

Rent Market Consultation

Boat Haven | Port Townsend, Washington

as of April 18, 2018



Prepared for
Port of Port Townsend
Sam Gibboney

Prepared by
Peter K. Shorett, MAI, CRE, FRICS

KM Job A18-0257

Kidder Mathews
Valuation Advisory Services
601 Union Street, Suite 4720
Seattle, WA 98101
206.205.0200 | Fax 206.205.0220
pshorett@kiddermathews.com
kiddermathews.com

May 11, 2018

Ms. Sam Gibboney
Executive Director
Port of Port Townsend
333 Benedict Street
P.O. Box 1180
Port Townsend, WA 98368

RE: Rental Market Consultation
Boat Haven Properties

Dear Ms. Gibboney:

At your request, I am providing market rent consultation services of the referenced property, which is more thoroughly described in the attached Restricted Appraisal report.

I have been asked to provide an update to the market rents estimated in our prior report prepared dated April 10, 2006 (then GVA Kidder Mathews). However, an ongoing lease audit of the Port's portfolio has revealed a lack of clarity regarding boundaries of premises and permitted uses of many of the leased properties. The previous 2006 report relied on descriptions of leased premises and terms of use. The audit has revealed that often documentation is lacking regarding leased premises and that many leased areas are described only in metes and bounds without an accompanying exhibit. In some cases, physical inspections have revealed that tenant use has encroached outward from the described lease premises. In addition, there appears to be a lack of consistency regarding parking areas and whether such areas are associated with leases and as such whether lease rates represent a blended rate that accounts for common area usage.

For the purposes of this report the estimated rental rates assume that the land leases have defined boundaries and accurately measured land areas. In the case of building leases, the defined premise includes the building area and a typical amount of land for parking and or yard storage as defined by the market. It should be noted that future leases should clearly define these assumptions and clarify whether said areas are for common use or exclusive use.

This report will provide estimates of rent in a range based on the uses defined in the previous report. It will also offer of observations of current leasing practices and recommendations on how leases are typically structured and how a leased premise is typically defined. This report will be used by the Port to begin the process of standardizing leasing practices in a fair and equitable manner that can be applied consistently to all tenants in Boat Haven. It is intended for no other use.

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 2

This Restricted Appraisal has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP) under the scope outlined below. These services comply with and are subject to the Code of Professional Ethics and Standards of Professional Practice of the Appraisal Institute. The appraisal complies with the reporting requirements of USPAP for restricted report presentation. Data, reasoning and analysis are simply stated with all the necessary and supporting documentation retained in our files.

The intended user of this report is considered to be a regular consumer of appraisal reports and understands the limited nature and limited transferability of an appraisal that is less than a more comprehensively presented appraisal document. This report may not be suitable for other uses and I am not responsible for unauthorized use of this report.

Scope of Work

The accompanying report is limited in nature to the extent that it addresses only market rent rates and leasing practices for the properties being leased. It is not an appraisal of the properties market value, although some property values were estimated as part of the rate of return analysis.

I did not formally inspect the interior of every property, although the exterior of all the land and buildings were inspected from various exterior locations.

Market rent has been estimated by a study of the most comparable rental properties available. These include similar ground lease transactions and leases for marine related industrial, commercial and office properties. This involves a survey of other Port Districts offering marine related properties to identify rental rates for competitive developments and to obtain anticipated rates of return utilized by other Port Districts in establishing lease rates. Private third party non Port properties were considered for marine and non-marine oriented properties as well.

The scope of work also includes a rate of return analysis, which is the relationship between unimproved fee owned land and an anticipated rate of return on investment. This is a secondary approach used by investors to determine market rent for ground leases. This method involves research of sales of vacant commercial and industrial land sales in the Port Townsend market as well as sales of waterfront properties in the Puget Sound area to which a rate of return is then applied with the byproduct being market rent. This method is only applicable for the land leases.

The properties are compared to the land and buildings in Boat Haven with market rents addressed in a range to help the Port in determining an appropriate rent for future adjustments.

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 3

Property Overview

The properties that are the subject of this report consists of the Port of Port Townsend boatyard that is commonly referred to as Boat Haven. Boat Haven comprises approximately 30 acres of land, located on the south side of State Route 20 (Sims Way), within the Port Townsend city limits. The property fronts along Townsend Bay. The Port of Port Townsend has entered into ground leases and leases for the rental of improved properties at Boat Haven.

