



PGP
VALUATION INC

SELF-CONTAINED APPRAISAL REPORT

SUBJECT PROPERTY

Oregon School for the Blind
700 Church Street
Salem, OR

PREPARED FOR

Fred Lord
Facilities Division
State of Oregon
Department of Administrative Services
1225 Ferry Street SE, U100
Salem, OR 97301-4281

PREPARED BY

Jeff Grose, MAI
Brian L. Kelley, MAI





September 10, 2009

Fred Lord
Facilities Division
State of Oregon
Department of Administrative Services
1225 Ferry Street SE, U100
Salem, OR 97301-4281

RE: Oregon School for the Blind
700 Church Street
Salem, OR

Mr. Lord:

In accordance with your request, we have conducted an appraisal of the above captioned property. The property is valued using generally accepted appraisal principles and theory. The report is intended to conform to the Uniform Standards of Professional Appraisal Practice (USPAP).

At the request of the client, this appraisal report is presented in a self-contained appraisal format as defined by USPAP Standards Rule 2-2(a). This format provides a detailed description of the appraisal process, subject and market data and valuation analyses. The appraisal service was performed in such a manner that the results of the analysis, opinion, or conclusion be that of a disinterested third party.

The purpose of this appraisal is to estimate the As Is Value of the subject property and the Hypothetical Market Value As If Vacant, free of environmental issues, and ready for development.

The subject is a school facility for blind children. The Oregon School for the Blind has been in operation at this location since 1884. The 8.37-acre site improved with nine primary buildings and two residences that have been developed between 1920 and 1970. The improvements are at the end of their economic life. It has been concluded that the highest and best use is demolition of the structures for redevelopment of the site.

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LETTER OF TRANSMITTAL (CONTINUED)

The site is zoned Public-Private Education by the City of Salem. This zoning designation would not be a detriment to two of the most likely buyers for the property – Salem Hospital and Willamette University. However, a zone change would be necessary for a residential, commercial, or mixed use development. Although the City of Salem Planning Department can not commit to a zone change without an application, it is considered reasonable and has occurred on comparable properties.

The following Extraordinary Assumptions have been made:

- It is assumed that a zone change to allow for mixed use or office development would be allowed. This assumption is reasonable and probable considering the experience of comparable properties. Because it is a likely treatment of the site, no hypothetical condition regarding a zone change is necessary.
- We have relied upon cost data provided by the client for environmental assessment, hazardous material abatement, and demolition/site clean up. The costs were reported at \$2,234,583 and are assumed to be accurate.

In order to create a vacant, ready to build site, demolition costs and environmental remediation must be considered. The costs associated with creating a vacant, ready to build site are deducted from the Hypothetical (assumes the site is vacant as of the valuation date) As If Vacant value to determine the As Is Market Value.

The following table summarizes the estimated value conclusion, based upon our investigation and analysis of available information:

VALUE SCENARIO(S)	INTEREST APPRAISED	DATE	VALUE
Hypothetical Market Value*	Fee Simple	August 19, 2009	\$7,700,000
As-Is Market Value	Fee Simple	August 19, 2009	\$5,470,000

* This value assumes the site is vacant and ready for development.

The value concluded above reflects the Market Value of the property. It is noted that there are two potential buyers of the property, Salem Hospital and Willamette University, that would likely pay above market value (as defined in this report) due to a-typical motivations. Both of these potential buyers have large campuses in the immediate area with limited expansion opportunities.

LETTER OF TRANSMITTAL (CONTINUED)

This valuation is subject to the conditions and comments presented in this report. ***If questions arise concerning this report, please contact the undersigned.***

Sincerely,

PGP VALUATION INC



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EXECUTIVE SUMMARY



Name:	Oregon School for the Blind
Property Type:	Special Use - School
Address:	700 Church Street, Salem, OR It is located along the north side of Mission Street, between Church Street and Winter Street.
Assessor's Parcel No.:	73W27DB Tax lots 300 and 500
Site Description:	
Size:	8.37 acres (364,597SF) according to Marion County records
Topography:	Level
Zoning:	Public-Private Education (PE) by the City of Salem. This valuation is based upon the extraordinary assumption that a zone change could be made available to develop the site with mixed use development. Although the City of Salem Planning Department can not commit to a zone change without an application, it is considered reasonable and has occurred on comparable properties – including the former Boise Cascade site located along Front Street (see land sale comparable 3).
Seismic Zone:	3
Flood Zone:	Portions of the subject are within the floodplain of Pringle Creek (100 year and 500 year)
Improvement Description:	
General Description:	The school campus consists of 11 primary buildings and 2 residences. The existing buildings were constructed between 1920 and 1970 consisting of an administration building, infirmary, dining hall, 2 dormitories, gym/pool building, boiler building, maintenance building, and school building.
Gross Area:	Approximately 100,000 SF (based on Otak report and approximate sizes of the residences and shop building)
Quality:	Average
Condition:	Fair
Year Built:	1920-1970
Occupancy:	The facility is effectively vacant with the exception of two minor office rentals and a parking lot lease.
Highest & Best Use:	
As Vacant:	Redevelopment with a public related hospital or university use, or re-zone for mixed use development.
As Improved:	Demolition of existing improvements for redevelopment of the site. There is strong marketability to the adjacent hospital or Willamette University – two potential buyers that may not require market conditions to improve for near term development.

EXECUTIVE SUMMARY (CONTINUED)

Property Rights Appraised: Fee simple

PGP File Number: C090879

VALUATION SUMMARY

ANALYSIS OF VALUE CONCLUSION(S)		
Cost Approach		Not Presented
Income Approach		Not Presented
Sales Comparison Approach		\$7,700,000
	Date of Value	Value Conclusion(s)
Hypothetical Market Value*	August 19, 2009	\$7,700,000
As-Is Market Value	August 19, 2009	\$5,470,000

* This value assumes the site is vacant and ready for development.

PRELIMINARY APPRAISAL INFORMATION

Report Organization

This report is designed to inform the reader of all factors influencing the property's value in a clear and concise manner. The Executive Summary section provides an overview of the property and general information related to this report. The Description sections briefly describe general area information and present detailed explanations of the site and improvements. The Highest and Best Use section establishes the premise on which the value estimate of the property is based.

The Valuation section focuses on estimating the as is market value of the subject. The valuation section describes the Sales Comparison Approaches to value the subject, and includes comparable information, application of market information to the subject, and valuation analysis. The as is market value estimate is discussed in the Analysis of Value Conclusions section. The report is presented in a self contained format.

