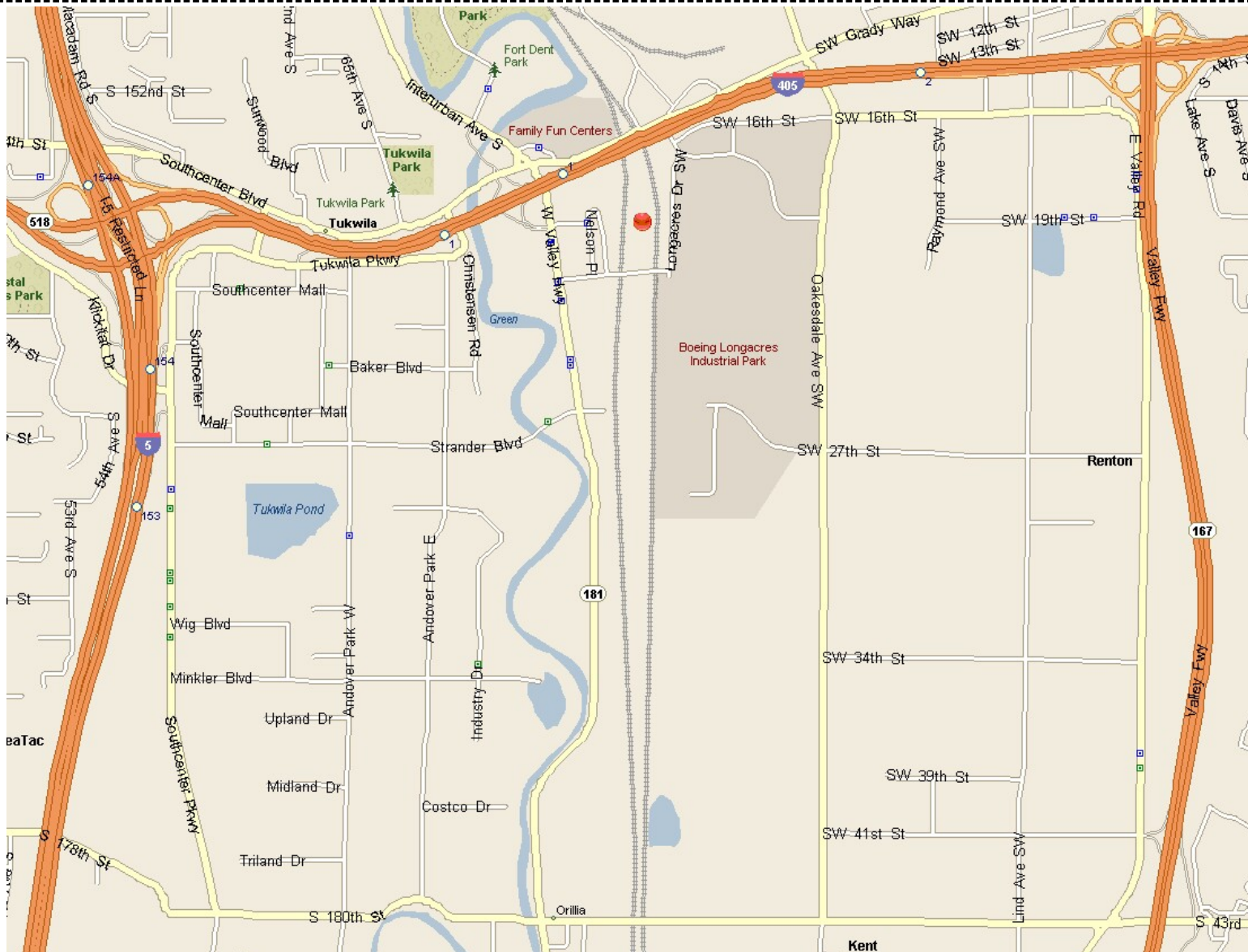
rate growth is acknowledged. That factor will likely have an effect on going-in rates at the next increase as the previous one was absorbed via lower equity return. Many investors do not plan to repeat that adjustment.

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 2.5% following the 3.2% growth in 2016. Additional growth is forecast but the anticipated rate will be lower in 2019 and much lower in 2020. Retail sales have increased between 6.5% and 8.6% per year between 2014 and 2017 with 2017 at the low end of that range. Through the first quarter of 2018 picked some of that slack showing an increase of 9.7%. The region is expected to outperform most of the nation, based on the diversified core of the economy anchored by Microsoft, Amazon and Boeing. 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 certain to moderate growth.

Most of the local real estate markets are in some level of ascendance, or extended peak-plateau. Apartments remain perched at a high plateau. Pending supply is a major concern and there are some initial signs of vacancy increase and flattening rent growth. Still there are limited signs of any significant descent any time soon. 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.



Neighborhood Map

Neighborhood Description

Introduction

The subject is located in Tukwila, WA, across I-405 from the Bullwinkle’s Family Fun Center and less than ¾ mile northeast of the Southcenter Mall at the northern end of the greater Kent Valley. The property lies between and is bounded by railroad track lines; near the southeast corner of the larger site area is the new Sounder station recently constructed.

Generally, the subject’s neighborhood boundaries are defined as follows:

North	I-405
South	S. 180 th St.
East	SR 167
West	I-5

Neighborhood Overview

The site is located in the City’s Southcenter District (District), which is a major regional commercial hub that attracts millions of people every year for work or to enjoy shopping, dining, and entertainment. The District is also one of the region’s designated urban centers, which are areas intended for a concentration of jobs and housing. The District is seeing its first urban style growth with the recent opening of the nineteen story Hotel Interurban/Airmark Apartments building, which is now the tallest building between Seattle and Tacoma.

The District is anchored by Westfield Southcenter, which is the largest mall in the Pacific Northwest and houses hundreds of retailers including Nordstrom, Apple, and Uniqlo and dozens of restaurants, including Din Tai Fung, Joey’s, and Moctezuma’s. Near the mall are many other restaurants and retailers including Odin Brewing, Arashi Ramen, and Miyabi Sushi. The area has many unique entertainment venues such as ACME Bowl, Family Fun Center, Flying Circus, Foster Golf Links, I-Fly Indoor Skydiving, the Museum of Flight, Round One, Starfire (the region’s largest soccer complex and home to the Seattle Seawolves major league rugby), and Virtual Sports. The District is served by LA Fitness and by the Green River and Interurban trails which offer miles of walk and cycling.

The Westfield Southcenter Mall is a 2.35 million sq ft regional mall located at the southeast quadrant of I-5 and I-405 and anchored by Nordstrom, Macy’s, Sears, Penney’s and a new Asian grocery. Over the past decade or more, retail uses have begun to spread south from the

mall to areas formerly dominated by office park and light industrial uses. Most major retailers present in the Puget Sound region are represented in the Southcenter area.

Areas south and east of the retail district are now dominated by office uses as increasing land values lead to more intensive development. This is the result of a recent trend of employers moving to the South King County area due to its lower cost of doing business and convenient access to major employment centers in Tacoma, Seattle, and Bellevue. Tukwila is expected to experience continued population growth because of its access to major employment centers.

The subject is situated roughly within the northeast quadrant of the I-405/I-5 Interchange. To the west and southwest are office buildings and several hotels. The Southcenter mall and additional retail destinations are further west across the Green River. To the south of the subject is the rail station and offices followed by industrial uses. On the east side of the tracks is the Boeing campus including training and flight services.

The Tukwila Transit station has recently been completed and serves both Amtrak and the Sounder and is located directly opposite SW 21st St. from the subject.

Development History & Trends

The former Longacres Racetrack located east of the BNSF railway was a horse racetrack that operated from 1933 to 1992. It was the home of thoroughbred racing in western Washington and was the longest continually operated track on the West Coast. The land was sold to the Boeing Company and the track closed in September 1992. The property is now developed with the Boeing Training and Flight Services center used to provide training to pilots and other aviation professionals.

North of the subject is I-405 and beyond that is the Family Fun Center, a family-oriented amusement park. Overall, the immediate neighborhood is nearly fully built-out with a mix of commercial uses, however the recent addition of the Sounder Station might affect some of the uses going forward.

Directly south and southeast of the subject is the Tukwila Station for the Sounder commuter train providing service from Tacoma to the south to Everett to the north. The Sounder operates on a BNSF railway. Amtrak also uses the station. The station originally opened in Fall of 2012, and has recently completed most construction adding a 390 stall parking lot and bus shelters.

Development in Process

Below are some recent or proposed Tukwila projects that have been completed or are in various stages of the development pipeline:

- Hotel Interurban/AirMark Apartments – 223 Andover Park East. This is a 19-story building with 370 apartments and 185 hotel rooms. Completed in 2018.
- WoodSpring Suites – 15637 West Valley Highway. Opened in 2018.
- Marvelle – 415 Baker Boulevard. Under construction. Developed by Alliance Residential. 166 residential units for active seniors (55+). Sold in 2018 for \$4.2 million for 52,000 sf lot and building (that was demolished).
- Tru by Hilton – 92 unit hotel. Received City design review approval. Parcel 2623049075 – 62,000 square foot parcel sold in 2018 for \$2.9 million.
- Element by Westin – 177 room hotel. Received City design review approval. Parcel 022340-0070.
- Alliance Residential Assisted Living – 136 units. 112 Andover Park East.
- Fairfield Inn & Suites – 15470 Nelson Place. Six-story hotel with 100 guest rooms. In pre-application stage.
- Vietnamese Martyrs Parish – 6801 South 180th. Recently submitted plans to renovate and add to existing church. Approximately 90,000 total square foot of new and remodeled church.