In 1997 the Port completed construction of the 300 ton heavy haulout at the Boat Haven, offering services to private and commercial boat operators. Jefferson County has a rich maritime history and is the home of the Northwest School of Wooden Boatbuilding. Boat Haven provides the infrastructure to accommodate over 100 marine trades businesses that provide a wealth of experienced crafts and trades people. In addition, recent tenants have expanded the scope of services offered, which now include aluminum boat manufacturing, sand-blasting and coating services for a full range of hull materials. We also have other non-marine related uses.

Boat Haven is a full-service destination boatyard that is a top choice for refits of all types of vessels with heavy boat haul out facilities. There are 70, 75, and 300-ton lifts. The 300-ton Travelift is capable of lifting vessels up to 150 feet long with a maximum beam of 30' 6", weighing up to 330 tons.

It has an abundance of upland and covered storage to accommodate all types of marine repairs by numerous marine trades businesses. Do-it-yourself space is also available, and DIY'ers can be assisted by the marine trades. The shipyard has a capacity of up to 200 vessels ashore at any given time. Boat Haven also contains a 425 slip marina that is not part of this rent study.

There are both 150-foot hull wash down facility adjacent to the 300 ton haul out and one for the 70 & 75 ton hoist. A 150' x 28' concrete-decked work pier provides crane and heavy equipment access for larger vessels. The Port has made significant investments in the yard stormwater system, which provides great value for tenants and DIY'ers alike. The westerly third of the subject property is ballasted to accommodate the heavy loads of ship storage. This feature increases the utility (and value) by allowing storage and work on large vessels.

The storm water system supports an environmentally sensitive dedicated 150 foot hull wash down facility adjacent to the 10+ acre dry-land storage area. A 150' x 28' concrete-decked work pier provides crane and heavy equipment access for larger vessels. The westerly third of the property is ballasted to accommodate the heavy loads of ship storage. This feature increases the utility (and value) by allowing storage and work on large vessels.

Additional shore-based amenities within the shipyard area include marine supply and equipment businesses, showers, laundry, and small restaurants. Grocery shopping is available across the

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 4

street from the shipyard, and the built-up area of Port Townsend offers a wide range of shopping opportunities and restaurants. All of these amenities and services add value and thus should be reflected in the rates.

Existing Tenant Leases

According to the Port, there is not consistency in how the property boundaries are defined. There are some land leases where the leased premise is limited to the building footprint with no defined use rights for parking or yard storage while there are other leases that include both the building footprint and parking/yard storage areas. Further, the Port does not have a clear delineation of each lease within Boat Haven. They are in the process of reviewing the lease files and are working to define the leased premise for each tenant.

Apparently, the rents estimated in our 2006 report were not implemented and the rental rates today are a mix of rates established before that time, some that have been updated and some that have been recently established. A rent roll showing current tenant leases and what is represented as the leased premise is summarized below. The reader will see that there are gaps in the information and that not all of the specifics are available.

