

**MARKET RENT ANALYSIS IN A
SUMMARY REPORT
COMMERCIAL PROPERTY**

Old Woodinville School Building

13203 NE 175th Street
Woodinville, King County, Washington 98072

PREPARED FOR:

Mark Snyder
SHKS Architects
1050 North 38th Street
Seattle, WA 98103

EFFECTIVE DATES OF ANALYSES:

August 1, 2010

INTEGRA REALTY RESOURCES - SEATTLE

File Number: 154-2010-0216



INTEGRA Realty Resources

LOCAL EXPERTISE...NATIONALLY



**Old Woodinville Schoolhouse
13203 NE 175th Street
Woodinville, Washington**



Integra Realty Resources - Seattle

August 23, 2010

Mark Snyder
SHKS Architects
1050 North 38th Street
Seattle, WA 98103

SUBJECT: *Market Rent Analyses*
Old Woodinville Schoolhouse
13203 NE 175th Street
Woodinville, Washington 98072
Integra Seattle File No. 154-2010-0216

Dear Mark:

Integra Realty Resources - Seattle is pleased to transmit this market rental rate analysis for the above-referenced property. The purpose of this study is to develop an opinion of the market rent potential (after renovation), as of the current date. It is my understanding this analysis will be used as part of a feasibility study undertaken by your firm on behalf of your client, the City of Woodinville.

This report complies with the reporting requirements for a summary real estate appraisal assignment set forth under Standards Rule 2-2 of the *Uniform Standards of Professional Appraisal Practice (USPAP)*. As such, it presents only summary discussions of the data, reasoning, and analyses that are used in the appraisal process. Supporting documentation concerning the data, reasoning, and analyses is retained in our file. The depth of discussion contained in this report is specific to the needs of the client and the intended use of the appraisal as noted herein.

The underlying site is 3.17 acres (Tax Parcel 1026059024) and is improved with five (5) city-owned structures, including the 2 story, 15,176 square foot Old Woodinville Schoolhouse (plus basement). Out of the 40+ parking stalls currently available for all of the structures occupying the 3.17 acre site, between 17 and 30 stalls have reportedly been allocated to the Old Woodinville Schoolhouse, for a parking ratio of about 1.1 to 2.0 stalls per 1,000 square feet of building area (based on 15,176 square feet of commercial space).

Based on the analyses and conclusions in the accompanying report, and subject to the definitions, assumptions, and limiting conditions expressed herein, it is my opinion that the potential market

LOCAL EXPERTISE...NATIONALLY

Mark Snyder
Market Rent Analyses
Old Woodinville Schoolhouse
August 23, 2010
Page 2

rental rates applicable to the subject property, assuming a hypothetical completion as of the effective date of this analysis, are summarized below:

Market Rent Potential

<p>Market Rent Potential for Basement Level \$6.00 per Square Foot (NNN)</p> <p>Market Rent Potential for Level 1 \$18.00 per Square Foot (NNN)</p> <p>Market Rent Potential for Level 2 \$12.00 per Square Foot (NNN)</p>

The preceding value conclusion is subject to the following Special Assumption:

1. The above rental rates apply to a hypothetical renovated building, as if completed as of August 1, 2010, the effective date of value.

Respectfully submitted,

INTEGRA REALTY RESOURCES - SEATTLE



Allen N. Safer, MAI
Certified General Real Estate Appraiser
Washington Certificate No. 1100662

TABLE OF CONTENTS

	PAGE
SUMMARY OF SALIENT FACTS AND CONCLUSIONS.....	2
GENERAL INFORMATION	3
Purpose, Property Rights and Effective Date	3
Intended Use and Intended User	3
Scope of Appraisal.....	3
Description of the Improvements.....	4
Highest and Best Use	4
Photographs of Subject	5
MARKET RENT ANALYSIS.....	6
Woodinville Rent Comparables	7
Peripheral Submarket Rent Comparables	8
Main Level Rent Comparables	9
Upper Level Rent Comparables.....	13
Comparable Lower Level Leases.....	17
Summary of Conclusions	19
CERTIFICATION	20
ASSUMPTIONS AND LIMITING CONDITIONS.....	22
ADDENDA	
Qualifications of Appraiser(s)	Addendum A
Definitions.....	Addendum B

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

PART ONE

Property	Old Woodinville Schoolhouse 13203 NE 175th Street Woodinville, Washington 98072
Property Tax Identification Number(s)	102605-9024
Date of the Report	August 16, 2010
Effective Date of the Analysis	August 1, 2010
Land Area	3.17 acres; 138,096 square feet
Gross Building Area (GBA)	15,176 square feet (Plus basement)
Current Occupancy	0.0%
Year Built	1938
Zoning Designation	Central Business District (CBD)
Highest and Best Use as Improved	Specialty Retail/Professional Office

Potential Market Rent Conclusions:

Basement Storage	\$6.00 /SF RA NNN
Ground Floor Commercial/Showroom	\$18.00 /SF RA NNN
2nd Floor Studio/Professional Services	\$12.00 /SF RA NNN

The market rent conclusion is subject to the following Extraordinary Assumptions and Conditions:

1. The above rental rate estimates apply to a hypothetical, renovated building as of August 1, 2010, the effective date of the analysis.
-

GENERAL INFORMATION

The property is a two-story former schoolhouse building which the King County Assessor records indicate as having 15,176 square feet of building area (plus basement), with a street address of 13203 NE 175th Street, Woodinville, Washington. The schoolhouse is one of five (5) buildings contained in a 3.17 acre tax parcel, identified by the King County Assessor as APN No. 102605-9024. The subject building is situated on the southwest corner of NE 175th Street and 133rd Avenue NE.

PURPOSE, PROPERTY RIGHTS AND EFFECTIVE DATE

The purpose of this rental rate study is to develop an opinion of the potential market rent of the renovated property (as proposed) as of August 1, 2010. "Market Rent" is defined as:

Market Rent

The rental income a property would probably command in the open market; indicated by the current rents that are either paid or asked for comparable space as of the date of the appraisal. (The Appraisal of Real Estate, Appraisal Institute, *Thirteenth Edition*).

INTENDED USE AND INTENDED USER

This appraisal report is prepared for Mark Snyder, SKHS Architects, for use in connection with an architectural redevelopment study for their client, the City of Woodinville. It is not intended for any other use or user.

SCOPE OF APPRAISAL

To perform this assignment, we took the following steps to gather, confirm, and analyze relevant data.