Purpose, Use, and Users of the Appraisal

The purpose of this appraisal is to estimate 1) the As Is Market Value of the subject; 2) the hypothetical value as if vacant, cleaned up, with no environmental issues remaining. The report is intended to be used by The State of Oregon for internal decision making regarding the potential sale of the site.

Definition of 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, knowledgeably, and assuming that 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:

1. Buyer and seller are typically motivated;
2. Both parties are well informed or well advised, and acting in what they consider their own best interests;
3. A reasonable time is allowed for exposure in the open market;
4. Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and

EXECUTIVE SUMMARY (CONTINUED)

5. 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.¹

The "As is" Value represents the value of the subject property, in its current status as of the date of inspection.

Definition of Fee Simple Estate

Fee Simple Estate is defined in *The Dictionary of Real Estate Appraisal*, Fourth Edition (2002), as "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."

Subject Property Inspection

An inspection of the subject property was conducted on August 19, 2009 by Jeff Grose, MAI and accompanied by Mr. Fred Lord and Mr. Larry Befus from the State of Oregon Department of Administrative Services.

Scope of Work/Appraisal Development and Reporting Process

Preparation of this appraisal included an inspection of the subject property, reviewing assessor's maps, reviewing county records, inspecting the subject property neighborhood, gathering and confirming land sale comparables and improved sales from immediate and competing neighborhoods, inspecting the exterior of comparables utilized, analyzing supply and demand conditions in the area, and applying traditional approaches to value to arrive at an indication of value for the subject property. The report is presented in a self-contained format per USPAP.

Sources of Information

The relevant market data was obtained from developers, real estate agents/brokers, appraisers, lenders, and various sources of secondary market data. In addition representatives from various municipal offices were also contacted to obtain relevant market and/or property information.

Disclosure of Competency

We are aware of the competency provision of USPAP and the authors of this report meet the standards.

Availability of Information

All necessary information was provided for this analysis.

Personal Property

No personal property or intangible items are included in this valuation.

¹ Office of Comptroller of the Currency (OCC), Title 12 of the Code of Federal Regulation, Part 34, Subpart C - Appraisals, 34.42 (g); Office of Thrift Supervision (OTS), 12 CFR 564.2 (g); This is also compatible with the RTC, FDIC, FRS and NCUA definitions of market value.

Deductions and Discounts

The costs associated with creating a vacant, ready to build site are deducted from the Hypothetical As If Vacant value to determine the As Is Market Value. These costs include demolition costs and environmental remediation. A discount has been considered in the value conclusion for the holding period necessary relative to the comparable land sales presented. No other deductions or discounts have been made in this analysis.

Legal Description

Not provided.

Sales History and Ownership

Current Owner - County records indicate that the State of Oregon owns the property.

Date of Acquisition – The State of Oregon has owned the property through the Oregon School for the Blind (Department of Education) since the 1880's. A title report was not provided. However, it has been indicated that a portion of the site may be subject to reversionary title. Block 25, lots 5 and 6 are reported to be in question. If questions arise regarding the legal status of ownership and/or reversionary rights, further research is advised.

Subject Sale Status - The subject is not currently for sale but is intended to be marketed in the near future.

Assessment and Tax Information

The subject's assessed values and property taxes for the current year are summarized in the following table:

TAX INFORMATION (2008/2009 Tax Year)						
APN	RMV			Assessed		
	RMV Land	Imp./Other	RMV Total	Total	Taxes	Millage Rate
R95148	\$6,800,340	\$5,191,720	\$11,992,060	\$0	\$0	\$18.313
R95148	\$210,840	\$0	\$210,840	\$0	\$0	\$18.313
Total	\$7,011,180	\$5,191,720	\$12,202,900	\$0	\$0	

The subject is owned by the State of Oregon and therefore, the property is not assessed. No taxes are levied. If the subject were to transfer to private ownership, the millage rate would be \$18.313 per \$1,000 of assessed value.

In Oregon, Measure 50 was passed in the May 20, 1997 special election. This measure establishes the maximum assessed value of property in Oregon for the 1997/1998 tax year as 90 percent of the property's real market value in the 1995/96 tax year. Any increases in assessed value for tax years following 1997/1998 are limited to 3 percent per year. Assessed value will be adjusted for new property or property improvements and certain other events. Certain local option taxes are permitted, if approved by voters. Measure 50 retains the existing total property tax rate for all property taxes, including local option taxes but excluding taxes for bonds at \$5 per \$1,000 of value for schools and \$10 per \$1,000 of value for non-school government. The subject property is not encumbered by bonds.

Exposure Time

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

Reasonable exposure time is impacted by the aggressiveness and effectiveness of a property's exposure to market participants, availability and cost of financing, and demand for similar investments.

Exposure time is best established upon the experience of recent comparable sales and discussions with market participants. Most large commercial sites, or those sites sought by the large local land owners (Salem Hospital and Willamette University) were not exposed to the open market. Those sites purchased for private development on a large site near the CBD were most often assemblage. The recent recession has dampened absorption and demand for both residential and commercial development. In addition, the turmoil in the credit markets has made financing new construction problematic. Based upon this information and considering the physical characteristics and location of the subject property, a reasonable estimate of exposure time for the subject is 12 to 18 months.

ASSUMPTIONS AND LIMITING CONDITIONS



This appraisal is subject to the following assumptions and limiting conditions:

Extraordinary Assumptions

- It is assumed that a zone change to allow for mixed use or office development would be allowed. This assumption is reasonable and probable. Although the City of Salem Planning Department can not commit to a zone change without an application, it is considered reasonable and has occurred on comparable properties.
- We have relied upon cost data provided by the client for environmental assessment, hazardous material abatement, and demolition/site clean up. The costs were reported at \$2,234,583 and are assumed to be accurate.

Hypothetical Conditions

The value "As If Vacant" requires the hypothetical condition that the subject is free of environmental issues, the building removed, and the site is ready for development.

General Assumptions and Conditions

The legal description provided has not been compared with the assessor's records. The analysis assumes that this description accurately represents the subject property. A survey has not been provided to the appraisers. If further verification is required, a survey by a registered surveyor is advised.

We assume no responsibility for matters legal in character, nor do we render any opinion as to title, which is assumed to be marketable. All existing liens, encumbrances, and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, under responsible ownership, and competent management.