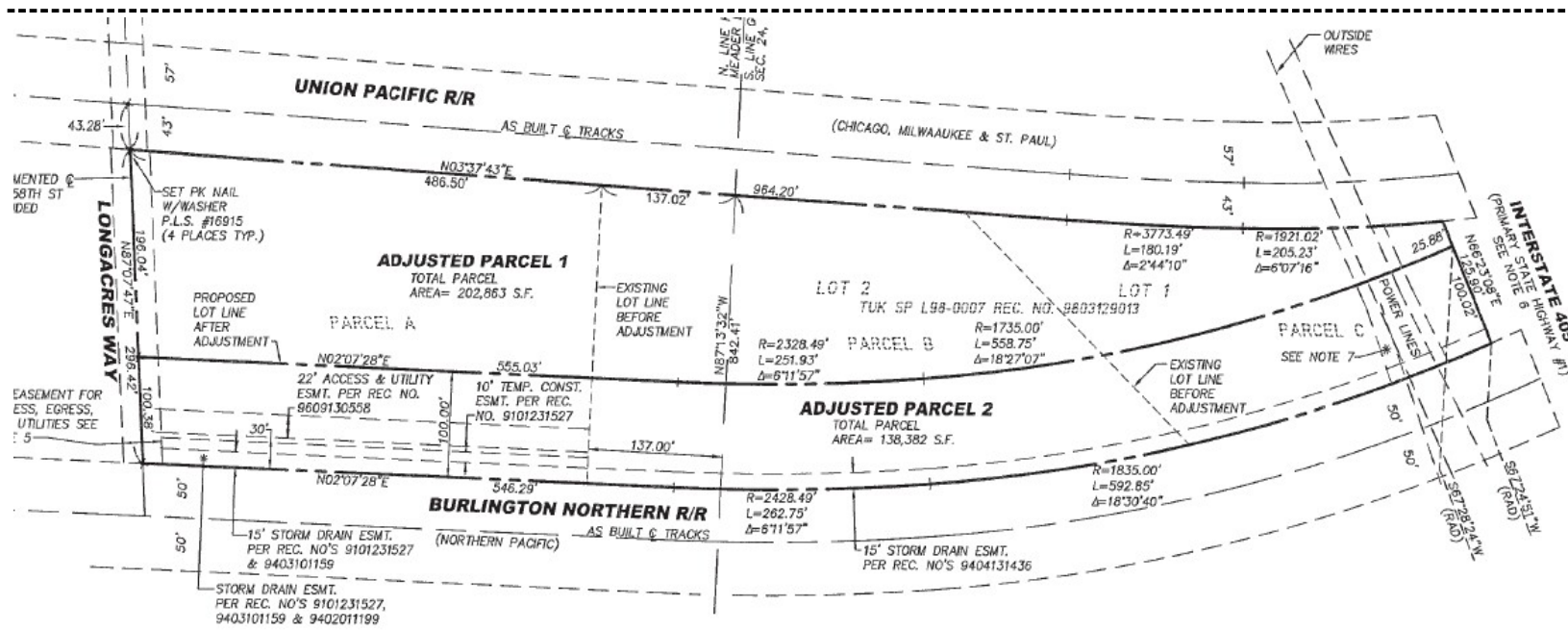
Conclusion

The outlook for the greater Tukwila area and surrounds is generally positive, given population growth, excellent access, and the continuing transition from industrial to retail service and office uses and the expanding residential base. The subject neighborhood is expected to remain a desirable location, and should provide good support for the subject use.

Property Description



Parcel Map



Site Survey

Leuqar BB LLC – Adjusted Parcel 1
 City of Tukwila – Adjusted Parcel 2

(North is on the right)

Property Description

Site Description - Overview

This appraisal includes two parcels, one of which is owned by the City of Tukwila, and the other by Leuqar BB LLC. They will be appraised both individually, and as if combined together into one larger site (“the property”).

PROPERTY ADDRESSES/ LOCATION

Neither parcel has an identified street address. The property is located between Longacres Way on the south, I-405 on the north, and between two railroad track lines on both the east (BNSF) and west (Union Pacific) sides of the property, in Tukwila, WA 98055.

SITE SHAPES, DIMENSIONS & LAND AREAS

The overall site area is slightly irregular in shape. The City’s parcel is a curved, nearly-rectangular shaped parcel, while the Leuqar BB LLC parcel has an irregular shape that narrows at its northerly end. Refer to the site exhibits shown to visualize the site shapes, including a Site Survey as prepared by Eastside Consultants, Inc. in February 1998. This survey is the basis for the site areas delineated below, which I have relied on for this appraisal (and which site areas are consistent with those shown on the King County Assessor’s records for each parcel).

Together, the site area contains 341,245 sq ft, or about 7.84 acres. The City’s parcel contains 138,382 sq ft, or about 3.18 acres, while the Leuqar BB LLC parcel contains 202,863 sq ft, or about 4.66 acres.

Together, these parcels have about 296.42 ft of frontage along Longacres Way on their southerly ends, with the City parcel’s width and frontage consisting of 100.38 ft and the Leuqar BB LLC parcel’s width and frontage consisting of about 196.04 ft. Combined, the site narrows to about 125.90 ft on its northerly end (100.02 ft City and 25.88 ft Leuqar BB LLC). The City’s parcel has an easterly site boundary of about 1,401.89 ft, the Leuqar BB LLC parcel has a westerly boundary of about 964 ft, while the shared middle-of-the-site boundary (east side of Leuqar BB LLC site and west side of City site) is about 1,365.71 ft.

For the City parcel, refer all to Easements regarding a storm drainage easement along the easterly side of that parcel.

STREETS, ACCESS & EXPOSURE

The site fronts along the northerly side of Longacres Way, a paved city local access street with room for one lane each of east-west traffic flow. The City’s parcel has an access easement over the Leuqar parcel.

There is no improved street access from the east and west sides of either

site, nor from the north end of either site. Presently, a gravel driveway has been created on or near the westerly side of the larger site area (on the Leuqar BB LLC parcel), which extends from the south side of the site to near the northern end of the site. While this driveway may provide or allow some on-site accessibility during any development or on-site construction, it likely would be removed or replaced for final site development.

Freeway Access: The District where the property is located includes the intersection of I-5 and I-405, which is the busiest interchange in Washington State. The site is adjacent to I-405, with nearby vehicle access.

Airport Access: The District where the property is located is two miles from SeaTac International Airport and King County International Airport (Boeing Field). The site is readily accessible to SeaTac Airport via transit.

Transit Access: The site has excellent transit access. It lies across the street from the Tukwila Sounder station, which is served by 13 Sounder commuter trains between Seattle and Tacoma/Lakewood each way every weekday, which offers a 20-minute ride to and from downtown Seattle. It is also served by Amtrak Cascades with service between Seattle and Portland and Amtrak Coast Starlight with service to California and Vancouver, BC. The Sounder station is also served by King County's Rapid Ride F Line providing frequent service between Burien and Renton with stops in between, including at the Tukwila light rail station. The site is a 10-minute walk to King County Metro bus route #150 with frequent service to downtown Kent and downtown Seattle. It is also the location for a stop on the future bus rapid transit that will be built along I-405.

Exposure to/of the property is from Longacres Way, I-405, and both railroad lines.

**TOPOGRAPHY & SOIL
CONDITIONS**

The site is generally fairly level and at or near grade with Longacres Way (about 2 ft above street grade). I-405 and both of the abutting railroad track lines lie well above the grade of the site. There is a ditch running most of the length of the property along the east side of the site (refer again to Easements regarding the storm drain easement).

I was provided a copy of a 2005 (August 3) Geotechnical Engineering Report for the property, as prepared by Associated Earth Sciences.

According to this report, the site can be developed using pile foundations and structural floor slabs. Otherwise, soil conditions are assumed adequate to support the development of the property to its highest and best use, as long as the development conforms with the recommendations by the geotechnical engineers. It is also noted there are some mounded soils on portions of the site, which I understand will be removed for site development.

UTILITIES

Public utilities including natural gas, electricity, telephone, water and sewer are available to the subject site from along Longacres Way.

**ASSESSOR'S
INFORMATION**

The City's parcel is currently owned by a public entity, and thus has not been assessed and is exempt from property taxes. Miscellaneous fees totaling \$201.26 apply to the City's parcel for 2018.

The 2018 assessed value (land only) for the Leuqar BB LLC parcel is \$3,550,100, and taxes and fees total \$48,216.45.