- Physically inspected the property and the surrounding market area. An exterior inspection of the property was conducted by Allen N. Safer, MAI on August 1, 2010.
- Reviewed the SKHS renovation schemes.
- Collected factual information about the property and the surrounding market, and confirmed that information with various sources.
- Analyzed market information and developed indications of market rent by direct comparison to other retail/office/showroom and warehouse/storage rent comparables.
- Reconciled all rent comparables into conclusions of potential market rental rates, based on completion of renovations as scoped by SHKS Architects, assuming a hypothetical completion of the renovations as of the effective date of August 1, 2010.

This is a real estate appraisal report that complies with the reporting requirements set forth under Standards Rule 2-2 of the *Uniform Standards of Professional Appraisal Practice (USPAP)*.

DESCRIPTION OF THE IMPROVEMENTS

The subject improvements consist of a two-story former schoolhouse building built in 1938, with 15,176 square feet of above grade building area (plus basement). The structure has brick exterior walls with wood framed windows and doors. The SHKS renovation study has scoped three (3) renovation schemes, all of which call for the restoration of the buildings roof structure, installation of interior storm windows or window replacement, seismic upgrades, and renovation of interiors (including installation of a new elevator). At completion, all three schemes result in a code compliant structure that will accommodate a variety of commercial uses in the marketplace.

A key variable is the number of parking stalls that will be dedicated to the building. Reportedly, between 17 to 30 striped parking stalls will be available to tenants for customer and employee parking.

HIGHEST AND BEST USE

AS PROPOSED

The subject has excellent identity and exposure to NE 175th Street, a major arterial with average traffic counts of over 25,000 vehicles per day. However, the renovation of the former schoolhouse does not envision creating the large storefronts that accommodate traditional retailers, and as such, targeted tenants for the ground floor should be commercial businesses that require less than the 5 stalls per 1,000 square feet found in shopping centers, or the 3.5 stalls per 1,000 typically found in professional office and business parks.

Given existing land use trends in the subject neighborhood, we have concluded the highest and best use of the restored schoolhouse building will be a “quasi-retail” showroom/tasting center targeting the local winemaking or related industry (which could also incorporate the basement storage space).

The upper floor will be best suited for commercial studio uses including yoga/pilates tenants and conditioning/fitness studios, classroom space (Kumon/Kaplan), alternative medical offices (chiropractic, massage therapy, acupuncture, etc.), and artist studios.

PHOTOGRAPHS OF SUBJECT

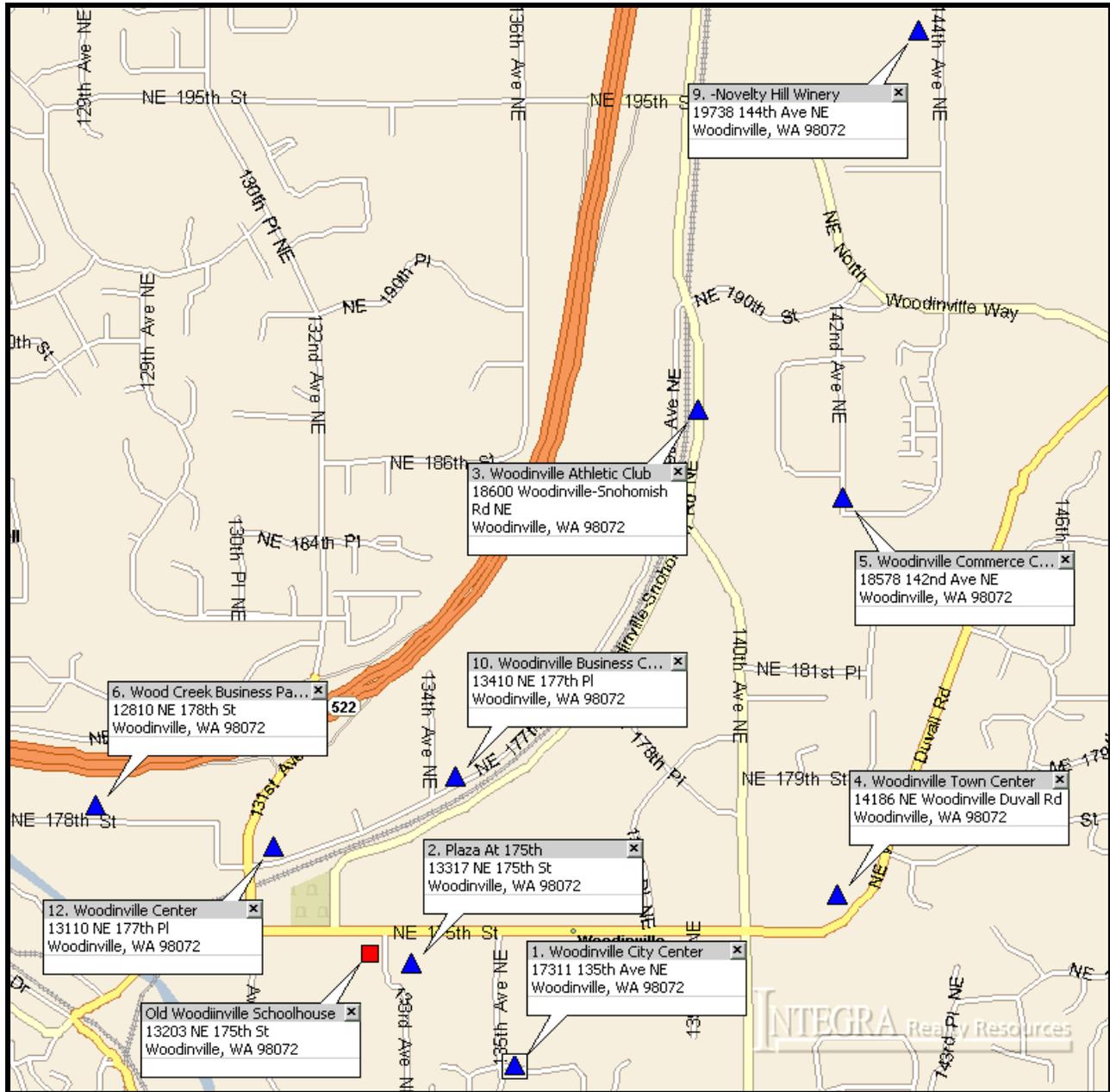


MARKET RENT ANALYSIS

We have researched rent comparables in the greater Woodinville market and adjacent sub-markets, and have discussed the subject property with a number of brokers and property managers active in the marketplace. After reviewing the Woodinville/Bothell/Redmond inventory of commercial, office and industrial listings posted in the commercial MLS (CBA), we've narrowed the field to 12 representative properties, summarized in the following table.