The exhibits in this report are included to assist the reader in visualizing the property. We have made no survey of the property and assume no responsibility in connection with such matters.

Unless otherwise noted herein, it is assumed that there are no encroachments, zoning, or restrictive violations existing in the subject property.

The appraisers assume no responsibility for determining if the property requires environmental approval by the appropriate governing agencies, nor if it is in violation thereof, unless otherwise noted herein.

Information presented in this report has been obtained from reliable sources, and it is assumed that the information is accurate.

This report shall be used for its intended purpose only, and by the party to whom it is addressed. Possession of this report does not include the right of publication.

The appraisers may not be required to give testimony or to appear in court by reason of this appraisal, with reference to the property in question, unless prior arrangements have been made therefore.

The statements of value and all conclusions shall apply as of the dates shown herein.

ASSUMPTIONS AND LIMITING CONDITIONS (CONTINUED)

The appraisers have no present or contemplated future interest in the property which is not specifically disclosed in this report.

Neither all, nor any part of, the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the authors. This applies particularly to value conclusions and to the identity of the appraisers and the firm with which he or she is connected.

This report must be used in its entirety. Reliance on any portion of the report independent of others, may lead the reader to erroneous conclusions regarding the property values. No portion of the report stands alone without approval from the authors.

The valuation stated herein assumes professional management and operation of the buildings throughout the lifetime of the improvements, with an adequate maintenance and repair program.

If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraisers are in no way responsible for any costs incurred to discover or correct any deficiency in the property.

The appraisers are not qualified to detect the presence of toxic or hazardous substances or materials which may influence or be associated with the property or any adjacent properties, has made no investigation or analysis as to the presence of such materials, and expressly disclaims any duty to note the degree of fault. PGP Valuation Inc and its principals, agents, employees, shall not be liable for any costs, expenses, assessments, or penalties, or diminution in value, property damage, or personal injury (including death) resulting from or otherwise attributable to toxic or hazardous substances or materials, including without limitation hazardous waste, asbestos material, formaldehyde, or any smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids, solids or gasses, waste materials or other irritants, contaminants or pollutants.

The appraisers assume no responsibility for determining if the subject property complies with the Americans with Disabilities Act (ADA). PGP Valuation Inc, its principals, agents, and employees, shall not be liable for any costs, expenses, assessments, penalties or diminution in value resulting from non-compliance. This appraisal assumes that the subject meets an acceptable level of compliance with ADA standards; if the subject is not in compliance, the eventual renovation costs and/or penalties would negatively impact the present value of the subject. If the magnitude and time of the cost were known today, they would be reduced from the reported value conclusion.

An on-site inspection of the subject property was conducted. No evidence of asbestos materials on-site was noted. A Phase 1 Environmental Assessment was not provided for this analysis. This analysis assumes that no asbestos or other hazardous materials are stored or found in or on the subject property. If evidence of hazardous materials of any kind occurs, the reader should seek qualified professional assistance. If hazardous materials are discovered and if future market conditions indicate an impact on value and increased perceived risk, a revision of the concluded values may be necessary.

A detailed soils study was not provided for this analysis. The subject's soils and sub-soil conditions are assumed to be suitable based upon a visual inspection, which did not indicate evidence of excessive settling or unstable soils. No certification is made regarding the stability or suitability of the soil or sub-soil conditions.



The State of Oregon Employment Department divides Oregon's 36 counties into 15 workforce regions. Marion County along with Polk and Yamhill Counties are designated as Region 3, located in the heart of Oregon's agriculturally rich Willamette Valley, south of Portland and north of Eugene along Interstate 5. The following presents statistics on county origins, employment, demographics, and real estate trends for Salem-Keizer, Marion County, and other locations in Region 3.

General History and Description of Region 3

Marion County was created on July 5, 1843, one of the original four districts of the Oregon territory along with Twality (later Washington), Clackamas and Yamhill counties. The four districts were redesignated as counties in 1845. Originally, this political entity stretched southward to the California border and eastward to the Rocky Mountains. With the creation of Wasco, Linn, Polk, and other counties, its area was reduced in size. Marion County's present geographical boundaries were established in 1856. In 1849, Salem was designated the county seat. The territorial capital was moved from Oregon City to Salem in 1852. The ensuing controversy over the location of the capital was settled in 1864 when Salem was confirmed as the state capital.

Polk County was officially created from Yamhill District of the Oregon Territory on December 22, 1845. On August 13, 1848 President James K. Polk signed a bill approving the boundaries of the Oregon Territory, which officially separated the territory from England, thus the name Polk County. Polk County has the second-largest area devoted to viticulture in Oregon, at 1,322 acres. With a population of approximately 15,375, Dallas is the County Seat of Polk County.

Yamhill County was also created on July 5, 1843, five years before the Oregon Territory was established. The earliest known inhabitants of the area were the Yamhill Indians, who had inhabited the area for over 8000 years. They are one of the tribes incorporated into the Confederated Tribes of the Grand Ronde. In 1857 they were forced to migrate to the Grande Ronde Indian Reservation created in Oregon's Coastal Range two years earlier. The earliest non-native settlers were employees of the various fur companies operating in Oregon Country, who started settling there around 1814. But it was the establishment of the Oregon Trail that led to significant migration to the area. The district was originally over 12,000 square miles (31,000 km²), an area that was broken up into twelve present-day counties. McMinnville, Yamhill's county seat, is surrounded by Yamhill County's 200 plus vineyards and 90 wineries; more than in any other county in Oregon. Yamhill County's wine makers consistently produce wines that receive high honors in many American and international wine competitions.

Nearly one-fifth of Yamhill County's work force commutes to the Portland metro area, qualifying Yamhill County to be included in the Portland Primary Metropolitan Statistical Area (PMSA). Marion and Polk combined are known as the Salem Metropolitan Statistical Area (MSA). Major industries in the region include state government, agriculture, food processing, education, and wood products manufacturing.

REGIONAL DESCRIPTION (CONTINUED)

Population

Marion County, with a population of 318,829 combines with Polk County's population of 74,057 to create Salem MSA's population of 392,886. The Salem MSA has grown at a faster rate than the statewide growth, experiencing a 1.38% annual growth rate from 2000 to 2009 compared to the statewide average of 1.15%. Salem and Keizer, the region's largest cities, have estimated populations of 152,684 and 35,882 respectively (July 2009), establishing Salem as the state's second most populous city behind Portland. Population has increased at a rate of 1.22% for Salem and 1.21% for Keizer over the past nine years. McMinnville, with a 2009 estimated population of 31,283 and Dallas with 14,531 show a 1.8% and a 1.7% population growth rate from 2000 to 2009 respectively.