**EASEMENTS,
ENCROACHMENTS,
COVENANTS &
RESTRICTIONS**

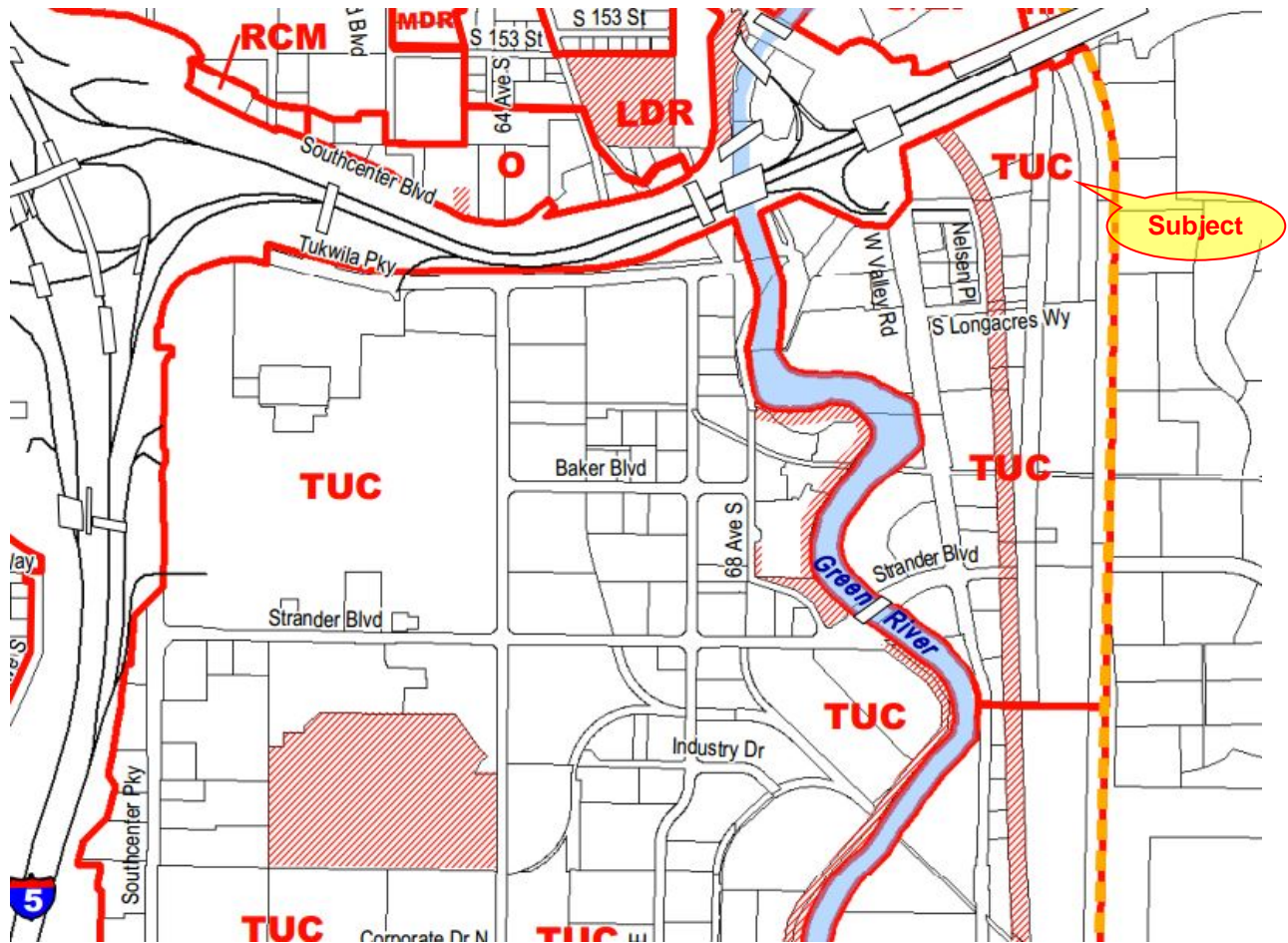
I was provided with an ALTA Commitment For Title Insurance report for the City's property (which does not include the Leuqar BB LLC parcel), as prepared by Fidelity National Title, under their Commitment No. 611195951, dated as of September 26, 2018. The report identifies a number of various easements and agreements that pertain to the property (refer to the title report and recorded documents). I have also referred to the ALTA Site Survey, which reflects some easements, in particular a 15 ft wide storm drainage easement that lies along with easterly side of the City's parcel. It does not appear that this easement, or other noted easements, negatively impacts the overall utility or the highest and best use of either the City parcel or the larger property.

Some of the noted title exceptions have been, or will be, addressed by the City, according to their representatives, in order to ensure transfer of clean title: Exception No. 21 reportedly does not pertain to the subject site, and the City will ask that it be removed; Exception No. 22 will be removed, since the City owns the parcel; and Exception No. 23 will be cleared by the City.

Special Exception No. 14 pertains to a parking easement for up to 750 vehicles on part of a Boeing property (Longacres Park) that benefits the property (both parcels), and which will be taken into consideration in the analysis.

No other easements, encroachments, covenants, or restrictions were

noted that might impact the use, marketability, or value of the subject property. This report assumes that there are no unusual easements, restrictions, covenants, or encroachments that have a negative impact on the use, value or marketability of the property.



**ZONING AND
DEVELOPMENT
STANDARDS**

The property is zone TUC; Tukwila Urban Center, by the City of Tukwila.

The TUC-TOD district is intended to provide a more compact and vibrant mix of housing, office, lodging, and supportive retail and service uses. Examples of permitted uses are: office, multi-family and mixed-use residential, townhouses, lodging, commercial indoor recreation, general retail, personal services, athletic/health clubs, restaurants, daycare centers, commercial parking (day use only), vehicle rental and sales, educational/instructional facilities, and convention/exhibition facilities. See TMC Chapter 18.28 for detailed zoning regulations and a complete list of permitted uses.

In 2014, the City adopted the Southcenter Subarea Plan and updated the development regulations for the TUC Zone. As part of that work, the City completed an area wide environmental review. This means that development proposed in the TUC will not be subject to environmental review and project specific SEPA-based administrative or judicial appeals as long as certain criteria are met. The criteria ensure the proposed development is consistent with the Southcenter Subarea Plan and that the impacts were already considered in the Plan Update. The complete description of the criteria and a consistency checklist is available in Tukwila Municipal Code (TMC) section 21.04.165 which is available on the City's website.

Maximum building height without incentives is 45 feet. Heights can be increased to 70 feet when the developer provides frontage improvements. Heights can be increased to 115 feet when developer provides frontage improvements in combination with either multi-family housing, LEED certification, or affordable housing. See TMC 18.28.070 for additional information on the requirements for the height incentives.

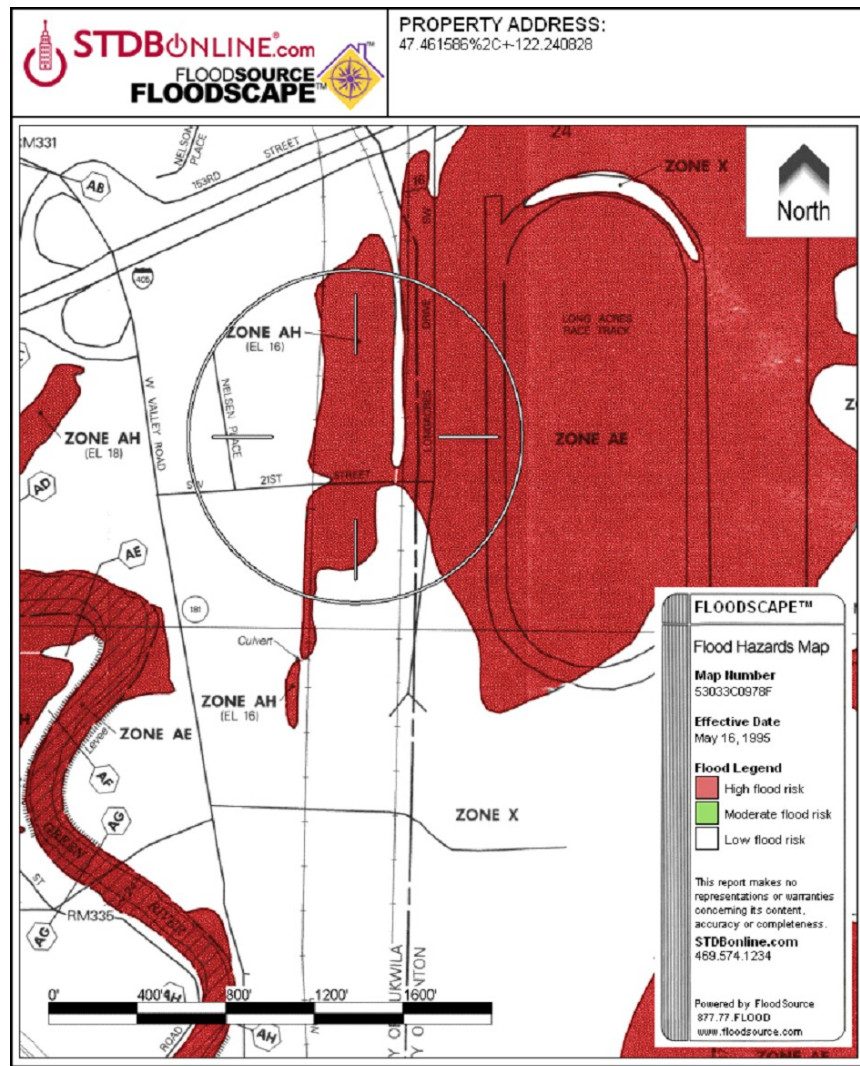
Minimum setbacks for front and side yards are 15 and 10 feet, respectively. Off street parking requirements for office and retail are 3 and 4 stalls per 1,000 sq ft usable floor area, respectively, whereas TOD housing requires 1 space per one-bedroom unit and 2 spaces per two-bedroom unit.

FLOOD ZONE

According to the Flood Insurance Rate Map No. 53033 C0978F, effective May 16, 1995, the southern $\frac{3}{4}$ of the subject site is located in Zone AH, an area determined to be of high flood risk, the remainder is located within Zone X, an area outside the 100-year floodplain. This map is currently in effect.

As a significant portion of this site lies within Zone AH, a Special Flood Hazard Area, new development on the site must receive a Flood Control Zone Permit issued by the City of Tukwila. Permit requirements can be found at TMC Chapter 16.52.