Ms. Sam Gibboney
 Re: Boat Haven Properties
 Page 5

Boat Haven Rent Roll		BLDG			Rent		Lease
Lessee/Lease Name	Description/Location	No.	Type	SF	Month	\$/SF/MO	Expiration
Sands, Guy (PT Brewery)	325/325A/330 10th Street	2	Bldg	4,000	\$2,951	\$0.74	5/31/2021
PT Furniture Clinic	308A 10th Street	3	Bldg	1,000	\$539	\$0.54	Mo/Mo
Sunrise Coffee Co.	308 10th street	3	Bldg	2,000	\$1,185	\$0.59	9/31/2021
PYR Preservation Services, Inc.	325-B Haines Place (710 sq ft)	5	Bldg	710	\$781	\$1.10	6/30/2019
Peter's Marine	315 Haines Place	6	Bldg	1,500	\$1,205	\$0.80	2/1/2014
Key City Fish Co.	307/307A 10th Street	7	Bldg	3,000	\$1,609	\$0.54	8/31/2023
Port Townsend Shipwrights, Inc.	919 Haines Place (TMB Site)	10	Land	75,000	\$4,031	\$0.05	7/31/2050
Blue Moose Café	311 Haines Street	11	Bldg	506	\$462	\$0.91	12/31/2016
Admiral Ship Supply	305 10th Street-Bob Frank	12	Bldg	3,000	\$1,603	\$0.53	1/31/2025
Johnson Fabrication LLC	810 Haines Pl.-1500 sq feet	13	Bldg	14,035	\$314	\$0.02	7/31/2021
Port of Port Townsend - Maint Bldg	Admin Bld 2701 Jefferson St	14	Bldg	5,000	\$1	\$0.00	9/19/2025
Kulin & Vizzini	Daniel Kulin & Lisa Vizzini	19A	Land	5,527	\$441	\$0.08	3/31/2030
Pt Townsend Shipwrights Co-Op	Schloe, Curtis	21	Land		\$2,030		7/31/2034
Armstrong Consolidated, LLC	Cory Armstrong - President	23, 24	Bldg	19,501	\$8,290	\$0.43	Mo/Mo
Takaki, Jennifer Alys	Marina Café	23, 24	Bldg	640	\$469	\$0.73	12/31/2019
Jochems Property Management	Mark Jochems-2730 Washington	27, 28	Land	8,156	\$311	\$0.04	10/31/2026
Port of Port Townsend - Admin Bldg	Admin Bld 2701 Jefferson St	30	Bldg	3,975	\$1	\$0.00	9/19/2025
Skookum Corporation	Skookum Corporation	31	Bldg	8,600	\$1	\$0.00	9/19/2025
Port of Port Townsend - Comm Bldg	Admin Bld 2701 Jefferson St	32	Bldg	1,344	\$1	\$0.00	9/19/2025
Port of Port Townsend - Moorage Off	Admin Bld 2701 Jefferson St	33	Bldg	930	\$1	\$0.00	9/19/2025
U. S. Coast Guard	U. S. Coast Guard	34, 35	Bldg	1,861	\$5,021		9/30/2018
Andersen Machinery	Ulfar Andersen	36	Land	2,500	\$243	\$0.10	10/1/2027
Thompson, Dave	Charlie Noble Enterprises	37	Land	3,000	\$450	\$0.15	Mo/Mo
New Day Fisheries, Inc.	New Day Fisheries	42	Bldg	8,670	\$2,596	\$0.30	Mo/Mo
Pt Townsend Yacht Club	Pt Townsend Yacht Club	43	Bldg	3,235	\$257	\$0.08	2/28/2026
Armstrong Consolidated, LLC	Upstairs office space		Bldg		\$409		Mo/Mo
Bottoms Up Marine Services Inc.	Von Volkli, Joe		Land	5,400	\$260	\$0.05	Mo/Mo
Bottoms Up Marine Services Inc.	Von Volkli, Joe				\$50/Util		
Craftsman United Inc.	304 10th Street		Bldg	5,000	\$2,896	\$0.58	Mo/Mo
Crown Castle	Voicestream/T-Mobile Cell Tower		Land	2,000	\$911	\$0.46	6/30/2018
Crown Castle - AT&T Sub-lease	Shared Rent		Land		\$788		
Cunningham Ships Carpentry LLC	419 Haines Pl.-2400 sq feet		Bldg		\$818		8/30/2019
Ernie Baird	Haven Boatworks-Julie		Land		\$775		2/28/2029
Fine Yacht Interiors	910 D Haines Street		Bldg.		\$1,187		5/31/2019
Flye, Todd dba On The Flye	2,206 sq ft parcel in W/Y		Land		\$589		1/31/2020
Jefferson County MRW	Moderate Risk Waste Fclty		Lease		\$0		9/28/2047
Jevne, Florence	Sea J's Cafe		Land		\$84		Mo/Mo
Kitsap Credit Union	Boat Haven Back Office area		Bldg	100	\$100	\$1.00	3/31/2018
L.A.W. Enterprises	Lance Warren		Bldg		\$0		Mo/Mo
Lowest Hadlock Shipwrights/SteelHead	301 10th Street		Bldg		\$1,669		Mo/Mo
MO-Chili BBQ, Inc. (Mike Harbin)	LICENSEE (parked @PT Brewery)		N/A		.00/yr		12/31/2017
NW Maritime Center	315 "B" Haines Pl.		Bldg		\$563		8/31/2016
Octopus Gardens Diving	Don Peterson-2410 Washington		Bldg		\$700		11/30/2018
Olympic Boat Transport LLC	Gus Sebastian		Land		\$92		Mo/Mo
Olympic Boat Transport LLC	Gus Sebastian - UTILITIES				\$25/Util		
Paella House, LLC (Alejandro De Basilio)	LICENSEE (parked @PT Brewery)		N/A		\$0		9/30/2017
Perpetual Boatworks	Clint Thompson (Y-313 & Y-314)		Land	1,920	\$480	\$0.25	12/31/2019
Port Townsend Fuel Dock LLC	Eric & Karli Elliott		Dock		\$650		6/30/2019
PYR Preservation Services, Inc.	6600 sq ft of land in S/y		Land	5,800	\$2,310	\$0.40	6/30/2023
PYR Preservation Services, Inc.	Parking- 810 square feet		Land	800	\$203	\$0.25	6/30/2019
Scow Bay Boats	Mark Stout		Land		\$259		8/31/2018
Takaki, Jennifer Alys	MARINA CAFÉ - Monthly Garbage charge				\$40/Util		