Location	1990 ^c	2000 ^e	2009	2014	Annual Growth Rate		
					1990-00	2000-09	2009-2014
City of Salem	107,786	136,924	152,684	161,003	2.39%	1.22%	1.07%
City of Keizer	21,884	32,203	35,882	37,883	3.86%	1.21%	1.09%
City of McMinnville	17,894	26,499	31,283	33,769	3.24%	1.86%	1.54%
City of Dallas	9,422	12,459	14,531	15,777	2.43%	1.72%	1.66%
Marion County	228,483	284,834	318,829	336,776	2.20%	1.26%	1.10%
Polk County	49,541	62,380	74,057	80,891	2.30%	1.92%	1.78%
Yamhill County	65,551	84,992	98,431	106,970	2.60%	1.64%	1.68%
Salem MSA	278,024	347,214	392,886	417,667	2.22%	1.38%	1.23%
State of Oregon	2,842,337	3,421,399	3,791,075	4,004,796	1.85%	1.15%	1.10%

Notes: c=census, e=estimates (Site- t- do-Business Online)

Source: Bureau of the Census, PSU, Center for Population Research and ESRI, Inc

Economy and Employment

Economy- The chart below, provided by the Salem Chamber of Commerce, is a list of the areas ten largest private employers.

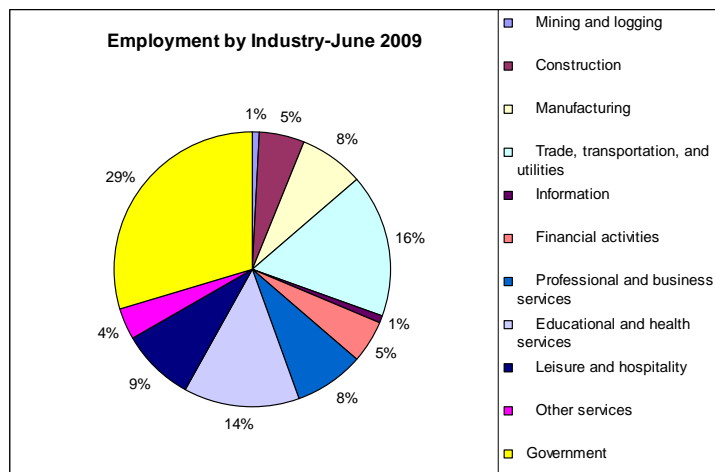
Salem's Largest Private Employers	
Salem Hospital	2700
Spirit Mountain Casino (Grand Ronde,OR)	1500
T-Mobile	1100
Norpac Foods	1000
Roth's-Your Family Market	1000
Wal-Mart	1000
Fred Meyer	700
Wachovia	690
Willamette University	627
Rainsweet	600
HMO Oregon	450

RainSweet closed its onion processing plant -- a move that affected almost 120 workers. The company says the closure of the West Salem operation is to be permanent. RainSweet also has an 110,000-square-foot food processing plant in northeast Salem. Its letter did not mention any layoffs at that plant.

REGIONAL DESCRIPTION (CONTINUED)

The dominant sectors of the Salem-Keizer economy have historically been government, food processing, and wood products. Growth in high tech and other manufacturing industries has helped to offset declines in the region's traditional resource industries, yet, in the month of June 2009, government employment now accounts for roughly 29% of the area employment. The large concentration of government employment, including the State Capitol, Marion County seat, and two City Civic Centers (Salem and Keizer) reflects the reality that more than one in four jobs are in the government sector, compared to approximately 16% statewide.

Region 3 contains two public and six private colleges and universities; Western Oregon University, Chemeketa Community College, Linfield College, Western Baptist, Willamette University, George Fox University, Salem Bible College, Corban College, and Mt. Angel Seminary. The Education and Health Services industry (14%) contributes to provide a degree of stability to the region's economy.



In the Salem MSA, May total nonfarm employment was 145,400, a loss of 7,900 jobs since May 2008. Private nonfarm employment lost 8,700 over the past 12 months, while public-sector employment grew 800 over that period. Educational and health services gained 200 jobs over the past 12 months. From April to May, the Salem MSA's total nonfarm employment increased 700 jobs; the private sector added 700 jobs during the month while government employment was unchanged from its April level. May's employment growth was smaller than is typical for the

Salem MSA which normally adds about 1,200 jobs between April and May. Seasonally adjusted employment decreased 500 between April and May. The construction sector added 100 jobs in May. Over the past 12 months construction employment dropped 1,900. Manufacturing employment was flat in May. Leisure and hospitality employment increased 200 in May. Retail trade added 100 jobs in May, but the sector declined 900 jobs over the past 12 months. In the public sector, federal government shed 100 jobs in May and local government added 100 jobs. State government was unchanged in May. The Salem MSA economy added some seasonal employment in May, but not as many jobs as are typically added this time of year. Construction, manufacturing, and professional and business services have been the hardest hit sectors in the Salem MSA during the recession. As the national recession deepens, job losses in Salem have spread to other sectors as well. It is likely that high unemployment rates will persist for the remainder of 2009.

Since the 1990s, the majority of the vineyards of the Willamette Valley American Viticultural Area (AVA) have centered around McMinnville (Yamhill County's seat), thus giving this city a claim to the title of the capital of Oregon's wine industry. In January 2005, a McMinnville AVA was established after an application from Youngberg Hill Vineyards. The AVA includes 14 wineries and 523 acres (2.12 km²) within the Willamette Valley AVA. Yamhill County ranks seventh out of Oregon's thirty-six counties in annual market value of its agricultural production. Also included in the agricultural production are wheat, barley, horticulture and dairy farming. Linfield College's residential campus is located in McMinnville, adding to the local economy.

REGIONAL DESCRIPTION (CONTINUED)

For years, Tyco Printed Circuit Group has been the major area employer for Dallas, Polk County's seat, but in 2006 TTM Technologies bought the company and by that same year's end announced the closing of the Dallas plant. Another blow hit Dallas in March (2009) when Weyerhaeuser announced the immediate closing of its mill. Local county government and education are currently the major employers in the Dallas area. The major industries of Polk County are agriculture, forest products, manufacturing, and education. Polk County has the second-largest area devoted to viticulture in Oregon, at 1322 acres. Western Oregon University in Monmouth is also major employer.