FEMA is revising the flood maps, and it is possible the designation will change once the new maps are adopted. Contact FEMA for more information on the map revisions.



EARTHQUAKE ZONE

The International Building Code (IBC) is the newly adopted building code in Washington State. The IBC uses a new 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 appraisers do not possess the expertise in seismic, structural & geotechnical engineering, further analysis is required to determine the subject’s degree of risk.

In the earlier-noted Geotechnical Engineering Report, it was noted that the site has a “high risk of liquefaction;” thus, the recommendations to

use pile foundations and structural floor slabs in any building development.

**HAZARDOUS
DISCLAIMER**

It is an assumption of this report that the site is not contaminated with any hazardous materials. Refer to Limiting Condition No. 2.

CONCLUSION

In summary, the site characteristics are similar to other properties in the immediate vicinity with the exception of flood potential. The long and narrow shape of the City's parcel significantly impacts site utility and access, as well as development capabilities. The flood potential will need to be addressed with appropriate planning, flood control measures and/or proper development design.

Highest & Best Use

Highest & Best Use

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

The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value.

Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. As the property consists of vacant, undeveloped land, the analysis is limited to the Highest and Best Use As Vacant.

As Vacant

As noted earlier under Zoning, legally permissible uses under the TUC-TOD district, which is intended to provide a more compact and vibrant mix of housing, office, lodging, and supportive retail and service uses, include office, multi-family and mixed-use residential, townhouses, lodging, commercial indoor recreation, general retail, personal services, athletic/health clubs, restaurants, daycare centers, commercial parking (day use only), vehicle rental and sales, educational/instructional facilities, and convention/exhibition facilities.

The site, due to its proximity to the Sounder Station, can also take advantage of the transit-oriented development overlay which additionally allows mixed use and multi-family use. As the zoning and use of nearby properties is similar, a zoning change is not likely.

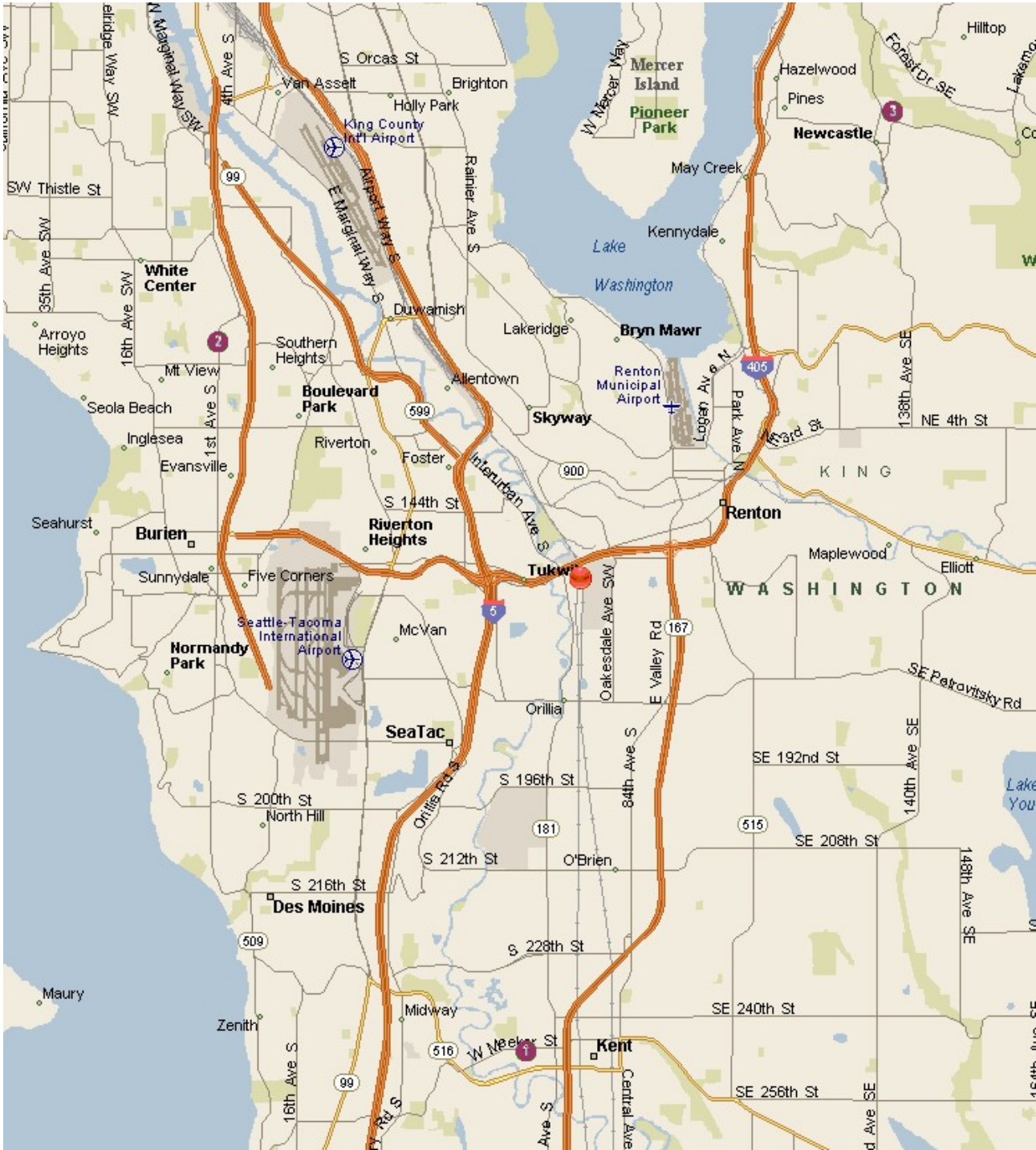
Physically, the size and shape of the combined site area, and the size and shape of the Leuqar parcel alone, is conducive to building development, and can support any of the legally permitted uses. The shape of the City’s parcel alone, however, including its limited accessibility, limits its development potential.

In terms of market demand and feasibility, there are a number and variety of properties in Tukwila now under development, and retail uses are strong around the Mall. However, the property’s location is not considered sufficient to support a purely retail-oriented use. The city is in a definite growth mode, and overall market trends for the surrounding area and the region are very positive. Many sites surrounding the Sounder and other light rail stations are being developed in the current

market, and demand is high for appropriate sites for mixed use development. The multi-family market is also very strong at present, and it is my understanding that a number of parties have expressed an interest in the site for this type of development, either solely or as the predominant use in a mixed-use project.

Thus, the maximally and highest and best use of the combined property or the Leuqar site alone is development with a residential or mixed-use, transit-oriented development. For the City's parcel, given its shape and the other factors noted, development as a standalone property does not appear likely, except for assemblage with the adjoining Leuqar site area.

Sales Comparison Approach – Land Valuation



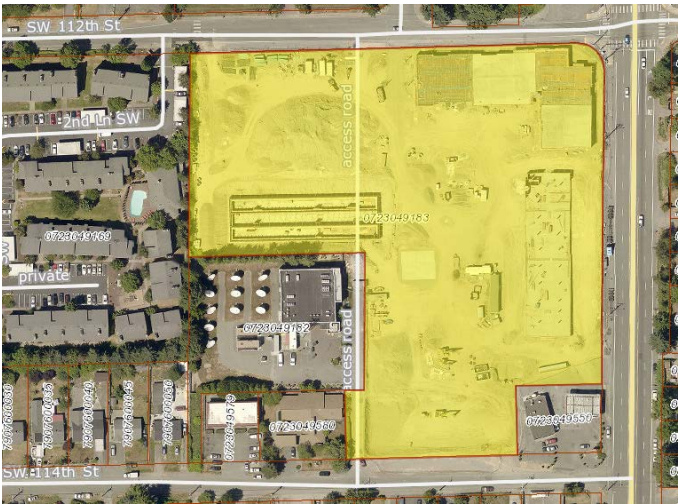
Comparable Land Sales Location Map

Comparable Land Sale Parcel Exhibits

Comparable 1



Comparable 2



Comparable Land Sale Parcel Exhibits

Comparable 3

Part of a larger MPC – refer to file

LAND SALE COMPARISON SUMMARY

No.	Identification / Location/APN	Buyer / Seller / Confirmation	Sale Date	Size sf/ Acres	Zoning	Sale Price	\$/Sq Ft	Comments
L-1	6500 W. Meeker St. Kent, WA APNs 2322049034, -9084, -9085	G/R Meeker St. LLC Seattle Healthcare Properties LLC Don Moody, broker 253.596.0043	Aug-17	435,600 10.00	CCMU	\$4,000,000	\$9.18	Raw land. Corner site. Three parcels of about 3.33 acres each; total site area of 10 acres. Holding for future development.
L-2	Southside by Vintage 11203 1st Ave S Seattle WA APN 0723049183	Impola Homes, Inc. Coastal Community Bank Mala Virani, rep 425.462.6989	Sep-16	285,919 6.56	CBSO	\$4,300,000	\$15.04	Buyer developed an affordable senior housing complex on the site.
L-3	Avalon Newcastle Site 6620 SE Coal Creek Parkway Newcastle, WA APNs 2724059006, -9040, -9099	Quadrant Corporation Newcastle JV, LLC Ron Branch, broker 425.822.5100	Jan-17	386,377 8.87	MJR	\$17,000,000	\$44.00	Finished grade site. Part of a larger Master Planned Community. Proposed for development with 95 townhomes.
SP	Combined Tukwila Parcels Tukwila, WA APNs 242304-9034 and -9137		Sep-18 Appraisal	341,245 7.83	TUC	\$8,531,125 \$8,530,000	\$25.00 Rd	Value under hypothetical condition assuming both parcels legally combined into one site
	Leuqar Parcel Only APN 242304-9137		Sep-18 Appraisal	202,863 4.66		\$4,564,418 \$4,560,000	\$22.50 Rd	Market value, Only Leuqar parcel as a standalone site
	City Parcel Only APN 242304-9034		Sep-18 Appraisal	138,382 3.18			\$22.50 0.50 \$1,556,798 \$1,560,000	ATF market value, City parcel only as a standalone site Corridor Valuation Factor Market value conclusion

Sales Comparison Approach – Land Valuation

Introduction

The Sales Comparison Approach is based on the premise that the 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 are investigated and compared to the subject in this analysis. A summary of pertinent details to the comparable sales selected has been presented on the previous page with a location map presented at the beginning of this section.