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 6

The Port has entered into ground leases reflecting vacant land ranging from 2,215 to 75,000 sq ft. The parcels differ not only in size, but location within the Port property.

Typical terms for land leases range from 3 to 35 years, depending on the size and use of land. Lease terms for building improvements are typically 3 to 5 years. Rents range from \$0.04/sq ft/month to \$0.40/sq ft/month. Most rents are between \$0.05 and \$0.15/sq ft/month. The leases include adjustment provisions based on the value of the property and an annual CPI adjustment. All expenses are paid by the tenant, including the leasehold tax.

The Port has entered into building leases reflecting buildings ranging from 486 to 19,501 sq ft. The majority of buildings are older steel-framed industrial buildings of adequate condition. However, there are also several office and commercial buildings of varying condition. The buildings differ not only in size, but use and location within the Port property. Because the Port of Port Townsend is exempt from paying taxes, the Jefferson County Assessor does not track the age or size of the building improvements. Square footages are based on data obtained from the Port.

Typical terms for building leases range from 5 to 10 years. Lease terms for building improvements are typically 3 to 5 years. Rents range from \$0.02/sq ft/month to \$1.10/sq ft/month depending on the building use. Most rents for industrial use are between \$0.54 and \$0.80/sq ft/month. Office and commercial rents tend to be slightly higher but there are several exceptions. These exceptions typically occur for buildings of lower quality and condition. The lease documents include adjustment provisions based on the value of the property and an annual CPI adjustment. All expenses are paid by the tenant, including the leasehold tax.

Recent Leasing Activity

There have been three new leases consummated under the current administration. The rates are top of market, and they do show an increase in tenant demand willing to pay higher rents than currently being charged abo Boat Haven.

2006 Rent Estimates

The rents estimated in the 2006 report are summarized as follows:

Land Leases	\$0.05 to \$0.07 sq ft per month
Marine Related Industrial Buildings	\$0.50 to \$0.58 sq ft per month
Marine Related Retail & Commercial Buildings	\$1.00 to \$1.08 sq ft per month

There are a few variants to these rates. Gold Star Marine and New Day Fisheries rents were estimated at \$0.46 and \$0.29 sq ft respectively. Moose Café was estimated at \$0.83 sq ft.

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 7

Land Rent

Port Districts offering similar land available for lease adjacent to water access were considered in this rent survey. Those most comparable include the Ports of Port Angeles, Anacortes, Bellingham, Grays Harbor, Everett and Olympia. These Ports Districts were felt to represent substitute locations for the businesses currently located at the Port of Port Townsend. Each of these districts owns and leases some level of maritime industry property that is of similar nature as the subject. The Ports of Seattle and Tacoma were also considered. The survey tries to focus on land leased to marine related businesses, specifically boat repair, manufacturing and marine services similar to the uses found in Boat Haven, but that was not always possible since each Port operates differently.

The Districts differed in how ground lease rates were established-some rates were based on an anticipated rate of return applied to the estimated land value, while others were based on a best guess of rates users would accept. The reported anticipated annual rate of return ranged from a low of 7% to as high as 10%.

The survey indicates that vacant ground leases for marine related industries range from \$0.023 sq ft to \$0.203 sq ft per month. The upper end of the range reflects rental rates in the Ports of Seattle and Anacortes areas where there is a higher population base and real estate values than the Olympic Peninsula. The lower end of the range is set by the Port of Grays Harbor. Many of these lease rates are older and have not been reset for several years. The Port of Bellingham just adjusted their rents, and the Port of Port Angeles has been working with Platypus marine to adjust their rent. Platypus would rather buy the land, but the Port is reluctant to sell. Platypus did provide the ballasting and compaction of their site, so that would imply an upward adjustment to their rent. The Port of Tacoma just signed a lease with Motive Marine, yard storage was based on \$0.083 sq ft per month, with the launch ramp at \$0.126 sq ft per month.