Summary of Comparable Leases						
No.	Property Information	Year Built	Building Size SF Range	\$/SF/Mo. Commercial	\$/SF/Mo. Office	\$/SF/Mo. Industrial
1	Woodinville City Center 17311 135 Ave NE Woodinville WA 98072	1986	43,146 1,453 - 3,953	N.A.	\$1.17 - \$1.33	N.A.
2	Plaza At 175th 13317 NE 175th St. Suite C Woodinville WA 98072	1985	39,335 1022 - 2,400	\$1.59 - \$2.30	N.A.	N.A.
3	Woodinville Athletic Club 18600 Woodinville Snohomish Rd NE Woodinville WA 98072	2003	61,392 1,910 - 3910	\$1.42	N.A.	N.A.
4	Woodinville Town Center 14186 NE Woodinville-Duvall Road Woodinville, WA 98072	1986	120,566 655 - 4,757	\$1.67	\$1.00	N.A.
5	Woodinville Commerce Center 18578-18628 142nd Ave NE Woodinville WA 98072	1983	20,986 1,165 - 3,600	N.A.	\$1.50	\$0.50
6	Wood Creek Business Park - Building 4 12810 NE 178th St Woodinville WA 98072	1986	27,000 1,063 -5,760	N.A.	\$1.20	\$0.60
7	Professional Office 18404 102nd Ave NE Bothell WA 98012	1943	3,797	N.A.	\$1.17	N.A.
8	16300 Redmond Way Redmond WA 98052	1948	7,985 1,516 - 3,200	\$1.50	\$1.00	N.A.
9	Woodview Industrial Park Novelty Hill Winery 19738 144th Ave NE	1989	12,000 2,004 - 9,996	N.A.	\$1.45	\$0.55
10	Woodinville Business Center 13410-13450 NE 177th PI Woodinville WA 98072	1982	72,463 892 - 6,088	\$1.50	\$1.00	\$0.50
11	Law Offices 18818 Bothell Everett Hwy Bothell WA 98011	1932	2,394 2,394	N.A.	\$1.33	N.A.
12	Woodcreek Center 13110 NE 177th PI Woodinville WA 98072	1969	15,720 318 3,418	\$1.33	\$1.25	N.A.

WOODINVILLE RENT COMPARABLES



PERIPHERAL SUBMARKET RENT COMPARABLES



MAIN LEVEL RENT COMPARABLES

To estimate market rent for the main floor space, we have considered rents achieved at 8 of the 12 comparable properties. Details of each are provided in the following paragraphs, and the maps showing locations relative to the subject on the preceding pages.

Main Floor Comparables						
No.	Property Information	Year Built	Building Size SF Range	\$/SF/Mo. Commercial	\$/SF/Mo. Office	\$/SF/Mo. Industrial
2	Plaza At 175th 13317 NE 175th St. Suite C Woodinville WA 98072	1985	39,335 1022 - 2,400	\$1.59 - \$2.30	N.A.	N.A.
3	Woodinville Athletic Club 18600 Woodinville Snohomish Rd NE Woodinville WA 98072	2003	61,392 1,910 - 3910	\$1.42	N.A.	N.A.
4	Woodinville Town Center 14186 NE Woodinville-Duvall Road Woodinville, WA 98072	1986	120,566 655 - 4,757	\$1.67	\$1.00	N.A.
8	16300 Redmond Way Redmond WA 98052	1948	7,985 1,516 - 3,200	\$1.50	\$1.00	N.A.
9	Woodview Industrial Park Novelty Hill Winery 19738 144th Ave NE	1989	12,000 2,004 - 9,996	N.A.	\$1.45	\$0.55
11	Law Offices 18818 Bothell Everett Hwy Bothell WA 98011	1932	2,394 2,394	\$1.33	\$1.33	N.A.
12	Woodcreek Center 13110 NE 177th PI Woodinville WA 98072	1969	15,720 318 3,418	\$1.33	\$1.25	N.A.

Lease Comparable No. 2 Plaza at 175th is located at 13317 NE 175th, ½ block east of the subject. This 39,335 square foot shopping center was built in 1985, and is a one-story strip retail structure. Presently, there are 5 vacancies ranging in size from 1,022 square feet to a 2,400 square foot “end-cap”, with asking rents generally ranging between \$19.00 to \$22.50 NNN; however, the 2,400 square foot end cap is asking \$27.50 NNN. Included in this center is a Hot Yoga tenant (which is a tenant profile targeted for the subject). The broker interviewed indicated the market currently requires free rent of 2 months on a 3 year lease or 6 months on a 10 year lease, for an effective asking rate of \$18.00 to \$21.50 for in-line space.

Lease Comparable No. 3 is the Woodinville Athletic Center located at 18600 Woodinville Snohomish Road NE. This 59,850 square foot professional center was built into the hillside in 2003 and is two-levels. Gold’s Gym occupies the entire lower/main level fronting the arterial; the upper level is at grade with an upper parking lot, accessed by a steeply sloped driveway built into the hillside. Presently, there is one vacancy which was a former physical therapy space (a targeted profile for the subject) at 3,910 square feet with an asking rent of \$17.00. Applying the 5.0% discount attributable to market rent concessions results in an effective asking rate of \$16.00 NNN.

Lease Comparable No. 4 is Woodinville Town Center, located at 14186 NE Woodinville-Duvall Road, 7 blocks east of the subject. This 120,566 square foot shopping center was built in 1986, and is a two-story strip retail complex presently anchored by a QFC Grocery; however, QFC is closing this store before the end of the year. Presently, there are 6 shop vacancies (excluding the pending QFC vacancy) ranging in size from 655 square feet to 3,400 square feet, with asking rents between \$12.00 NNN for upper level space and \$22.00 to \$28.00 NNN for the main level space. Tenants in this center include upper level Yoga and Pilates tenants, and a newly leased main level Personal Training Studio (all of which are tenant profiles targeted for the subject). The property manager indicated the market currently requires free rent of 3 months on a 5 year lease, for an effective asking rate of \$11.40 NNN for upper level space and \$22.00 to \$27.00 for the lower level.

Lease Comparable No. 8 is a 6,469 square foot, two-level commercial building built in 1948, situated at 16300 Redmond Way in the old downtown area of Redmond. Presently, there are 2 vacancies ranging from 1,516 square feet on the 2nd level to a 3,200 square foot ground floor vacancy. Asking rents for both levels is currently \$12.00 NNN. As an older 2-level structure, this comparable is similar in age and function to the subject, and while the neighborhoods are different, it does establish a “floor” for ground level commercial rents of \$11.40 (after allowing for a 5% effective rent discount).