The analysis begins with the valuation of the entire property, including both parcels as if combined into a single legal site (this represents a Hypothetical Condition, which may have affected the assignment results).

Next, the analysis and valuation will be applied to only the Leuqar BB LLC parcel (Adjusted Site 1), as a standalone property.

Finally, the analysis and valuation will be applied to only the City's parcel (Adjusted Site 2), also as a standalone property.

While the site's highest and best analysis is concluded to be for multi-family residential development and use, or as a mixed-use project primarily with multi-family residential units along with some supporting commercial office and/or retail use, due to the lack of a site-specific development plan the analysis will consider the value of the property based on a price per sq ft unit basis, rather than a price per residential unit.

Recent sales of similar sized sites (nearly 8 acres), whether in Tukwila or the immediate market area, were limited, and the market area searched was expanded into other areas of King County, including Kent, Burien, and the greater Bellevue area. Also, the search timeframe had to be extended back to 2016. Three sales were identified that were considered sufficient for analysis.

Comparable Land Sales

The comparable land sales range from \$9.18 to \$44.00/sq ft of gross site area. When analyzing the comparables, adjustments are appropriate to properly account for differences of property rights conveyed, financing terms, conditions of sale, market conditions, and physical and functional characteristics. A discussion of the sales is presented below, followed by an adjustment summary grid.

**Comparative
Analysis – Summary
of Sales: Combined
Site Area**

Land Sale No. 1 closed in August 2017, so some upward adjustment for market conditions is necessary. This property is located in Kent, an inferior location to the subject, so an upward adjustment will also be made for this factor, despite this being a corner site fronting on two streets. This site is somewhat larger in size than the subject site, and it consists of raw, undeveloped land, so upward adjustments are also made for size and overall site utility. Overall, this sale is considered inferior to the subject site.

Land Sale No. 2 closed in September 2016, so an upward adjustment for market conditions is necessary. This was a bank property REO sale, so an upward adjustment for conditions of sale is also needed. This property is located in Burien, considered an inferior location to the subject, so an upward adjustment will also be made for this factor. This site is slightly smaller in size than the subject site, so a downward adjustment is made for size. Overall, this sale is considered inferior to the subject site.

Land Sale No. 3 closed in January 2017, so an upward adjustment for market conditions will be made. This property is located in Newcastle, and is part of a larger Master Plan Community, considered a superior location to the subject, so a downward adjustment will be made for location. This site is slightly larger than the subject site, so an upward adjustment is made for size. A substantial downward adjustment is made for overall site utility, as this site was sold with a finished grade ready for development. Overall, this sale is considered superior to the subject site.

Adjustment Table

Adjustments noted above for each sale are reflected in the chart shown on the next page.

Adjustment Summary

Sale \$/sq ft	<u>L-1</u> \$9.18	<u>L-2</u> \$15.04	<u>L-3</u> \$44.00
<u>Adjustments for:</u>			
Conditions of Sale	0	+	0
Market Conditions	+	+	+
Location	+	+	-
Site Size	+	-	+
Site Utility	+	0	-
Comparison to Subject:	Inferior	Inferior	Superior

**Market Value
 Conclusion,
 Combined Site Area
 Property**

Emphasis is placed on both Comparable Land Sale Nos. 2 and 3, with more emphasis on L-2 than L-3 considering that L-3 has a far superior location and was a finished-grade site. Considering the above elements of comparison and current market trends, my opinion of the value of the fee simple interest of the subject property (both parcels as combined into one legal property) is \$25.00/sq ft, or:

$$341,245 \text{ sq ft @ } \$25.00/\text{sq ft} = \$8,531,125$$

Rd \$8,530,000

Based on a recent proposal to develop the site with up to 300 multi-family units, the above value conclusion equates to a price of just over \$28,000/unit, which appears reasonable and supportable based on overall multi-family residential land sales in the greater market.

**Market Value
 Conclusion, Leuqar
 Parcel Only**

Taking the same sale comparables into consideration, and despite the somewhat smaller size of the Leuqar parcel than both parcels combined, due to the slightly more limited site configuration I conclude to a value of the fee simple interest of the Leuqar parcel of \$22.50/sq ft, or:

$$202,863 \text{ sq ft @ } \$22.50/\text{sq ft} = \$4,564,418$$

Rd \$4,560,000

**Valuation of City of
Tukwila Parcel**

The City's parcel was originally acquired by the City in order to relocate the abutting railroad track line that lies just to the east of the parcel. Thus, this parcel was intended to be part of a larger (longer) rail corridor. However, the rail line was never relocated, and the City now has a long, relatively narrow parcel it seeks to sell off (liquidate). Thus, before proceeding directly to the land valuation of the City parcel, it is important to discuss and note the characteristics of the methodology that must be employed in valuing a property such as the City's parcel, which represents an abandoned (and to be liquidated) section of a "corridor".

A "corridor" is defined as:

A strip of land used for transportation or transmission purposes (e.g., rail, highway, power, information, slurries, liquids).

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

When appraising a property that represents all or part of an existing or proposed corridor, those issues, factors, and methodologies that are appropriate and pertinent in valuing this type of property must be considered. The following provides an overview and discussion of issues and methodologies that play a role in the analysis and valuation of corridor properties.

**Corridor Valuation
Methodology
Overview**

There exist a variety of valuation methods that may be employed for corridors, such as:

- 1) Replacement Cost New Less Depreciation (RCNLD);
- 2) Sales Comparison Approach (SCA);
- 3) Net Liquidation Value (NLV);
- 4) Going Concern Value (GCV);
- 5) Across the Fence Value (ATF); and,
- 6) Corridor Value (CV).¹

¹ Gary S. Valentine, ASA, SRWA, *Right of Way*, Nov./Dec. 1998 Issue, Pages 8 - 10.

**REPLACEMENT
COST NEW LESS
DEPRECIATION**

The Replacement Cost New Less Depreciation (RCNLD) reflects the costs of assemblage of a corridor, and has been recognized by the courts as “an acceptable approach to a determination of just compensation.”² But, this approach is seldom employed in valuing corridors that already exist. This valuation method is more applicable in the case of valuing property acquired for creation of a new corridor.

**SALES COMPARISON
APPROACH**

The Sales Comparison Approach is “most applicable when several sales of comparables ... have sold in the subject’s market area.”³ This approach is applicable if there are sufficient recent sales of comparable right-of-way corridors in the competing market area analyzed.

The difficulty in using this method is not only a lack of sales of comparable corridors in the market, but also that confirming the data pertaining to any of the sales is usually difficult – if not impossible – due to the reluctance of the involved parties sharing any of the details of the sales. Further, actual corridor sales usually consist of entire (or very lengthy portions) of corridors, rather than small sections (the subject site represents a very small portion of what was to be part of an existing, much longer rail corridor).

**NET LIQUIDATION
VALUE**

Net Liquidation Value (or NLV) is the valuation approach employed when a corridor is abandoned, and will no longer be needed or utilized even as an alternate type of corridor (for recreation or utility purposes, for example). Net liquidation value is “the estimated aggregate price, discounted for time (and costs) required for sale, that adjoining owners pay for the tracts of land to which the (seller) has good title.”⁴ In other words, the net liquidation value is “the present value of the net amount the owner will realize if the corridor is sold piecemeal,”⁵ after accounting for the time of liquidating the parcels and the costs associated with the sale.

² Ibid, Page 8.

³ Ibid.

⁴ Zoll, “Rail Corridor Sales,” Page 380.

⁵ Valentine, Page 8.

**GOING CONCERN
VALUE**

The Going Concern Value (or GCV) is “the value created by a proven property operation ... which refers to the intangible elements of a business arising from such factors as having in place a trained, qualified work force, an operating plant and the required licenses, systems and procedures.”⁶ Typically, non-realty elements are not considered when appraising only the real estate portion of a property. Further, in order to estimate a “going concern” or “business value” of a corridor, which includes non-realty components, would require extensive analysis of the entire corridor operation, and then to somehow segregate a portion of the total business or “going concern” value applicable to only the portion pertaining to the “permitted” portion of the property (a partial interest). This methodology typically applies to a business operation such as a railroad. Also, there does not exist any sound methodology by which a ‘partial interest’ can be ‘extracted’ and applied to a portion of the total “going concern value” of the larger corridor when valuing only a small portion of a corridor.