The rate of return analysis was also considered, but it's flawed because there are no sales of water fronting marine related ballasted industrial land like that found at Boat Haven. I am aware of a large acreage site in Anacortes that is ballasted that may be hitting the market in the \$20 sq ft range, but again, Anacortes is considered to be a superior location and this price is not market tested. Land sales in the Port Townsend Business Park are around \$7 sq ft for half acre sites with roads and utilities extended to the site. While not ballasted for yard storage, there are synergies at the Park that somewhat offset this amenity. Using a land value of \$8 sq ft and a 9% rate of return results in rent of \$0.06 sq ft per month for the land.

Ms. Sam Gibboney
 Re: Boat Haven Properties
 Page 8

Marine Oriented Land Leases

No	Property & Contact	Facilities	Rent History	Rent/yr	Adjust Date	Rate of Return
1	Port of Grays Harbor Leonard Barnes (360) 533-9515	Marine terminals in Grays Harbor and fish processing in Westport. No boat haul out facilities.	Base rents on land value/rate of return. Land at Grays Harbor is \$2.70sf, \$5.00sf in Westpor	\$0.023 \$0.042	Few years ago	10.0%
2	Port of Anacortes Brenda Treadwell (360) 299-1811	Upland parcel with no marine imp. Leased to NW Marine Skills Center. Rent believed to be low, concessions. Also lease 0.63 ac to Transpacific Marine who occupy a Port owned a white skinned tent over the entire area.	Lease commenced 2009 with CPI adjustments then market reset every 5 years.	\$0.070 \$0.191	2013 reset, annual CPI	NA
3	Marine Servicenter Anacortes Jim Rard (360) 369-2290	Tenant leases multiple parcels of land, some with improvements. They lease raw and from MJB for boat storage, access to 55 ton Travelift.	Rent lowered 5 years ago to accommodate the changing environmental regulations.	\$0.100	2013 Down	NA
4	Port of Bellingham Terry Ilahi (360) 676-2500	Seaview Boatyard leases 4.4 acres land (incl. 0.4 acres submerged), operates boatyard w/165 ton Travelift. They pay additional rent for Travelift pier building not incl. in rate shown. Second lease is with Bitter End Boatworks for 3.51 acres of land that includes 7,500 sq ft warehouse.	Long term tenant, slight rent increase from prior year.	\$0.033 \$0.046	2017 2017 2.5/yr	9.0% 9.0%
5	Port of Port Angeles Dan Gase (360) 417-3376	Platypus is primary boat building tenant. Have access to 500 ton travel lift dock and lease 4.1 ac. Westport Marine leases 1.7 ac. for parking.	Long term tenant with several years remaining.	\$0.040 \$0.040	In Process	NA NA
6	Port of Everett Terrie Battuello (425) 388-0614	Latitude Development leases 15 ac of land at former Weyerhauser site. On river but not maritime use. Will build two large warehouses.	New lease, 50 year term.	\$0.050	2016	7.0%
7	Port of Seattle Rebecca Schwan (253) 787-3713	Seaview Marine leases 1.1 acres yard plus other areas. Only yard rent is shown.	Long term tenant	\$0.203		NA
8	Port of Tacoma Annika Dean (253) 383-9407	Motive Marine Power leases 2.37 acres yard, 0.80 acres boat ramp	New tenant, month to month	\$0.083 \$0.126	Yard Ramp	
9	Port of Olympia Clarita Mattox (360) 528-8070	1999 lease with Simon Johnson, built a marine oriented building and leases to sub tenants.	Rent set in 1999	\$0.060	8% in 2019	NA

Ms. Sam Gibboney
 Re: Boat Haven Properties
 Page 9

Building Rent

There is even less relevant comparable rental data to determine rates for industrial oriented buildings. The Glen Cove Business Park is the dominant industrial park in the area. Here, rents range from around \$0.65 to \$0.75 sq ft per month. This is not marine oriented property where use is limited because of lack of sewer, however. Rent data from Port Hadlock is lower at \$0.40 sq ft. Other rental property considered includes data obtained from other Port agencies during the land rent survey process. This ranges from \$0.59 sq ft to upwards of \$1.08 sq ft for office build out. The Port properties have access to marine facilities like Travel Lifts, wash down areas and boat storage. The data from these properties is summarized on the following table.