Lease Comparable No. 9 is the Novelty Hill Winery in the Woodview Industrial Park, located at 19738 144th Avenue NE in Woodinville. This 12,000 square foot industrial facility was built in 1988, and is a single story, on-grade 12,000 square foot structure that was purchased in April 2007 with Novelty Hill Winery as the tenant. The winery space breaks out 2,004 square feet of office/showroom (16.7%) and 9,996 square feet of warehouse/storage space at a banded rent of \$0.70 per square foot per month, NNN. Allocated, this is equivalent to \$1.45 for the office space and \$0.55 to the warehouse. This is a single tenant building..

Lease Comparable No. 10 is the Woodinville Business Center Buildings 1- 4 are located at 113410- 13450 NE 177th Place. This 72,463 square foot business park was built in 1982 and consists of 4 one-story on-grade buildings with 18 foot clear heights in the warehouse. Tenants include a music store/studio tenant, a type of use targeted for the subject 2nd level. Presently, there are 3 vacancies totaling 8,228 square feet (40.7% office build-out), with asking rents of \$1.50 NNN for commercial space fronting the arterial, \$1.00 NNN per square foot for office and \$0.50 NNN per square foot of warehouse/storage. Applying the 5.0% discount attributable to market rent concessions results in effective asking rates of \$1.425 on commercial frontage (\$17.10 annualized), \$0.95 on office (\$11.40) and \$0.475 on storage (\$5.70).

Lease Comparable No. 11 is a 2,394 square foot, 2-level, 1932 circa renovated house located at 18818 Bothell Everett Highway in Bothell. It has been fully renovated and repositioned as professional offices and sold to a law firm based on a \$16.00 proforma rent (NNN). Renovations included a new roof, windows, plumbing, and electrical. The structure’s wood floors crown moldings were restored. The site included 4-open air parking stalls, and a sale was pending as of August 6, 2010.

Lease Comparable No. 12 is the Wood Creek Center located at 13110- 13120 NE 177th Place. This 11,190 square foot, 2-building commercial complex was built into a hillside in

1985. Tenants include Pony Mailbox, Allstate Insurance, and a Marine Corps Recruitment Center. Presently, there are 5 vacancies totaling 6,040 square feet with asking rents of \$1.250 NNN on office space, and \$1.33 NNN for main level commercial space. Applying the 5.0% discount attributable to market rent discounts results in effective rates of \$1.26 on commercial frontage (\$15.16) and \$1.1875 on second level office space (\$14.25).

Photographs of Main Floor Rent Comparables



Lease Comp No.2



Lease Comp No.3



Lease Comp No. 4



Lease Comp No. 8



Lease Comp No. 9



Lease Comp No. 10



Lease Comp No. 11



Lease Comp No. 12

CORRELATION

The range of lease rates varies widely, from \$15.96 to \$27.60 NNN per year. The range narrows significantly when comparing the most similar spaces which would be attractive to the “quasi retail” tenant types (noted in our highest and best use discussion) to \$16.00 to \$20.00 NNN.

Within this narrower rental range, a hypothetical market rent for the renovated subject main floor is concluded at \$18.00 NNN (\$1.50 per monthly) based on renovations being completed.

Market Rent Potential for Main Floor (Hypothetical)

Renovated Old Woodinville School House	\$18,00/Yr NNN
	\$1.50/month

UPPER LEVEL RENT COMPARABLES

To estimate the market rent potential for the upper level space, we have considered the rents achieved at 8 of the 12 properties as summarized below.

Upper Floor Comparables						
No.	Property Information	Year Built	Building Size SF Range	\$/SF/Mo. Commercial	\$/SF/Mo. Office	\$/SF/Mo. Industrial
1	Woodinville City Center 17311 135 Ave NE Woodinville WA 98072	1986	43,146 1,453 - 3,953	N.A.	\$1.17 - \$1.33	N.A.
4	Woodinville Town Center 14186 NE Woodinville-Duval Rd Woodinville, WA 98072	1986	120,566 655 - 4,757	\$1.67	\$1.00	N.A.
5	Woodinville Commerce Center 18578-18628 142nd Ave NE Woodinville WA 98072	1983	104,320 685 - 3,600	N.A.	\$1.50	\$0.50
6	Wood Creek Buiness Park - Buildng 4 12810 NE 178th St Woodinville WA 98072	1986	27,000 1,063 -5,760	N.A.	\$1.20	\$0.60
7	Professional Office 18404 102nd Ave NE Bothell WA 98012	1943	3,797	N.A.	\$1.17	N.A.
8	16300 Redmond Way Redmond WA 98052	1948	7,985 1,516 - 3,200	\$1.50	\$1.00	N.A.
10	Woodinville Business Center 13410-13450 NE 177th Pl Woodinville WA 98072	1982	72,463 892 - 6,088	\$1.50	\$1.00	\$0.50
12	Woodcreek Center 13110 NE 177th Pl Woodinville WA 98072	1969	15,720 318 - 3,418	\$1.33	\$1.25	N.A.

Lease Comparable No. 1 is the Woodinville City Center located at 17311 135 Ave NE. This 43,146 square foot business park was built in 1986, and is 3 one-story office/flex buildings. Tenants in this complex include the Artful Art of Massage, the Sleep Disorder Clinic and Children’s Therapy, representing several of the tenant types targeted for the subject. Presently, there are 2 ranging in size from 1,453 square feet to 3,953 square feet, with asking rents ranging between \$1.17 to \$1.33 NNN per month, or \$14.00 to \$16.00 NNN, annualized. Discounted 5.0% for market rent concessions, the effective asking rent is \$13.30 to 15.20 per year.

Lease Comparable No. 4 is the Woodinville Town Center (previously discussed on page 10), with asking rents of \$1.00 per square foot per month (\$12.00 NNN) for upper level space. Netting out 5% for market rent concessions results in an asking rent of \$11.40 NNN.

Lease Comparable No. 5 is Woodinville Commerce Center, located at 18578-18628 142nd Avenue NE. This 104,320 square foot 5-building complex was built in 1983. It consists of single story business park buildings with 6 current vacancies ranging from 685 square feet to 3,600 square feet. Asking rents are \$1.50 NNN per month for office space and \$0.50 NNN for on-grade warehouse. Included in this center is Covington Cellars, Mountain Homebrew

and Pacific Distillery, LLC (all of which are tenant profiles targeted for the subject). Deducting 5% for market rent concessions results in effective asking rates of \$17.10 NNN for office and \$5.70 for storage.