ACROSS THE FENCE

The Across the Fence (or ATF) value is “the estimated sale price based on the unit price of sales of similar land adjoining the subject.”⁷ To estimate ATF value, a corridor is usually divided into segments of similar Highest and Best Use derived from analyzing surrounding uses, sales data for these uses is gathered, and the ATF value is estimated from the unit rates reflected by sales of typical parcels. The Across the Fence method is based on the principle of “Substitution,”⁸ or as Gary S. Valentine, ASA, SR/WA noted, it “is based on the concept of alternative use as assignable to land segments with the overall corridor. In theory, the segments are divided down the centerline as each half is joined to the adjacent parcel along with the adjacent property’s highest and best use and unit value. The ATF (method) is the Sales Comparison Approach modified to the degree that shape, size, topography and access are disregarded”⁹ (underline added for emphasis). In other words, since the corridor “is uniquely configured to meet the highest and best use as a right of way,” it should not be penalized for these “special physical characteristics when compared with vacant parcels in the neighborhood.....The underlying assumption of this method is that land in the corridor is equal to the value of adjoining lands.”¹⁰

⁶ Valentine, Page 9. Also refer to the Appraisal Institute, **The Dictionary of Real Estate Appraisal, 4th Edition**; and, Practitioners Publishing Company, ed., **The Guide to Business Valuations**, Page 205-30.

⁷ Zoll, “Rail Corridor Sales,” Page 380.

⁸ “The **principle of substitution** states that when several similar or commensurate commodities, goods, or services are available, the one with the lowest price attracts the greatest demand and widest distribution.” Appraisal Institute, **The Appraisal of Real Estate, 12th Edition**, Page 38.

⁹ Valentine, Page 9.

This view is shared and reiterated by John Oharenko: “ATF value assumes (that) land values are similar to vacant land values of properties adjacent to” the property being appraised, and “ignores the physical features” of the ... property “for determining highest and best use.”¹¹ Thus, in utilizing the ATF method, adjustments are made only for any differences in marketing conditions (time) and location.¹² These factors would need to be taken into consideration in both the highest and best use analysis and the valuation of the property.

According to experts surveyed on the issue of corridor valuation – Zoll, Valentine, and Miltenberger, among others – a form of the ATF method applies to all three types of corridor valuation scenarios:

- 1) acquisition of land for creation of a new right-of-way;
- 2) continued use of an existing right-of-way (whether by rail or for conversion to another use); and,
- 3) abandonment of a line requiring liquidation.¹³

In each case, according to these experts cited, the ATF method is the best method to use in establishing a baseline market value of property similar to the appraised property, which usually would then be adjusted however by an “enhancement factor” or “ATF ratio” (this factor or ratio will be defined and discussed later in this section).

In the first scenario, acquisition and creation of a new corridor, the ATF method is used but is further modified by an enhancement factor to reflect the assemblage of various parcels to create the corridor (the resulting value estimate is more synonymous with an assemblage value).

In the second scenario, continued use of an existing corridor, the ATF method and “ATF ratios” are also used, but the ratios used are not as great as in the acquisition scenario.

¹⁰ Ibid.

¹¹ John Oharenko, *Selecting Valuation Techniques for Appraising Bankrupt Railroad Real Estate Property*, **The Real Estate Appraiser and Analyst**, Winter 1982, Page 30.

¹² Valentine, Page 9.

¹³ Valentine, Pages 8 - 10; Zoll, “A Logical Approach to Appraising Railroad Right of Ways,” Pages 347 - 354; Frederick A. Miltenberger, MAI, “Rail Right-of-Way Valuation,” *The Appraisal Journal*, January, 1992, Pages 81 - 85.

In the third scenario, liquidation, the ATF method is also employed, but in certain cases the ATF factor is lower than 1.00 (where 1.00 equals the baseline value). For example, in the case of the sale of a single parcel to an adjacent land owner, the value can be based on the ATF method, which may be discounted in the case of certain uses, such as agricultural uses; that is, a buyer will pay less than market value due to the right-of-way lying fallow for a period of time and/or for any costs to modify the parcel (such as grading, fertilizing, etc.) until it is capable of being integrated into the adjacent land use. Also, with the sale of multiple parcels in a liquidation scenario, a discounted cash flow analysis is typically utilized, so the resulting net present value is less than the ATF value, as the costs and time associated with selling off multiple segregated parcels are taken into account.

As the ATF method “in and of itself is not reflective of corridor use,”¹⁴ it must be modified or adjusted by an applicable enhancement factor derived from market sales activity. When the indicated ATF unit value is compared with actual corridor sales, then “it becomes an integral part of arriving at a corridor value.”¹⁵ Thus, while the Across the Fence method forms the basis for establishing a baseline value from which to estimate the market value of the property, the ATF method alone cannot be used to establish an estimate of the market value of a corridor without being augmented by a *corridor enhancement factor*. This is the point missed by a number of appraisers, who merely value existing corridors by only the ATF method, and do not complete the analysis by applying an appropriate adjustment ratio, or enhancement factor. If the value analysis stops with an ATF baseline value estimate, and is not completed with the application of an ATF ratio, then a key element to valuation has been overlooked, and the value estimate for an existing corridor will be understated.

¹⁴ Valentine, Page 9.

¹⁵ Ibid.

CORRIDOR VALUE

The Corridor Value (CV) method is a form of the ATF method, modified by an enhancement factor or ratio, as discussed above. The Corridor Value method is also based on the principle of substitution, and recognizes the value inherent in an existing corridor. According to Valentine: “To arrive at the corridor value, the appraiser must multiply the ATF value (by) the enhancement factor.”¹⁶ The result is a value which is based on the ATF method, but accounts for the enhanced market value attributable to the existing, in-place corridor. As noted by Frederick D. Miltenberger, MAI, an expert on right-of-way corridor valuation, an “assembled right of way represents a resource for society,”¹⁷ while John P. Dolman, MAI, CRE, and Charles F. Seymour, MAI, CRE, also right-of-way corridor valuation experts, note that a right-of-way corridor has value “because of its ability to connect two points with resulting benefit,” that there is an “economic advantage” to connecting these points, and that a right-of-way corridor thus enjoys “special value characteristics.”¹⁸

In valuing a property utilizing the Corridor Value, the property is first considered as to its Highest and Best Use derived from analyzing surrounding uses; then, comparable sale data for these types of uses is gathered and analyzed; an estimate of the ATF value is derived from the unit rates reflected by the sales of typical parcels, (again, as noted) without adjustment for size, shape, topography, or access (the ATF value essentially represents the contribution value to the adjoining property); and finally, the Corridor Value is estimated by applying an enhancement factor or ATF ratio to the ATF value derived from the comparable sales.

**ATF RATIO OR
ENHANCEMENT
FACTOR**

In utilizing the Corridor Value approach, it is necessary to describe and define what is meant by an “enhancement factor,” or “ATF ratio,” and how it is derived and will be utilized before proceeding to the actual valuation process. Clifford A. Zoll, MAI, has addressed the valuation of railroad right-of-ways, and describes the process of determining the appropriate adjustment factor to the ATF price in “A Logical Approach to Appraising Railroad Right of Ways” as follows: “...the appraiser should consider the cost of land for other right-of-way assemblies and compare the total price paid with that assembly’s total ATF price.”¹⁹ Thus, to derive the ATF ratio or adjustment factor, the following formula is used:

¹⁶ Ibid., Page 8.

¹⁷ Miltenberger, Page 82.

¹⁸ Dolman and Seymour, Page 515.

¹⁹ Zoll, “A Logical Approach to Appraising Railroad Right of Ways,” Pages 347 - 354.

$$\frac{\text{Actual cost of right-of-way land assemblage}}{\text{ATF price (value)}} = \text{ATF ratio}$$

In his article "Rail Corridor Sales," Zoll states that:

In estimating "corridor value" the appraiser multiplies the ATF value estimate by the figure representing the appropriate enhancement factor. This factor is determined by comparing known corridor sales to their ATF value estimates and using the factor most representative of similar corridors.

So, once an appropriate ATF ratio (enhancement factor) is selected based on an analysis of the sales data, the corridor value is estimated by multiplying the ATF price (value) by the ratio, which can be summarized in the following formula:

$$(\text{ATF price})(\text{ATF ratio}) = \text{Corridor Value}$$

Thus, the ATF ratio reflects an adjustment to account for the costs of assembling a corridor, and so is comparable to an "assemblage value," or plottage,²⁰ which reflects the unique characteristics of a corridor. Appraisers who are unfamiliar with the valuation of right-of-way corridors might argue that plottage value is not "market value," and therefore if an adjustment multiplier is utilized to enhance the indicated ATF price, the result will overstate the market value of the subject property. However, unlike many other types of assemblages where a premium over market value might be paid to acquire an adjacent site in order to enhance the utility of a property, such as an owner of a commercially-zoned lot acquiring an adjacent lot to create a larger site for commercial development, the various authors either cited herein or researched (Zoll, Miltenberger, Dolman and Seymour, for example) argue that premiums paid to assemble a unique corridor which connects two points does represent the market value of that corridor. According to Zoll, "Because of their long, narrow shape ... corridors are unique properties. Their continued use ... makes a value-in-use approach appropriate, which is defined ... as 'value a particular property has for a specific use.'"²¹ Indeed, Zoll acknowledges that, under the principle of substitution, the market value of a corridor does represent its assemblage value.²²

²⁰ Plottage: "The increment of value created when two or more sites are combined to produce greater utility." Appraisal Institute, **The Dictionary of Real Estate Appraisal, Third Edition**, Page 269.

²¹ Clifford A. Zoll, MAI, "Rail Corridor Markets and Sale Factors," *The Appraisal Journal*, October, 1991, Page 506.