INDUSTRIAL RENTAL COMPARISON SUMMARY

No.	Name & Location	Sq Ft % Office	Term	Blended Monthly Rate/SF		Escalations	Built Construction Clear Height
<u>Glen Cove Business Park</u>							
1	Otto Street Industrial 203-275 Otto Port Townsend	26,820 20% Varies	5 yrs	\$0.65 \$0.70	NNN \$0.06	3%	2004/2009 Steel Frame/Metal Ext. 12-20'
2	Glen Cove Business Park 234 & 274 Otto Port Townsend	26,840 5%	Most 1 yr Some up to 10 yrs	\$0.75	Utilities Reimbursed	None	1995, 1997 & 1998 Wood Frame/Metal 10'
3	Olympic Equipment 972 Ness Corner Rd Port Hadlock	10,400 Showroom	5 yrs	\$0.48	NNN	Flat	2007 Steel Frame/Metal Ext. 10'
<u>Port Leases</u>							
4	Port of Everett 1205 Craftsman Way Everett	3,515 100%	2 yrs w/8 1-yr options	\$0.80	NNN	3%	2008 Steel Frame/Metal Ext. NA
5a	Seaview Marine 6701 Seaview Ave NW Seattle	3,515 100% Parts storage	Thru 2027	\$1.08	NNN	Periodic	Older office for boatyard. Steel Fram/Metal Ext.
5b	Miller & Miller 2700 W. Commodor Way Seattle	4,590 Nominal	Thru 2020	\$0.59	NNN	Periodic	Older, part of Maritime Industrial Center

Ms. Sam Gibboney
 Re: Boat Haven Properties
 Page 10

Retail rents in Port Townsend are in the \$1.00 to \$1.25 sq ft range, with the higher end attributable to the better street fronting retail space. A summary of retail rents follows.

RETAIL RENTAL COMPARISON SUMMARY

No.	Name & Location	Sq Ft	Term Start	Term	Rent	Escalations	Expenses
1	O'Reilly Retail Center 2207-2223 E Sims Way	1,425	listing		\$1.00		NNN
		2,000	listing		\$1.00		NNN
		1,425	2017	NA	\$1.00	3%	NNN
		1,410	2017	3 yrs	\$1.00	3%	NNN
2	1300 Water St	1,758	2017	3 yrs	\$1.00	3%	NNN
		1,344	2016	5 yrs	\$1.00	3%	NNN
3	2021 Sims	1,350	2017	2 yrs	\$1.55	None	Gross
	2037 Sims	720	2017	5 yrs	\$1.50	\$0.14 yr 3	Gross
	2000 Water	720	2017	2 yrs	\$1.50	None	Gross
	2019 Sims	500	2017	2 yrs	\$1.55	\$0.13 yr 2	Gross
	2011 Sims	1,010	2017	3 yrs	\$1.55	\$0.13 yr 2	Gross

Market Rent Estimate

Based upon the survey and research, a reasonable range of rents for the Boat Haven property are estimated as:

Land Leases \$0.06 to \$0.08 sq ft per month
 Marine Related Industrial Buildings \$0.50 to \$0.65 sq ft per month
 Marine Related Retail & Commercial Buildings \$1.00 to \$1.20 sq ft per month

Note the low end of the rent range for the buildings has not changed from the 2006 appraisal. That is because it is expected that the conditions of some of the buildings have deteriorated and do now warrant increases in rent.

Leasing Practices

Property leases typically clearly define the parameters of the property being leased and compensation (rent) in exchange its use. The following discussion focuses on the lease provisions typical in the market.

Leased Premise

Property leases should clearly define the property being leased and the associated rights of use.

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 11

For ground leases, this typically is an area defined by metes and bounds legal description, site survey, site drawing or lot and block description if already divided. It typically includes all of the areas being used by the tenant, excluding common area.

Building leases for a single tenant leases, depending on use, typically include a similar drawing of the property showing the building foot print with areas outside the building foot print identified for tenant uses such as parking or yard storage. It is unusual for the defined premise to be limited to the building foot print. It is common for a leased area or premise to provide required area for parking or yard storage. Multi-tenant building leases usually include a drawing of the building with the tenant space being leased identified and then certain rights identified in the lease for parking or other yard storage activities. In short, the leased premise is usually clearly delineated in tenant leases.

Use rights for ground leases where building improvements are contemplated can be very specific, to the level of identifying the specific scale and intended use of the structures on the site. Yard storage and parking can also be identified as a specific use of the premise. Uses for building improvements are also usually spelled out in typical leases.

Lease Terms

After the leased premise and use rights are defined, the fundamental provisions in a lease are start date, term, rent, rent adjustment provisions, expense obligations, lease extensions options and sometimes landlord provided tenant improvement allowances.