Lease Comparable No. 6 is Wood Creek Business Park (Building 4) located at 12810 NE 178th Street. This 27,000 square foot building was built in 1986, and consists of a single story on-grade warehouse with 5.6% office build-out. Although currently 100% leased, asking rates for space leased in 2010 rents were \$1.20 NNN per month for office and \$0.60 NNN for on-grade warehouse. Deducting 5% for market rent concessions, effective asking rates were \$13.68 NNN for office space.

Lease Comparable No. 7 is a renovated professional office building located at 18404 102nd Avenue NE in downtown Bothell. This 3,797 square foot building was built in 1943, and consists of a single story brick clad structure on a 7200 square foot lot. The building was last renovated in 1980, and 10 stalls of off-street parking are located in the parking lot across the street (leased from a church). The building is currently vacant and for sale or lease at an asking rate of \$1.167 NNN per square foot per month or \$14.00 per year. Deducting 5% for market rent concessions, the effective asking rate is \$13.30 NNN.

Lease Comparable No. 8 is the other renovated professional office in Bothell (discussed earlier on page 10). The law firm that is purchasing the building reportedly paid a price based on a \$16.00 NNN lease, which after discounting for market rent concessions is equivalent to \$15.20 NNN.

Lease Comparable No. 10 is the Woodinville Business Center (discussed in the earlier section on page 10) with office space being leased at \$1.00 NNN per month, or \$12.00 per year. After discounting for market rent concessions this would be equivalent to a lease rate of \$11.40.

Lease Comparable No. 12 is the Wood Creek Center (discussed earlier on page 14) with an asking rent for office space at \$1.25 NNN per month, or \$15.00 per year. After discounting for market rent concessions, this is equivalent to a current rate of \$14.25.

Photographs of Upper Floor Rent Comparables



Lease Comp No.1



Lease Comp No.4



Lease Comp No. 5



Lease Comp No. 6



Lease Comp No. 7



Lease Comp No. 8



Lease Comp No. 10



Lease Comp No. 12

CORRELATION

The lease rates range from \$12.00 to \$18.00 NNN per square foot per year. After comparative analysis, the range narrows to \$12.00 to \$14.00 NNN based on completion of the proposed renovations.

Within this range, as of the current date, a hypothetical market rent for the renovated subject upper floor is concluded at \$12.00 NNN per year, NNN (\$1.00 monthly).

Market Rent Potential for Upper Floor (Hypothetical)

Renovated Old Woodinville School House	\$12,00/Yr NNN
	\$1.00/month

COMPARABLE LOWER LEVEL LEASES

To estimate the market rent potential for the subject’s lower basement level, we have considered the following 4 rent comparables, summarized in the following table.

Summary of Rent Comparables for Lower Level						
No.	Property Information	Year Built	Building Size SF Range	\$/SF/Mo. Commercial	\$/SF/Mo. Office	\$/SF/Mo. Industrial
5	Woodinville Commerce Center - Building F 18578-18628 142nd Ave NE Woodinville WA 98072	1983	20,986 1,165 - 3,600	N.A.	\$1.00	\$0.50
6	Wood Creek Business Park - Building 4 12810 NE 178th St Woodinville WA 98072	1986	27,000 1,063 -5,760	N.A.	\$1.20	\$0.60
9	Novelty Hill Winery 19738 144th Ave NE	1989	12,000 2,004 - 9,996	N.A.	\$1.45	\$0.55
10	Woodinville Business Center 13410-13450 NE 177th Pl Woodinville WA 98072	1982	72,463 892 - 6,088	\$1.50	\$1.00	\$0.50

Lease Comparable No. 5 is the Woodinville Commerce Center (discussed in the earlier section on page 13) with warehouse space reportedly leased at \$0.50 NNN, or \$6.00 per year. Discounted for market rent concessions results in a lease rate of \$5.70.

Lease Comparable No. 6 is the Wood Creek Business Park (discussed earlier on page 14) with warehouse space reportedly leased at \$0.60 NNN, or \$7.20 per year. Discounted for market rent concessions results in a lease rate of \$6.84.

Lease Comparable No. 9 is the Novelty Hill Winery rent comp (discussed earlier on page 10) with warehouse space reportedly leased at \$0.55 NNN, or \$6.60 per year. Discounted for market rent concessions results in a lease rate of \$6.24.

Lease Comparable No. 10 is the Woodinville Business Center (discussed earlier on page 10) with warehouse space reportedly leased at \$0.60 NNN, or \$7.20 per year. Discounted for market rent concessions results in a lease rate of \$6.84.

Photographs of Rent Comparables for Lower Level



Lease Comp No. 5



Lease Comp No. 6



Lease Comp No. 9



Lease Comp No. 10

CORRELATION

The range of lease rates varies from \$6.00 to \$7.20 NNN per square foot per year, to \$5.90 to \$6.60 NNN after further analysis.

As of the current date, the hypothetical market rent potential for the renovated subject basement is concluded at \$6.00 per square foot per year, triple net (\$0.50 per monthly).

Market Rent Potential for Lower Floor (Hypothetical)

Renovated Old Woodinville School House	\$6,00/Yr NNN
	\$0.50/month

SUMMARY OF CONCLUSIONS

Based on market trends, we have correlated to a range of hypothetical market rents (assuming the proposed renovations had been completed as of August 1, 2010) from \$6.00 NNN for basement space, \$18.00 NNN for the main level, and \$12.00 NNN for the upper level. These are “effective rents”, net of deductions for market rent concessions.

Summary of Market Rent Potential

Market Rent Potential for Basement Level

\$6.00 per Square Foot (NNN)

Market Rent Potential for Level 1

\$18.00 per Square Foot (NNN)

Market Rent Potential for Level 2

\$12.00 per Square Foot (NNN)

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 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 requirements of the *Code of Professional Ethics and Standards of Professional Appraisal Practice* of the Appraisal Institute, which includes the *Uniform Standards of Professional Appraisal Practice (USPAP)*, and in conformity with the appraisal regulations issued in connection with the *Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)*.
8. Allen N. Safer, MAI made a personal inspection of the property that is the subject of this report on August 1, 2010.
9. Coby Stites is an associate with IRR-Seattle and he provided significant appraisal assistance to the Allen N. Safer, MAI. His assistance consisted of confirming rent comparables and creating exhibits used in this analysis under my direct supervision.
10. This rent study is not based on a requested market rent conclusion, a specific valuation, or the approval of a loan.
11. I have not relied on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value.
12. It is my opinion that the subject does not include any enhancement in value as a result of any natural, cultural, recreational or scientific influences retrospective or prospective.
13. I have experience in appraising properties similar to the subject and I am in compliance with the Competency Rule of *USPAP*.

14. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
15. As of the date of this report, Allen N. Safer, MAI has completed the continuing education program of the Appraisal Institute.



Allen N. Safer, MAI
Certified General Real Estate Appraiser
Washington Certificate No. 1100662

ASSUMPTIONS AND LIMITING CONDITIONS

In conducting this appraisal, we have assumed, except as otherwise noted in our report, as follows:

1. The title is marketable and free and clear of all liens, encumbrances, encroachments, easements and restrictions. The property is under responsible ownership and competent management and is available for its highest and best use.
2. There are no existing judgments or pending or threatened litigation that could affect the value of the property.
3. There are no hidden or undisclosed conditions of the land or of the improvements that would render the property more or less valuable. Furthermore, there is no asbestos in the property.
4. The property is in compliance with all applicable building, environmental, zoning, and other federal, state and local laws, regulations and codes.
5. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

Our appraisal report is subject to the following limiting conditions, except as otherwise noted in our report.

1. An appraisal is inherently subjective and represents our opinion as to the value of the property appraised.
2. The conclusions stated in our appraisal apply only as of the effective date of the appraisal, and no representation is made as to the affect of subsequent events.
3. No changes in any federal, state or local laws, regulations or codes (including, without limitation, the Internal Revenue Code) are anticipated.
4. No environmental impact studies were either requested or made in conjunction with this appraisal, and we reserve the right to revise or rescind any of the value opinions based upon any subsequent environmental impact studies. If any environmental impact statement is required by law, the appraisal assumes that such statement will be favorable and will be approved by the appropriate regulatory bodies.
5. We are not required to give testimony or to be in attendance in court or any government or other hearing with reference to the property without written contractual arrangements having been made relative to such additional employment.
6. We have made no survey of the property and assume no responsibility in connection with such matters. Any sketch or survey of the property included in this report is for illustrative purposes only and should not be considered to be scaled accurately for size. The appraisal covers the property as described in this report, and the areas and dimensions set forth are assumed to be correct.
7. No opinion is expressed as to the value of subsurface oil, gas or mineral rights, if any, and we have assumed that the property is not subject to surface entry for the exploration or removal of such materials, unless otherwise noted in our appraisal.

8. We accept no responsibility for considerations requiring expertise in other fields. Such considerations include, but are not limited to, legal descriptions and other legal matters, geologic considerations, such as soils and seismic stability, and civil, mechanical, electrical, structural and other engineering and environmental matters.
9. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used. This appraisal report shall be considered only in its entirety. No part of this appraisal report shall be utilized separately or out of context.
10. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers, or any reference to the Appraisal Institute) shall be disseminated through advertising media, public relations media, news media or any other means of communication (including without limitation prospectuses, private offering memoranda and other offering material provided to prospective investors) without prior written consent from Integra Realty Resources.
11. Information, estimates and opinions contained in this report, obtained from sources outside of the office of the undersigned, are assumed to be reliable and have not been independently verified.
12. Any income and expense estimates contained in this appraisal report are used only for the purpose of estimating value and do not constitute predictions of future operating results.
13. If the property is subject to one or more leases, any estimate of residual value contained in the appraisal may be particularly affected by significant changes in the condition of the economy, of the real estate industry, or of the appraised property at the time these leases expire or otherwise terminate.
14. No consideration has been given to personal property located on the premises or to the cost of moving or relocating such personal property; only the real property has been considered.
15. The current purchasing power of the dollar is the basis for the value stated in our appraisal; we have assumed that no extreme fluctuations in economic cycles will occur.
16. The value found herein is subject to these and to any other assumptions or conditions set forth in the body of this report but which may have been omitted from this list of Assumptions and Limiting Conditions.
17. The analyses contained in this report necessarily incorporate numerous estimates and assumptions regarding property performance, general and local business and economic conditions, the absence of material changes in the competitive environment and other matters. Some estimates or assumptions, however, inevitably will not materialize, and unanticipated events and circumstances may occur; therefore, actual results achieved during the period covered by our analysis will vary from our estimates, and the variations may be material.
18. The *Americans with Disabilities Act (ADA)* became effective January 26, 1992. We have not made a specific survey or analysis of this property to determine whether

the physical aspects of the improvements meet the *ADA* accessibility guidelines. In as much as compliance matches each owner's financial ability with the cost to cure the non-conforming physical characteristics of a property, we cannot comment on compliance to *ADA*. Given that compliance can change with each owner's financial ability to cure non-accessibility, the value of the subject does not consider possible non-compliance. Specific study of both the owner's financial ability and the cost to cure any deficiencies would be needed for the Department of Justice to determine compliance.

19. This appraisal report has been prepared for the exclusive benefit of the Mark Snyder on behalf of his client, Kwest, Inc. It may not be used or relied upon by any other party. All parties who use or rely upon any information in this report without our written consent do so at their own risk.
20. No studies have been provided to us indicating the presence or absence of hazardous materials on the site or in the improvements, and our valuation is predicated upon the property being free and clear of any environment hazards.
21. We have not been provided with any evidence or documentation as to the presence or location of any floodplain areas and per or wetlands. Wetlands generally include swamps, marshes, bogs, and similar areas. We are not qualified to detect such areas. The presence of floodplain areas and per or wetlands may affect the value of the property, and the value conclusion is predicated on the assumption that wetlands are non-existent or minimal.

The value conclusion is subject to the following Extraordinary Assumptions and Hypothetical Conditions:

1. None

ADDENDUM A
QUALIFICATIONS OF APPRAISER(S)

Professional Qualifications

Mr. Allen Safer, MAI, MRICS

Experience

Managing Director for Integra Realty Resources-Seattle in Washington State. Integra Realty Resources Seattle is part of Integra Realty Resources (IRR), a national valuation and consulting firm with 59 offices in the U.S. and Mexico.

Mr. Safer and his firm are experienced in the analysis of various property types including: vacant land, residential plats, master planned communities, multi family developments, retail, office, industrial and special purpose properties in Washington State and Alaska. Clients served include various financial concerns, law and public accounting firms, private and public agencies, pension and advisory companies, investment firms, and the general public. Further, utilizing the resources of Integra's nationwide coverage, the firm is actively involved in the completion of large portfolio engagements.