Also in Polk County-Independence Station-located in Independence, Oregon and 15 minutes from Salem, is on track to become the World's Greenest Building with highest LEED rating ever awarded for new construction. The 57,000 square foot mixed-use building is powered primarily by the sun and waste vegetable oil. Independence Station will house offices, retail space, a restaurant, research facilities, a Direct Current (DC) power based data server room, classroom space and 15 residential units. Condominium owners will enjoy many environment-saving benefits throughout the building such as radiant floor heating and cooling, displacement ventilation, solar water heating, day lighting design, an ice-based cooling storage system, water-based ground source heat pump and extensive use of light-emitting diodes (LEDs). During sunny months, the station will rely primarily on solar energy collected in a unique 120-kilowatt installation of photovoltaic panels. In cooler, cloudier months, energy will additionally be generated, stored and managed through a biofuel cogeneration and thermal storage system. The system's backup is a retired tugboat engine which runs on waste vegetable oil from local restaurants and a massive battery bank. The goal is to provide a comfortable platform while consuming just 17% of the energy and a fraction of the water that the average American consumes today. The Leadership in Energy and Environmental Design (LEED) Green Building Rating System is an internationally accepted tool to measure sustainable green building and development practices. The current record holder, a Canadian project, has a score of 63 out of a possible 69 points. At its completion, Independence Station will likely earn between 64 and 66 points, bringing the top score to Independence, Oregon.

Employment - Employment in Region 3 decreased over the past year following Oregon's statewide trend. Between May 2008 and May 2009 Region 3's employment declined 5.4 percent. Over the same 12 month period Oregon's employment declined 5.3 percent.

Region 3's private sector employment declined, while the public sector added employment over the past 12 months (-7.7% and 1.3% respectively). Educational and Health services were the only private-sector industry to add employment over the past year, adding 780 jobs to grow 3.0%. The manufacturing sector lost jobs, shedding 3,500 jobs to decline 17.3% over the year. The construction sector showed large losses in employment, shedding 2,420 jobs or down 21.5% between May 2008 and May 2009.

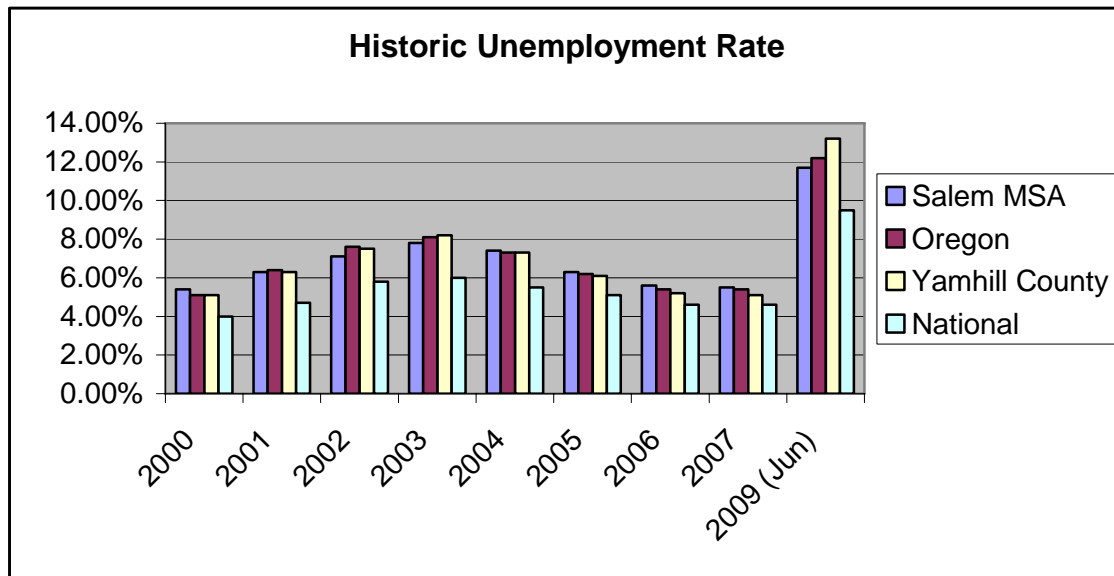
Annual unemployment rates are summarized in the following table:

Year	2000	2001	2002	2003	2004	2005	2006	2007	2009 (Jun)
Salem MSA	5.40%	6.30%	7.10%	7.80%	7.40%	6.30%	5.60%	5.50%	11.70%
Oregon	5.10%	6.40%	7.60%	8.10%	7.30%	6.20%	5.40%	5.40%	12.20%
Yamhill County	5.10%	6.30%	7.50%	8.20%	7.30%	6.10%	5.20%	5.10%	13.20%
National	4.00%	4.70%	5.80%	6.00%	5.50%	5.10%	4.60%	4.60%	9.50%

Unemployment rates in the Salem MSA and Yamhill County have typically been slightly higher than the national average, but in the current recession it shows a significantly higher rate.

REGIONAL DESCRIPTION (CONTINUED)

However, generally speaking, it has historically raised and fallen with the statewide average during the past decade.



Region 3's employment should gain some seasonal jobs during the summer months. However, the national recession is likely to cause further job loss in the region in the coming months.

Government Services

Salem's charter form of government features a City Council with eight Councilors, presided over by a Mayor who is elected at-large for a two-year term. The City Council appoints the City Manager. City services include a police force of about 190 commissioned officers and a fire department with ten stations staffed by 150 fire fighters.

Salem's water supply comes from the North Santiam River, which flows from the Cascade Mountain Range into the Willamette River. It is fluoridated and lightly chlorinated. The Salem Secondary Treatment Plant was put into operation in late 1964 to meet the city's sewage disposal needs, and has a daily capacity of 42 million gallons.

Portland General Electric and Salem Electric Company provide electric service to the City of Salem. Natural gas is available from Northwest Natural Gas Company and telephone service is available through Qwest Communications and Comcast Corporation.

The City of Keizer features a Mayor and City Council. The City of Keizer provides water and police protection, while the City of Salem provides sewer service. The Keizer Fire District provides fire protection.

The City of McMinnville's charter form of government has a Mayor and six City Councilors that serve four-year terms of office all in a volunteer capacity. McMinnville has an airport situated on a 650-acre site three miles east of town. The airport features a 1,000-foot paved stop way on the departure end of runway 22, providing capacity to handle corporate jet aircraft. The City of McMinnville Fire Department provides a full range of fire protection and emergency services. McMinnville established its own Water and Light Department in 1889 and continues today to provide low cost, reliable water and power services.