The length of term for land leases being used for yard storage or parking typically are shorter than leases with building improvements. This is because a tenant on a non-improved parcel tends to be a shorter-term business operator than a tenant who contemplates a capital investment that needs time to be amortized and the ability to finance the improvements. Lease term should reflect the life of the assets when capital investment is required. Unimproved land leases anywhere from 1 to 5 years and leases for tenant provided improvements with terms of 10 years or more with 3 to 5 year intervals for renegotiation of rents for longer term leases.

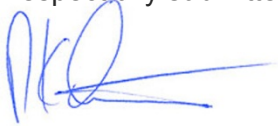
Rents are typically negotiated, unless there is an established rent schedule used by an agency such as a Port entity. Rents are typically adjusted up or down based upon factors such as location, condition of buildings and other improvements, defined responsibilities for repair and maintenance, common area use or amenities, size of the leased area, specific characteristics of the property that contribute value (such as specialized stormwater treatment, proximity to amenities, etc.)

Ms. Sam Gibboney
Re: Boat Haven Properties
Page 12

All leases have defined lease adjustment provisions, from no increase (flat) to a periodic adjustment, usually CPI or a negotiated percentage increase. Revenue share is also an option and is standard with retail leases in the hospitality industry for example.

I trust this information is helpful. If I can be of further assistance, my direct line is 206.205.0201.

Respectfully submitted,



Peter K. Shorett, MAI, CRE, FRICS
State-Certified General Real Estate
Appraiser #1100389

Attachments

Certification & Limiting Conditions
Appraiser's Experience Data

ATTACHMENTS

Certification

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

- 1) The statements of fact contained in this report are true and correct.
- 2) The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions, and conclusions.
- 3) I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved.
- 4) I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- 5) My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- 6) My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- 7) My 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) I certify that, to the best of my knowledge and belief, the reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and Standards of Professional Appraisal Practice, which include the Uniform Standards of Professional Appraisal Practice.
- 12) I certify that 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, Peter K. Shorett, MAI has completed the requirements of the continuing education program for Designated Members of the Appraisal Institute.



Peter K. Shorett, MAI, CRE, FRICS
State-Certified General Real Estate
Appraiser #1100389

Limiting Conditions

Limiting conditions specific to this appraisal are:

- 1) Physical dimensions for the property were taken from public records or from information provided, and the appraiser 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) It is assumed 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 identity of the appraisers or the firm with which he/she 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.



Peter K. Shorett, MAI, CRE, FRICS

Executive Vice President
Valuation Advisory Services

CAREER SUMMARY

Peter Shorett entered private appraisal practice with Shorett & Riely in 1980 and was promoted to manager of the office in San Jose, California in 1985 and returned to practice at the Seattle office in 1990. He founded the Valuation Advisory Services division of Kidder Mathews in 1995.

In 1985 he was awarded his MAI designation by the American Institute of Real Estate Appraisers (now known as the Appraisal Institute) and earned his CRE (Counselor of Real Estate) designation in 1999. He is a certified member of the Commercial Investment Real Estate Institute (CCIM) and has completed the requirements under the continuing education program of the Appraisal Institute. In 2008 he became a Fellow of the Royal Institute of Chartered Surveyors (FRICS), an international designation denoting the highest standards of success, achievement and expertise in the real estate industry.

Mr. Shorett has a widely diversified background in appraisal, market analysis and counseling in support of litigation, for the development, acquisition, sale, leasing and financing of major urban real estate throughout the continental Western United States, including the cities of Seattle, Portland, San Francisco and Los Angeles.

Property types studied include apartments, churches, shopping centers, office and industrial buildings, marinas, condominiums, convention hotels, motels, golf courses, parking garages, medical clinics, service stations, residential subdivisions, nursing homes, retirement apartments, vacant land and numerous special-purpose and single-use properties. Mr. Shorett has extensive experience in working with owners whose property is acquired by condemning agencies such as Sound Transit or Local Improvement Districts (LID). Other assignments have included the valuation of leasehold interests, market analysis and lease-up studies for various investors and business groups.