Mr. Safer's background includes 30+ years of consultation and valuation analysis for the general public on commercial and residential properties in Washington and Alaska. Entered the appraisal profession with Coldwell Banker Appraisal Services from 1977 1981. Founded Safer & Company in 1982 and transitioned to Property Counselors from 1986 to 2001.

Professional Activities & Affiliations

Appraisal Institute, Member (MAI)

President: Local Chapter of the Appraisal Institute, January 2007 - December 2007

Chairman: Seattle Chapter Real Estate Fall Conference, January 2008 - December 2010

Chairman: National Appraisal Institute Regional Chairs, January 2000 - December 2000

Chairman: National Appraisal Institute Executive Committee, January 2000 - December 2000

Chairman: Pacific NW Region 1 Board of Directors, January 1998 - December 1999

Board of Director: Appraisal Institute, January 1996 - December 2001

Member: Appraisal Institute Finance Committee, January 1996 - December 1997

Board of Director: General Appraisal Board of the Appraisal Institute, January 1994 - December 1996

Chairman: National Comprehensive Exam Subcommittee of the Appraisal Institute, Jan 1990 - Dec 1992

Member: National Comprehensive Exam Subcommittee of the Appraisal Institute, January 1983 - December 1992

Member: Government Relations Committee, January 2002 - December 2004

Member: National Admissions Committee of the Appraisal Institute, January 1990 - December 1993

Board of Director: Seattle Chapter of the Appraisal Institute, January 1989 - December 1992

Member: Regional Professional Standards Panel of the Appraisal Institute, January 1984

Chairman: Local Chapter Admissions and Programs, January 1986 - December 1991

Licenses

Alaska, Appraiser, 412

Washington, Appraiser, 1100662, Expires September 2011

Washington, Designated Broker, 3341, Expires December 2011

Education

Bachelor of Science, Real Estate, University of Colorado, Boulder, Colorado

Qualified Before Courts & Administrative Bodies

United States Bankruptcy Court, Seattle Washington

King County Superior Court, Washington

King County Board of Equalization

Pierce County District Court

Washington State Board of Tax Appeals

Various Arbitration & Land Use Hearings

Miscellaneous

Recipient of the Seattle AI Chapter's "Appraiser of the Year" Award for 2001.

Recipient of the Seattle AI Chapter's 2009 "President's Award".

INTEGRA REALTY RESOURCES, INC.

CORPORATE PROFILE

Integra Realty Resources, Inc. is the largest property valuation and counseling firm in the United States, with 53 offices in 32 states. Integra was created for the purpose of combining the intimate knowledge of well-established local offices with the powerful resources and capabilities of a national company. Integra's local offices have an average of 20 years of service in the local market. A Managing Director, with an average of 30 years of local market valuation and counseling experience, leads each office.

Integra Realty Resources, Inc. has 130 professionals who hold the Appraisal Institute's MAI designation, and 700 licensed and certified appraisers. In addition to having expertise in the standard commercial property types, the firm has an extensive track record in specialty property classes including regional malls, hotels, health care facilities, golf courses, and pipeline rights-of-way. Integra also has a wealth of experience in market and feasibility studies, property tax consulting, litigation support, and machinery and equipment and business valuation.

A listing of Integra's local offices and their Managing Directors follows:

ATLANTA, GA – J. Carl Schultz, Jr., MAI, SRA, CRE
ATLANTIC COAST NJ - Anthony S. Graziano, MAI, CRE
AUSTIN, TX – Randy A. Williams, MAI
BALTIMORE, MD – Patrick C. Kerr, MAI, SRA
BOSTON, MA – David L. Cary, MAI, SRA, CRE
CHARLOTTE, NC – Fitzhugh L. Stout, MAI, CRE
CHICAGO, IL – Gary K. DeClark, MAI, CRE
CHICAGO, IL – Jeffrey G. Pelegrin, MAI
CINCINNATI, OH – Gary S. Wright, MAI, SRA
COLUMBIA, SC – Michael B. Dodds, MAI, CCIM
COLUMBUS, OH – Eric E. Belfrage, MAI, CRE, ISHC
DALLAS, TX – Mark R. Lamb, MAI, CPA
DAYTON, OH – Mark L. Middleton, MAI, SRA
DENVER, CO – Brad A. Weiman, MAI
DETROIT, MI – Anthony Sanna, MAI
FORT WORTH, TX – Donald J. Sherwood, MAI
GREENVILLE, SC – Michael B. Dodds, MAI, CCIM
HARTFORD, CT – Mark F. Bates, MAI, CRE
HOUSTON, TX – David R. Dominy, MAI
INDIANAPOLIS, IN – Michael C. Lady, MAI, SRA, CCIM
KANSAS CITY, MO per KS – Kevin K. Nunnink, MAI
LAS VEGAS, NV – Shelli L. Lowe, MAI, SRA
LOS ANGELES, CA – John G. Ellis, MAI
LOUISVILLE, KY – George M. Chapman, MAI, SRA, CRE
MEMPHIS, TN – J. Walter Allen, MAI
MIAMI, FL – Michael Y. Cannon, MAI, SRA, CRE

MILWAUKEE, WI – Sean Reilly, MAI
MINNEAPOLIS, MN – Michael F. Amundson, MAI, CCIM
MORGANTOWN, WV – Thomas A. Motta, MAI, CRE
NAPLES, FL – Julian Stokes, MAI, CRE, CCIM
NASHVILLE, TN – R. Paul Perutelli, MAI, SRA
NEW YORK, NY – Raymond T. Cirz, MAI, CRE,
Dov E. Goldman, MAI, CRE
NORTHERN NJ – Barry J. Krauser, MAI, CRE
ORANGE COUNTY, CA – Larry D. Webb, MAI
ORLANDO, FL – Charles J. Lentz, MAI
PHILADELPHIA, PA – Joseph D. Pasquarella, MAI, CRE
PHOENIX, AZ – Walter Winius, Jr., MAI, CRE
PITTSBURGH, PA – Paul D. Griffith, MAI
PORTLAND, OR – Brian A. Glanville, MAI, CRE
PROVIDENCE, RI – Gerard H. McDonough, MAI
RICHMOND, VA – Robert E. Coles, MAI, CRE
SACRAMENTO, CA – Scott Beebe, MAI
SAN ANTONIO, TX – Martyn C. Glen, MAI, CRE, FRICS
SAN DIEGO, CA – Lance W. Doré, MAI
SAN FRANCISCO, CA – Jan Kleczewski, MAI
SAVANNAH, GA – J. Carl Schultz, Jr., MAI, SRA, CRE
SEATTLE, WA – Allen N. Safer, MAI
TAMPA, FL – Bradford L. Johnson, MAI
TULSA, OK – Robert E. Gray, MAI
WASHINGTON, DC – Patrick C. Kerr, MAI, SRA