Community Services

Salem-Keizer Public Schools, the second largest district in the state with more than 39,000 students, provides a sound educational foundation for students in kindergarten through 12th grade. More than 2,000 teachers and counselors and 1,300 support personnel work in the school district. The Salem-Keizer school district is comprised of 47 elementary schools, 13 middle schools, 8 high schools and 17 alternative and special school programs.

Within Region 3's boundaries, (Marion, Polk, and Yamhill Counties) there are nine colleges and universities. Chemeketa Community College in Northeast Salem offers one and two year occupational programs in about 40 fields, lower division college classes for students transferring to four-year schools, and a broad range of adult education classes. For the 2006 - 2007 academic year, there are over 64,000 students (both full and part time) with 1,400 employees. Willamette University is a private, independent university with an enrollment of about 2,500 students. The school's primary focus is liberal arts, law and business management. Founded in 1842, Willamette is the oldest university in the west. Linfield College is a liberal arts school located in McMinnville and Monmouth is home to Western Oregon University. Corban College, a Baptist Bible college (850 students) is in Salem and George Fox University another Christian based college, is located in Newberg. Mount Angel Seminary is located in Mt. Angel. There are also various vocational schools including Willamette Valley Dental Assistant School located in Salem.

Salem Hospital provides complete medical services and operates the busiest emergency department in Oregon. It is also the largest private employer in the Salem with about 3,500 full and part-time employees. It is currently, undergoing major construction projects with several renovations already complete. It opened the Family Birth Center in 2003, which offers state-of-the-art neo-natal care and family-health education. The Center for Outpatient Services was recently completed and hosts more than 20 physician offices. A New Patient Tower opened in May 2009. It consists of basement parking, a first floor Emergency Room, second floor Interventional suites and operating rooms, third floor Respiratory Therapy and laboratories, and several floors of patient rooms with Intensive Care located on the fourth floor. Salem Hospital's 63,000 square foot Regional Rehabilitation Center is located in Northeast Salem and inpatient treatments for stroke and head-injured patients and other outpatient services.

Willamette Valley Medical Center serves the residents of McMinnville and its surrounding area. Recently named "Hospital of the Year" by Triad Hospitals, Inc., from among 56 hospitals nationwide, the 80-bed facility was constructed in 1996. Providing both in hospital and outpatient care, it has specialized departments including a Birthing Center, Imaging Department, Surgical Department, Certified Sleep Center and 24-hour Emergency Department. The Cancer Center, opened in 2002 and provides chemotherapy and radiation therapies. In the most recent facility expansion, 20 beds and more treatment rooms were added.

The City of Salem is endowed with 57 parks. These parks include: Minto-Brown Island Park, a major regional park with 900 acres of land and 10 miles of jogging and bicycle trails; Bush's Pasture Park, a 90-acre urban park located in the heart of Salem; Wallace Marine Park, with five lighted and fenced baseball/softball diamonds. Salem has also been selected as one of six cities to share in a \$375 million bequest from McDonald's heiress, Joan Kroc. With a \$60 million grant, Salem intends to build one of the nation's complete community centers – a facility that would bring not just a big gym to Salem, but a daily diversion to thousands of kids. With ground breaking in 2007 construction is expected to be complete in spring 2009. Located on Bill Frey Drive the new community center is situated on a 10.65-acre site which adjoins a 22-acre city owned nature park. Recreational facilities within a 50-mile radius of the City of Salem include numerous forest service camps, Bureau of Land Management recreational sites, state parks, county parks, private parks and historical landmarks. Winter sports areas are within three hours driving time. The Oregon Coast is about a one-hour drive to the west.

Transportation Services

Salem is served by the main lines of the Burlington Northern and Southern Pacific railroads, as well as Amtrak passenger train service. Greyhound Bus Lines provides statewide service also. The Salem Area Transit District (Cherriots Bus System) opened a transit mall and customer service facility at Courthouse Square in October of 2000. More routes and facilities have been added since then. Since 2003, Cherriots has provided local bus service for over five million riders per year.

The area surrounding the Amtrak station at Mill and 12th Streets is being developed into a regional transportation hub. The current plan is to link Amtrak passenger trains and the proposed federal high-speed train project that would extend from Eugene to Vancouver. The historic train station was totally renovated in 2004. The State of Oregon provides funds for two daily roundtrips between Portland and Eugene on the Amtrak Cascades line. The distance from Salem to the Portland International Airport is about 60 miles and Amtrak offers a full-range of air passenger and freight services.

Salem Municipal Airport, also referred to as McNary Field, is located only two miles southeast of downtown Salem. After a year's service to the area, SkyWest, a Delta Connection carrier, pulled out of the Salem's airport in 2008. It had limited commercial airline service providing flights to Salt Lake City and back, twice a day. Delta cited high fuel prices for making the Salem flight unprofitable. It is reported that the city is now moving forward with plans to expand the airport's terminal and lengthen the runway. Lottery dollars from a state grant will help pay the \$4.75 million worth of improvements. The airport serves commercial and general aviation aircraft and the Oregon Army National Guard.

Overall, the roadway systems within Salem are less congested than comparable cities on the West Coast. Interstate-5, the primary north-south highway of the West Coast, passes through East Salem. There are currently several interstate projects that will impact the freeway throughout Salem. The projects will widen the freeway to three-lanes in each direction and re-align each of the five interchanges over the next ten years.

Real Estate Activity

Single-family residential activity in the period from 2003 to 2006 largely reflected the positive trends found elsewhere in the nation. As interest rates dropped to levels not seen in the past several decades, real estate investment and new construction peaked in direct response to these lower borrowing rates. Single-family permit activity during 2005 was 2,083 units and began to trend downward in 2006 and 2007, however, average sale prices continued to show positive growth over the same period. Now, all categories reflect today's economic troubles.