It is important, however, to bear in mind that Zoll, for example, does distinguish between estimating market value of a corridor for the continued use by the current owner, and continued use of a corridor where the owner is selling the corridor to an alternate user, whether for a similar use or some other use of the corridor.²³ Zoll notes that "...when a corridor is required for continued use ... the sale factor is usually more than 1.00."²⁴ Essentially, when the value of a corridor is being estimated under circumstances where the corridor is being sold to an alternate user (but for continued use as a corridor), then the value will not reflect the cost to acquire the corridor, and the ATF ratio applied will tend to be toward the lower end of the range and may even approach a factor of 1.00 (where ATF value = corridor value = market value).

**Function / Purpose
of Corridor**

In order to select the appropriate method to employ in determining the value of a corridor, it is necessary to first consider the function (or purpose) of the corridor, since the value estimate of a right-of-way corridor varies according to its function.²⁵ In other words, does the property represent, or will it be used for:

1. Creation of a new right of way
2. Continued use of the right of way:
 - A. As a railroad, for example (for use by another railroad company, or by a municipality)
 - B. As an alternate use:
 - 1) For recreational purposes
 - 2) For utilities
 - 3) For conversion to a roadway (or similar corridor)
3. Liquidation (abandonment of the corridor)

If the market value to be estimated is for a current corridor user, and not an alternate user who will nevertheless continue to use the corridor for a similar purpose, the ATF ratio used should be more comparable to the ratio in the acquisition scenario – that is, toward the higher end of the ATF ratios exhibited by the market. This is due to the fact that the owner has borne the cost and effort of assembling the corridor, and will continue to use it, and thus the value should reflect this as if it represented the acquisition of a new corridor.

²² Zoll, "Rail Corridor Sales," Page 382.

²³ Zoll, "A Logical Approach to Appraising Railroad Right of Ways," Page 349.

²⁴ Zoll, "Rail Corridor Markets and Sale Factors," Page 506.

²⁵ Clifford A. Zoll, MAI, "A Logical Approach to Appraising Railroad Right of Ways," *The Appraisal Journal*, October, 1998, Pages 347 - 354.

So, where an existing corridor is not for sale, and will continue to be utilized by the owner, it is argued by Zoll that the ATF ratio should be higher, and should reflect the value to that owner, or assemblage value. Zoll makes some key distinctions when he notes that:

It is generally believed that the adjustment ratio for ATF price to market value for the continued use of a right-of-way is not as great as that for the acquisition of a new right-of-way because the right-of-way may not be the most desirable way to get from A to B. Yet, it does connect these points, and also because the owner railroad no longer needs it or desires to sell...an existing right-of-way for continued use has greater value than its ATF price as part of a larger ownership because, in addition to the ATF land value, engineering costs, legal fees, condemnation costs, damages to the remainder, and in some instances, wrecking costs and fill, have all been paid by the owner ...of the right-of-way. This is sometimes referred to as assemblage value.²⁶

In further support of this position, Dolman and Seymour note that:

We have found that the actual assembly cost of new corridors usually reflects assemblage factors ranging from two to six times the ATF value. However, it always must be kept in mind that applying assemblage factors derived from actual assembly costs produces the upper limit of value when applying the principle of substitution. For this reason we distinguish the “assemblage” costs incurred in assembling a new “custom corridor” from the usually lower enhancement factor realized in the sale of an already existing corridor.²⁷

²⁶ Zoll, “A Logical Approach to Appraising Railroad Right of Ways,” Page 350.

²⁷ Dolman and Seymour, Page 520.

Another argument which potentially could be posed against applying an ATF factor (or too high a factor) in valuing a corridor is that most corridors are acquired and developed by and for municipalities or other governmental entities, which hold the power of eminent domain and condemnation, and so should not be viewed as “arm’s length” transactions. However, as noted by Zoll, “most railroads prefer to acquire (corridors) by negotiation rather than condemnation because it is usually less time consuming, less costly, and less destructive to the community relationship.”²⁸ Similar entities, such as municipalities like cities, counties, states and ports, also would much rather acquire property by negotiation rather than condemnation for the same reasons.

However, this position too would tend to suggest, as some might argue, that railroads (or governmental entities) are paying excessive premiums above market value to acquire corridors, and thus the assembled corridor values are not representative of “market value.” Thus, for further consideration of the unique issues surrounding corridor valuation which might provide additional insight into estimating the market value of corridors, and ascertaining whether assemblage value is equivalent to market value for corridors, I referred to one of the older, and seminal, articles on the matter: John P. Dolman, MAI, CRE, and Charles F. Seymour, MAI, CRE, “Valuation of Transportation/Communication Corridors,” *The Appraisal Journal*, October, 1978, Pages 509 - 522.

Dolman and Seymour note that: “A transportation/communication corridor basically is a long narrow strip of property rights whose existence can be justified best by use for transportation and/or communication purposes, in contrast to other possible uses.”²⁹ They focused on the development of the “corridor (use) concept or the unique ability to provide communication between widely separated points.”³⁰ Because of the unique characteristics of corridors, their value tended to reflect all of the factors related to their acquisition and use, unlike other types of real property, and thus supported the application and use of ATF factors to reflect the market value of this property type, irrespective of the entity acquiring the corridor and whether or not they held the power of eminent domain and condemnation.

²⁸ Zoll, “Rail Corridor Markets and Sale Factors,” Page 509.

²⁹ Dolman and Seymour, “ Page 509.

³⁰ *Ibid.*, Page 513.

Dolman and Seymour noted that: “All land ultimately derives its value from the use or uses to which it can be put” and that, in the case of corridors in particular, “it is the use that creates value.”³¹ Thus, they noted that corridors ‘enjoy special value characteristics,’ including “synergism” (many parts are connected to create the whole corridor). They argue that “the concept of ‘plottage’ illustrates this synergism: it is the increase in unit value resulting from improved usability when small plots are combined into larger ones,” and that “it is not the cost of assembling alone that is responsible for plottage value. For a plottage increment to be realized, there must be the basis of a superior operation in use after assembly,” and that “the character of use must change; a new highest and best use must be created.”³² Dolman and Seymour add: “if the property to be valued is judged to enjoy the characteristics of a transportation/ communication corridor, we are seeking a ‘value for corridor use.’”³³ They note that it is the “enhancement factor” (ATF ratio) which, when applied, addresses the question of “How much more or less than ATF value is the entire corridor worth because of its ability to connect the end points?”³⁴ In the case of corridors, where there is a demand for this special use, an assemblage value does represent its market value.

Thus, the experts consulted argue that the ATF factors reflected by actual corridor sales do represent and reflect the conditions which ultimately make up the market value of corridors, which represent a unique and specific property type, with a particular highest and best use unlike other types of property. It is important to note also that the selection of an appropriate ATF factor used to adjust the ATF prices indicated by the market requires the appraiser to not only be knowledgeable about the purpose of the appraisal and motives of the parties, but to exercise good judgment in deciding whether the ATF ratio applied in valuing the subject will be at or near the higher or lower end of the indicated range based on (sale) data.

³¹ Ibid., Pages 514 - 515.

³² Ibid., Page 515.

³³ Ibid., Page 518.

³⁴ Ibid.

**Application of An
Appropriate ATF
Factor**

Due to the lack of not only comparable corridor sales and/or sufficient supporting details for most corridor sales where the existing use does not change (excluding cases of abandonment or conversion), and also a lack of sufficient data to ascertain what interest a sale represented; and, as most parties involved in corridor sales consider the data proprietary and are reluctant to share the basis or factors employed for analysis and valuation, it is often problematic to obtain appropriate and supportable unit price data and/or extract enhancement factors from sales. However, according to Miltenberger, "In most cases, case studies can serve as a basis for (adjusting) ATF values."³⁵ Miltenberger summarized his study of rail corridor sales with this observation:

"...those familiar with the valuation process clearly perceive that corridor values may be greater than ATF values. The independent studies of both Harris and Zoll, respectively, suggest that viable corridors have a value higher than ATF value. The Zoll study is particularly relevant because it is based on the analysis of actual rail corridor transactions. The author's investigation of rail corridor transactions suggests that enhancement of corridor values does occur. That enhancement generally is within the range of 1.10 to 3.73 found in the Zoll study."³⁶

Miltenberger provided examples of actual corridor sales where the ATF ratios ranged from a low of about 1.28 to a high of 5.29, with an indicated mean ratio of around 3.28 and a median of about 2.50. As noted by Miltenberger, these ratios fall within the range Miltenberger cites from the Zoll study. I referred to two studies of rail corridor sales published by Zoll: "Rail Corridor Sales," The Appraisal Journal, October, 1985, and "A Logical Approach to Appraising Railroad Right of Ways," The Appraisal Journal, October, 1998. In the first article, Zoll summarized his study by concluding that:

³⁵ Miltenberger, Page 81.

³⁶ Ibid., Page 85.

*When a need for a corridor exists, a reasonable ATF price ratio will vary from 1.10 to 2.00 depending upon the extent of the need and the cost of substitution. The upper range of this ratio may be higher in special urban situations.*³⁷

It is important to note however, that in the article cited, Zoll tended to focus mostly on the sale of corridors which were no longer needed by their owners, and so his research for this publication tended to be weighted with sales data relative to liquidations of corridors, and so was skewed toward the lower end of the ATF ratio range. Conversely, in “A Logical Approach to Appraising Railroad Right of Ways,” Zoll’s sale data reflected ATF ratios ranging from a low of 3.82 to a high of 14.05 (with a mean ratio of 6.72 and a median ratio of 5.62) in property acquired for a new right-of-way, and from 0.73 to 3.34 (with a mean ratio of 1.52 and a median ratio of 1.14) in corridor sales which would have some continued transportation use, but which were sold by the original owner to an alternate user.