PROFESSIONAL AFFILIATIONS

- Member of Appraisal Institute (MAI)
- Counselors of Real Estate (CRE)
- Certified Commercial Investment Member (CCIM)
- Fellow of the Royal Institute of Chartered Surveyors (FRICS)

601 Union St, Suite 4720
Seattle, WA 98101
T 206.205.0201
F 206.205.0220
pshorett@kiddermathews.com

PARTIAL CLIENT LIST

ATTORNEY/LAW FIRMS

Cairncross & Hemplemann
Ellis Li & McKinstry
Foster Pepper & Shefelman
Graham & Dunn
Hansen Baker Ludlow
Drumheller
Karr Tuttle Campbell
Lane Powell Speers Lubersky
Lasher Holzapfel
Sperry & Ebberson
Perkins Coie
Pillsbury Winthrop
Preston Gates & Ellis
Stafford Frey Cooper
Stoel Rives
Tousley Brain & Stephens
Williams Kastner & Gibbs

Peter K. Shorett, MAI, CRE, FRICS continued

COURT EXPERIENCE

- United States Bankruptcy Court
- United States Federal Court
- King County Superior Court
- Kitsap County Superior Court
- Pierce County Superior Court
- Santa Cruz County Superior Court
- Snohomish County Superior Court

EDUCATION

- Business Administration, Western Washington University (1980)

PROFESSIONAL LICENSES

- State of Washington Certified General Real Estate Appraiser (No. 1100389)
- State of Oregon Certified General Real Estate Appraiser (No. C000599)
- State of California Certified General Real Estate Appraiser (No. AG014564)
- Reciprocal agreements with other states as needed

Peter K. Shorett, MAI, CRE, FRICS continued

PARTIAL CLIENT LIST (CONTINUED)

CORPORATIONS/ PROPERTY OWNERS

3M Corporation
 Albertsons, Inc.
 Bekins Company
 Bristol Meyers Squibb
 City University
 Clise Properties
 Consolidated Restaurants, Inc.
 Delta Airlines
 Fred Hutchinson
 Gai's Bakery
 Goodale & Barbieri
 Goodman Financial
 Health Science Properties
 Hertz Corporation
 International Paper Company
 KCTS Channel 9
 Kilroy Industries
 KMPG
 Lindal Cedar Homes
 Lone Star Northwest
 McDonalds Corporation
 Miller Brewing Company
 Nitze-Stagen
 Nobel House Hotels & Resorts
 Northwest Airlines
 Northwestern Trust
 Olympic Resource Management
 PACCAR
 Pine Street Associates
 Portac, Inc.
 Rayonier
 Seattle Seahawks
 Skokomish Tribal Community
 Southland Corporation
 Swinomish Tribal Community

The Boeing Company
 Unigard Security Insurance
 Union Carbide
 Vulcan, Inc.
 Wesley Homes
 YWCA

DEVELOPMENT COMPANIES

Bentall Corporation
 Lincoln Property Co.
 Opus
 Quadrant
 Sobrato Development Co.
 Trammell Crow
 Wright Runstad & Co.

FINANCIAL INSTITUTIONS/LIFE INSURANCE CO's

AETNA Life Insurance Co.
 Allstate Life Insurance Co.
 Bank of America
 CitiCorp
 Coldwell Banker Financial
 Crown Life Insurance Co.
 Frontier Bank
 GE Capital
 Glaser Financial Group
 Home Street Bank
 InterWest
 Key Bank
 L.J. Melody & Co.
 Manufacturer's Hanover Trust Co.
 New York Life
 Pacific NW Bank
 Riggs Bank of Washington, D.C.
 Seattle Mortgage Co.

T. Rowe Price
 The Union Bank of California
 TIAA-CREF
 Transamerica Insurance Co.
 US Bancorp
 Washington Capital Management
 Washington Mutual
 Wells Fargo Bank

GOVERNMENTAL AGENCIES/ PORT AUTHORITIES/ NON-PROFITS

City of Bainbridge Island
 City of Half Moon Bay
 City of Kirkland
 City of Santa Cruz
 City of Seattle
 Dept. of Natural Resources (WA State)
 General Services Administration
 Internal Revenue Service
 King County Dept. of Transportation
 King County Property Services
 King County Prosecutor's Office
 Port of Anacortes
 Port of Chelan
 Port of Friday Harbor
 Port of Port Townsend
 Port of Renton
 Port of Seattle
 Port of Tacoma
 Sound Transit
 The Nature Conservancy
 Trust for Public Land
 United States Postal Service
 Washington State Attorney General's
Office

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

PETER K SHORETT
601 UNION STREET #4720
SEATTLE WA 98101

1100389
License Number

01/06/1992
Issued Date

04/10/2019
Expiration Date

Pat Kohler
Pat Kohler, Director