HOMES BEING BUILT AND HOMES SOLD

Indice	Year End 2005	Year End 2006	Year End 2007	Year End 2008	YTD 2009
No. Homes Sold ^f	5,409	4,958	4,489	3,324	1,222
Average Sale Price ^f	\$179,722	\$211,544	\$239,678	\$225,103	\$208,289
Average Days on Market ^f	96	91	105	125	135
No. Single Family Permits ^c	2,083	1,729	1,442	794	110
No. Multi-Family Permits ^c	355	624	460	282	94
Total Permits	2,438	2,353	1,902	1,076	206

Notes: *Includes Willamette Valley MLS Areas, 10,20,30,35,40,50,60,90,95.*
 Source: *r/ Realtors Multiple Listing Service (RMLS).*
c/ United States Census Bureau

REGIONAL DESCRIPTION (CONTINUED)

According to the Willamette Valley Multiple Listing Service (MLS), the average sales price of homes sold in 2008 in Keizer was \$231,879, showing a slight appreciation of 1.08% from the 2007 price of \$229,379. That appreciation has since evaporated and turned into a negative 7.8% depreciation. Region 3 has continued its downward slide of housing prices with the now current average price of \$208,289, a negative 6.07% from last years (2008) average price of \$225,103. West Salem showed the largest impact of the housing situation with a negative 12.59% at \$257,827 in 2008 when compared to the previous average price of \$294,995 in 2007. This year (2009) the price has dipped only 2.19% averaging \$252,251. The number of days on the market currently stands at 135.

HOUSING TRENDS (AVERAGE SALES PRICE BY AREA)

Neighbor	2004	2005	2006	2007	2008	% Change 07/2008	YTD Jun 09
Keizer (incl. part of zip 97303)	\$170,910	\$189,658	\$225,355	\$229,379	\$231,879	1.08%	\$213,610
Central Salem	\$114,336	\$128,012	\$154,369	\$157,079	\$153,849	-2.05%	\$136,784
Suburban East Salem "North"	\$147,962	\$159,430	\$180,207	\$206,858	\$191,029	-7.65%	\$175,121
Suburban East Salem "South"	\$129,690	\$142,444	\$162,865	\$199,803	\$192,505	-3.65%	\$189,894
Southeast Salem	\$181,174	\$207,514	\$243,589	\$276,266	\$256,201	-7.26%	\$234,494
South Salem	\$193,863	\$217,470	\$262,437	\$311,226	\$288,442	-7.32%	\$257,663
West Salem	\$197,247	\$233,278	\$275,932	\$294,995	\$257,827	-12.59%	\$252,251
Marion County (excl. Salem/Keizer)	\$157,636	\$174,232	\$209,524	\$249,100	\$231,951	-6.88%	\$212,290
Polk County (excl. West Salem)	\$149,960	\$165,458	\$189,622	\$232,296	\$222,252	-4.32%	\$202,500
Total Average	\$160,309	\$179,722	\$211,544	\$239,666	\$225,103	-6.07%	\$208,289

Notes: Annual Average Growth Rate (AAGR) Source: Willamette Valley MLS, August 2008

According to the Housing Predictor, an independent real estate market forecaster, the unprecedented boom of home sales has ended in Salem, once one of the fastest growing communities in the nation, and now the figures of homes listed for sale are ratcheting up along with foreclosures. Similar to the double digit appreciation experienced during the housing boom, Salem is forecast to sustain average housing deflation of 13.5% in 2009. Also, concern over liquidity and tougher lending qualifying standards in the mortgage industry are slowing any quick recovery in the national housing market.

Multifamily- According to the Miles Report, apartment construction is down nationally and locally. There is land available up and down the Willamette Valley. Sites small to quite large are for sale, both publicly and privately. However, lending constraints and cost of the land hinder apartment developer's ability to take advantage of fairly inexpensive construction costs. Apartment vacancy is holding relatively strong. Corvallis remains under 3% vacancy. Salem/Keizer and Albany both are maintaining just under 6% vacancy. Rents in many of the higher end rentals had been lowered to retain residents or attract new ones. The economy has impacted this sector of the market much harder than the mid-to-lower rent units. Although there are instances of apartment sales, they are far and few between. Properties are staying on the market for a longer period of time and sellers have to deal with tougher buyers. Lending issues, or lack of lending, is certainly one part of the sales slow down. Buyers standing on the sidelines waiting to see where cap rates and values are going is another part of that mix. All in all, with the exception of some higher end vacancy and rent roll backs, the apartment market remains relatively strong. The apartment horizon hinges on employment stability in the Willamette Valley and the lending environment. Landlords are adjusting to the economic climate and have done whatever is necessary to fill their vacancies, including lowering asking rents and offering moderate concessions. The following chart shows the 1st quarter 2009 average rents and vacancy rates.

REGIONAL DESCRIPTION (CONTINUED)

Average Rent and Vacancy					
First Quarter 2009					
Neighborhood	1bd / 1bth	2bd / 1bth	2bd / 2bth	3bd / 1bth	Averages
RENTAL RATES					
Pre-1990 Rates	\$489	\$588	\$696	\$702	\$619
Post-1990 Rates	\$577	\$638	\$718	\$770	\$675
Combined Totals	\$533	\$613	\$707	\$736	\$647
VACANCY					
Pre-1990 Vacancy	3.72%	4.8%	10.08%	4.30%	5.72%
Post-1990 Vacancy	3.59%	4.61%	6.39%	7.59%	5.54%
Combined Totals	3.66%	4.71%	8.24%	5.94%	5.63%
OVERALL VACANCY 3.18%					

*Vacancy Based on averages reported during 2008 Winter
Source: The Miles Report, Winter 2008-XIV*

Office Market-The 2008 office market showed signs of the current recession. Overall, office vacancy increase substantially in 2008. .

Please refer to the highest and best use section for a summary of the office market.

Retail- The local, regional, and national retail market has been hit hard by the current economic recession. The vacancy increase was due to several factors primarily driven by current economic conditions. Several large retailers filed for bankruptcy protection, such as big box retailer Circuit City, while others scaled back operations, leaving the Salem area. The unexpected, changing economic conditions has left large retail vacancy in both East Salem and South Salem. Additionally, over the past several years the retail sector had experienced a "building boom". Recently constructed retail space began competing with existing retail space. Further, consumer confidence is experiencing record lows combining that with the inability to obtain credit, has resulted in record losses realized in consumer spending. The result of which is the inability for some retailers to remain competitive.