Zoll concluded that, depending upon the nature of the sale, “the following factor ranges are found to generally apply:”³⁸

Liquidation	0.25 to 0.50
Continued Use	1.00 to 1.74
Acquisition	4.00 to 6.00

In all of the case data presented herein, the authors indicated that the higher ATF factors tended to reflect the more “urban” areas.

³⁷ Zoll, “Rail Corridor Sales,” Page 387.

³⁸ Zoll, “Rail Corridor Markets and Sale Factors,” Page 512.

**Comparable Search
Scope / Zoning**

While the ATF ratio and certain parameters for its use have been defined, some other pertinent issues regarding the valuation of transportation/right-of-way corridors need to also be addressed. The experts in corridor valuation note that, in appraising a corridor, appraisers must first section off each parcel in a corridor by zoning classification, and identify whether or not the owner holds fee simple title to all of the affected land. In the case of a property that represents a single parcel, where there is only a single zoning classification to be taken into consideration, there would not be a need to address issues that would be pertinent to multiple parcels with different zoning classifications, and the scope of any sales search could thus also be limited to those comparables that have a zoning classification similar to the subject, which also pertains to the lands abutting the subject property.

Further, in terms of ownership, where the subject property owner holds the fee simple interest in the property, no other interests would need to be accounted for in the valuation process. Also, where the abutting lands adjacent to the subject property are owned by the same party, this would also contribute towards simplifying the analysis: with both halves of the subject property abutting land held in the same ownership and which has the same zoning, it is unnecessary to strictly follow the ATF method valuation format, which suggests that the segments (both halves) of the subject property should be divided down the centerline, and that each half should be valued based on its adjacent parcel. This would not be true if the zoning and highest and best use of the property adjacent to each side of the subject were different – for example, one side zoned for residential use and the other for commercial use.

**Corridor Valuation
Methodology
Summary**

There exist a variety of methods that can be applied in valuing a corridor (or a portion of a corridor), depending on the characteristics and intended use of the corridor.

Data that is available for corridor sales varies widely depending on the location of the corridor, abutting uses and zoning, the length of the corridor, the width of the corridor, whether the interest conveyed represents a full or partial interest only, etc. Thus, valuation usually requires exercise of substantial judgment by qualified persons familiar with corridor operations and uses, and needs to pass a “sanity test” (or a “test of reasonableness”). I am one of only a handful of appraisers nationally in the U.S. who is considered as an expert in corridor valuation (refer to my resume/Qualifications, a copy of which is included in the Addenda of this appraisal.)

The two most recent corridor sales I am aware of locally include the Port of Tacoma's acquisition of about a 2,000 lf section of Alexander Avenue, for expansion of the Port's container yard operations, from the City of Tacoma. This was an existing, improved corridor that the city had assembled. The City agreed to sell this corridor section to the Port with an enhancement factor of only 2.0, in order to cooperate with the Port's plans, which would ultimately serve the best interests of the local market economy.

The other sale was to the University of Washington for portions of a former, abandoned rail line that run through the middle of the UW's Tacoma campus, with the center portion (a 20 ft width) taken by the City of Tacoma to improve as a walking and biking trail. The UWT paid a price that was approximately equal to an enhancement factor of 1.0, despite the fact that this was an abandonment of a former rail corridor and conversion to an alternate use. However, they negotiated the price before having an appraisal of the former rail corridor in hand, and it is concluded that they overpaid for this corridor section.

Now, taking Corridor Valuation principles and methodologies, and the above local market data, into consideration, I will proceed to value the City's parcel.

As noted, the City's parcel consists of what was intended to be a part of a larger rail corridor (relocation of part of the rail line), which never occurred, and now is to be effectively liquidated.

By using ATF (Across The Fence) methodology, the same unit price as applied to the abutting Leuqar parcel (\$22.50/sq ft) will be used as the baseline to value to the City parcel. However, because this "corridor section" is now abandoned and to be effectively liquidated, an ATF Ratio or Corridor Factor must be applied to reflect this condition of sale.

In this case, it is my opinion that – based on the expert research and the limited local market data available – an ATF Ratio of 0.50 is appropriate in valuing the City parcel. This results in a unit price of \$11.25/sq ft, and a market value estimate as follows:

Market Value	138,382 sq ft @ \$11.25/sq ft	=	\$1,556,798
Conclusion, City Parcel Only		Rd	\$1,560,000

As noted earlier, the sum of the parts is not necessarily equal to the value of the whole (the larger, combined parcels), due to the greater overall site utility when combined.

ADDENDUM

Appraiser's Experience Data



Stan Sidor, MAI, AI-GRS
Senior Vice President, Manager
Valuation Advisory Services

CAREER SUMMARY

Stan manages the division's Tacoma branch. Stan is available to provide consultation services and valuation analysis on a variety of commercial property types, including office, industrial, and retail properties. Stan also brings expertise in the valuation of a variety of special-purpose properties such as golf courses, convenience stores, automobile dealerships, marinas, athletic clubs/fitness centers, churches and schools, daycare centers, and properties impacted by wetlands or hazardous waste contamination. Stan is also experienced in the valuation of corridors and water rights.

Stan has 37 years of combined real estate and banking experience, including 23 years as a real estate appraiser. In addition to valuation analysis and consulting, Stan has experience in property and asset management, leasing, sales, loan underwriting and credit approval.

EDUCATION

- Attended all courses in the Masters of Science in Real Estate Appraisal program at the University of St. Thomas, Minneapolis, MN.
- Bachelor of Arts degree, University of Washington.
- Other Coursework in: Real Estate Finance, Law, Leasing, Foreclosure and Repossession, Technical Inspection of RE, Real Estate Workouts and Lender Liability, Argus, Credit Analysis and Development, Business Law, Financial and Tax Statement Analysis, and Accounting and Bank Accounting.

LEGAL EXPERIENCE

Stan is qualified as an expert witness for real estate valuation in King, Pierce, Thurston, Lewis, Grays Harbor, and Mason Counties, State of Washington.

PROFESSIONAL AFFILIATIONS

- Member of Appraisal Institute (MAI)
- President, Appraiser's Coalition of Washington (ACOW), 2009 - 2010, 2013 - 2014

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State of Washington Certified General Real Estate Appraiser (No. 1100565)

PROFESSIONAL RECOGNITION

Appraiser of the Year, 2009, Seattle Chapter, Appraisal Institute

SEMINARS DEVELOPED/TAUGHT

- Corridor Valuation
- Washington State Laws for Real Estate Appraiser
- Washington State's New AMC Law
- Flood Plain Regulation Changes: Impacts on Valuation
- Changing Environmental Regulations and Impacts on Market Valuations
- Brownfields: A Valuation Perspective
- AMC Legislation - An Overview & Analysis of Other States Legislation
- Appraising Environmentally Contaminated Properties

Stan Sidor, MAI, AI-GRS continued

PARTIAL CLIENT LIST

ATTORNEYS/LAW FIRMS

AterWynne, LLP
 Brain Law Firm, PLLC
 Campbell, Dille, Barnett Smith & Wiley, PLLC
 Davies Pearson, PC
 Davis Roberts & Johns
 Davis Wright Tremaine
 Eisenhower & Carlson, PLLC
 Forsberg Umlauf, PS
 Fristoe, Taylor, & Schultz
 Gordon, Thomas, Honeywell
 K&L Gates, LLP
 Karr Tuttle Campbell
 Mary Urback
 McGavick Graves Law Firm
 Mikkelborg, Broz, Wells & Fryer, PLLC
 Nicoll, Black & Feig
 PPA Law Group, PLLC
 Riddell Williams, P.S.
 Roberts Johns & Hemphill PLLC
 Schwabe, Williamson & Wyatt
 Vandeberg Johnson & Gandara, LLP
 VSI Law Group, PLLC

BANKS/FINANCIAL INSTITUTIONS

American West Bank
 Bank of the Pacific
 BECU
 Commencement Bank
 First Citizens Bank

First Horizon Construction Lending
 Foundation Bank
 GE Capital
 HomeStreet Bank/ HomeStreet Capital
 Interwest Mortgage
 JP Chase
 KeyBank of Washington
 Kitsap Bank
 Northwest Bank
 Rabobank
 Red Canoe Credit Union
 South Sound Bank
 Sterling Bank
 US Bank
 Washington Federal Savings
 Washington Trust Bank
 Wells Fargo Bank
 Wells Fargo Wealth Management
 Whidbey Island Bank
 Woodstone Credit Union

PORTS/GOVERNMENT/SCHOOLS

City of Tacoma
 Federal Way Public Schools
 Mason County Public Works
 Metro Parks Tacoma
 Pierce County Parks & Rec.
 Port of Centralia
 Port of Grays Harbor
 Port of Tacoma
 Tacoma Public Schools
 Tacoma Public Utilities

PRIVATE SECTOR

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 Busby Marine and Tank
 City Beverages
 Duff & Phelps, LLC
 Gensco
 Good Samaritan Hospital
 Group V, LLC
 MLK Housing Dev. Assoc.
 Milgard Windows
 Millennium Ford
 Museum of History & Industry
 Rubin-Pachulski Properties, LP
 Sound Retina
 Tacoma Housing Authority
 Thurston Highlands
 Ticor Title Company
 Titus-Will
 Toyota Motor Credit Corporation
 TRAP Enterprises
 U.S. Oil
 Video Only
 Woodworth and Co.

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

**STANLEY R SIDOR
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Teresa Berntsen
Teresa Berntsen, Director