Corporate Office

Kevin K. Nunnink, MAI, Chairman
Jeffrey Rogers, President & COO
George G. Ward, MAI, Vice President
1133 Avenue of the Americas
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Website: <http://www.irr.com>

ADDENDUM B

DEFINITIONS

DEFINITIONS

These definitions have been extracted, solely or in combination, from definitions and descriptions printed in:

- *Uniform Standards of Professional Appraisal Practice*, 2004 Edition (*USPAP*).
- *The Dictionary of Real Estate Appraisal*, Fourth Edition, Appraisal Institute, Chicago, Illinois, 2002 (*Dictionary*).
- *The Appraisal of Real Estate*, Twelfth Edition, Appraisal Institute, Chicago, Illinois, 2001 (*Twelfth Edition*).
- *Marshall Valuation Service*, Marshall & Swift, Los Angeles, California, (*MVS*).

Appraisal

The act or process of developing an opinion of value; an opinion of value. (*USPAP*)

Deferred Maintenance

Curable, physical deterioration that should be corrected immediately, although work has not commenced; denotes the need for immediate expenditures, but does not necessarily suggest inadequate maintenance in the past. (*Dictionary*)

Entrepreneurial Incentive

A market-derived figure that represents the amount an entrepreneur expects to receive as compensation for providing coordination and expertise and assuming the risks associated with the development of a project. (*Twelfth Edition*)

Exposure Time

1. The time a property remains on the market.
2. The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market. Exposure time is always presumed to occur prior to the effective date of the appraisal. The overall concept of reasonable exposure encompasses not only adequate, sufficient and reasonable time but also adequate, sufficient and reasonable effort. Exposure time is different for various types of real estate and value ranges and under various market conditions. (*Dictionary*)

Fee Simple Estate

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. (*Dictionary*)

Floor Area Ratio (FAR)

The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; in planning and zoning, often expressed as a decimal, e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. (*Dictionary*)

Gross Building Area (GBA)

The total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior of the walls. All enclosed floors of the building including basements, mechanical equipment floors, penthouses, and the like are included in the measurement. Parking spaces and parking garages are excluded. (*Dictionary*)

Highest and Best Use

The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability. (*Dictionary*)

Industrial Property Classifications

Distribution Warehouse - High cube single-story structures with clear ceiling heights of at least 22 feet to allow three stacking heights of seven feet each. The most common height in this market is 24-foot clear ceiling height. Some distribution buildings now have clear ceiling heights as high as 40 feet or more due to the introduction of robotic computer systems, which allow very narrow aisles and high stacking. In general, column spacing is wider than that in office warehouse buildings and office build-out is minimal, generally 10% or less.

Flex - Buildings designed with warehouse capabilities such as dock-high or drive-in loading doors and clear ceiling heights of 14 to 16 feet. However, they are termed flex based on their broad range of office finish and their single-story exterior office appearance. The level of office finish typically ranges from 30% to 70% and suites can be divided into relatively small units. Research & Development (R&D) buildings are generally the same as flex warehouse construction but with higher percentages of office finish, often up to 90%.

Manufacturing – Buildings intended to provide space in which to transform, fabricate, or assemble physical resources into other physical goods. These buildings can vary greatly in design, with low clear ceiling heights of 12 feet, to very high clear ceiling heights of 30 feet or more, according to specific industry needs.

Office Warehouse - Generally single-story buildings with clear ceiling heights ranging from about 16 feet to 21 feet. The level of office finish is shaped by the needs of individual tenants, the general uses within the market area, and the availability of parking. The level of office finish typically ranges from 10% to 20%. Suites are typically larger than flex warehouse space. These buildings usually have drive-in bays, dock height bays, or a combination thereof and are used for light manufacturing, services, and small-scale distribution businesses.

Insurable Value

Value used by insurance companies as the basis for insurance. Often considered to be replacement or reproduction cost plus allowances for debris removal or demolition less deterioration and noninsurable items. Sometimes cash value or market value, but often entirely a cost concept. (*MVS*)

Leased Fee Interest

An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of the lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease. (*Dictionary*)

Leasehold Interest

The interest held by the lessee (the tenant or renter) through a lease transferring the rights of use and occupancy for a stated term under certain conditions. (*Dictionary*)

Market Rent

The rental income a property would probably command in the open market; indicated by the current rents that are either paid or asked for comparable space as of the date of the appraisal. (*Thirteenth Edition*)

Market Value

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

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and acting in what they consider their best interests;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- 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. (*Dictionary; 12 CFR Part 34.42[g]*)

Marketing Time

1. The time it takes an interest in real property to sell on the market subsequent to the date of an appraisal.
2. Reasonable marketing time is an estimate of the amount of time it might take to sell an interest in real property at its estimated market value during the period immediately after the effective date of the appraisal; the anticipated time required to expose the property to a pool of prospective purchasers and to allow appropriate time for negotiation, the exercise of due diligence, and the consummation of a sale at a price supportable by concurrent market conditions. (*Dictionary*)

Prospective Value Opinion

A forecast of the value expected at a specified future date. A prospective value opinion is most frequently sought in connection with real estate projects that are proposed, under construction, or under conversion to a new use, or those that have not achieved sellout or a stabilized level of long-term occupancy at the time the appraisal report is written. (*Dictionary*)

Rentable Area (RA)

The amount of space on which rent is based, calculated according to local practice. *(Dictionary)*

Stabilized Occupancy

Occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; the optimum range of long-term occupancy which an income-producing real estate project is expected to achieve under competent management, after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. *(Dictionary)*

Usable Area

The area available for assignment or rental to an occupant, including every type of usable space; measured from the inside finish of outer walls to the office side of corridors or permanent partitions and from the centerline of adjacent spaces; includes subdivided occupant space, but no deductions are made for columns and projections. *(Dictionary)*

Value As Is

The value of specific ownership rights to an identified parcel of real estate as of the effective date of the appraisal; relates to what physically exists and is legally permissible and excludes all assumptions concerning hypothetical market conditions or possible rezoning. *(Dictionary)*