Industrial development is located throughout the Salem metropolitan area, with the major industrial parks listed as follows:

- Fairview Industrial Park
- Curly's Industrial Park
- Spears Industrial Park
- Cascade Industrial Business Campus
- Davcor Business Park
- Cherry Avenue Business Center

Industrial property: The overall vacancy rate was 9.32% for 2008. A large share of the vacant industrial property was at the two former SUMCO USA campuses and a former Seneca Foods building. The Mill Creek Corporate Center, which has 507 buildable acres and was formerly known as Mill Creek Industrial Park, is state-owned land and located south of Highway 22 and east of Kuebler Boulevard SE. The development's first facility to open their doors to business in September 2008 was a 50,000-square-foot FedEx distribution center. At the former SUMCO USA north campus, developers have made good progress in redeveloping property that had been a silicon wafer manufacturing site. Workers also started gutting the SUMCO building to convert it into an empty shell for new occupancy.

REGIONAL DESCRIPTION (CONTINUED)

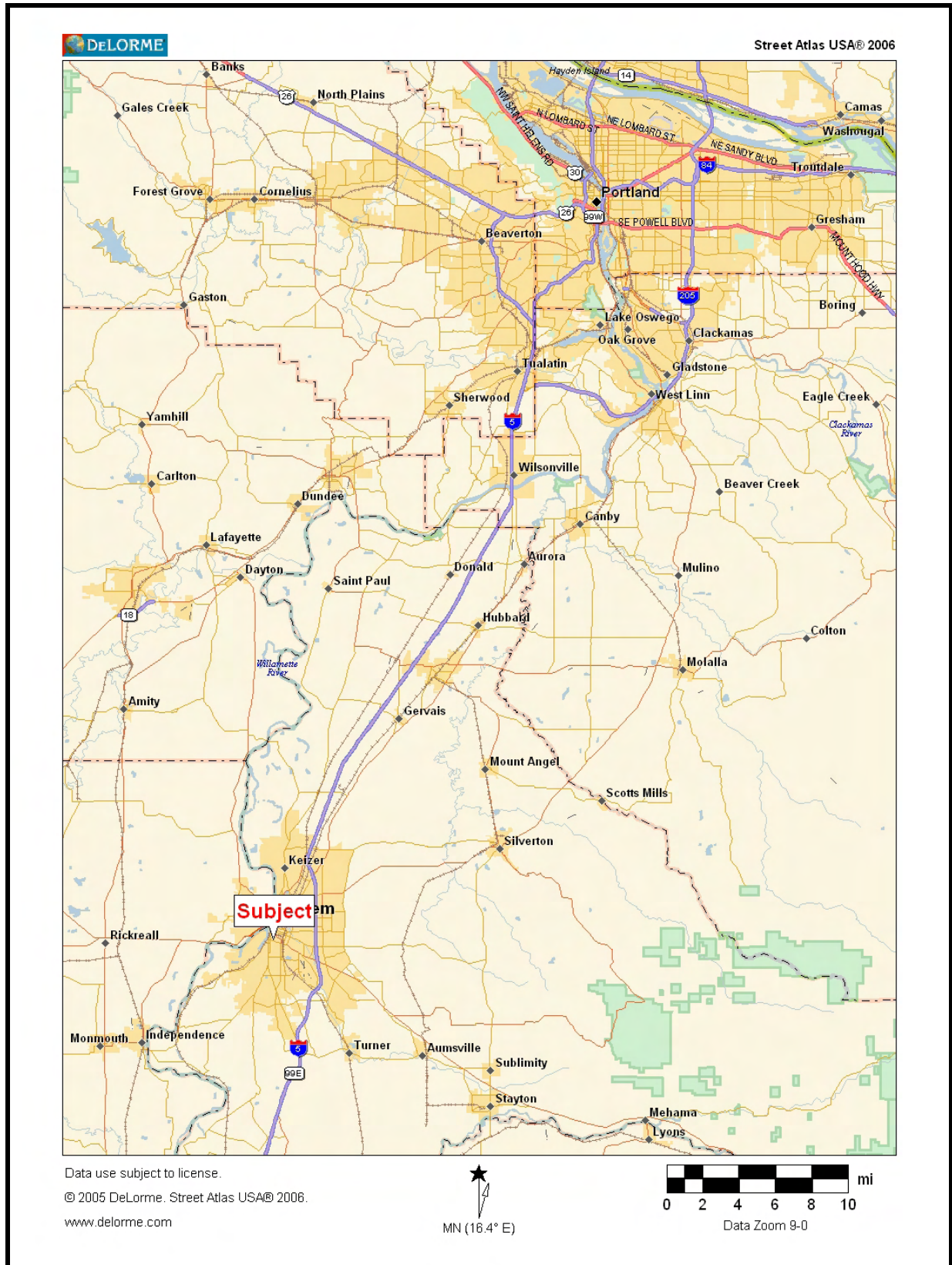
Sequential-Pacific Biodiesel recently completed a 5-million-gallon expansion in their southeast Salem plant located in the Mill Creek Junction. Directly north of Mill Creek Corporate Center, Mill Creek Junction is a sustainable, commercial/industrial development under way in southeast Salem. In conjunction, Willamette Biomass Processors celebrated a grand opening ceremony at their facility on 1055 South Pacific Highway West, Rickreall. The facility has the capacity to handle 80 million pounds of oilseed annually that in turn will be used to create 3 million gallons of vegetable oil for biodiesel processing. Oil from the plant will go to Sequential-Pacific Biodiesel plant in Salem, where it will be blended into biodiesel fuel. The remaining seed meal is a high protein component that replaces soybean meal in feed for cattle, pigs and chickens, officials said.

Sanyo Electric plans to build an \$80-million solar cell manufacturing plant in southeast Salem that will employ at least 200 workers. Phase one of the project could be done by fall 2009. The second phase is expected to be completed in 2010.

Summary

The Salem MSA is representative of a typical state capital economy with high levels of government employment and healthcare workers. In general, Oregon typically lags national economic and real estate trends, which has somewhat insulated the Salem market from the effects of the current recession. However, the State is currently facing a projected \$4 billion budget deficit over the next two years. State leaders expect to lay off public employees and slash government spending. It is expected that commercial real estate values in Oregon and Salem will soften throughout 2009 before possibly stabilizing in 2010 or 2011.

REGIONAL MAP



MARKET AREA DESCRIPTION



General:

The subject is located in a transitional area at the southern fringe of the CBD. The market to the south is identified as the Commercial/Liberty Street corridor of South Salem, an intensively developed commercial strip that extends roughly five miles from the southern downtown periphery (north) to the Interstate 5/Commercial Street SE interchange (south). The area to the north is central business district (CBD) of Salem, the state capital of Oregon, and is generally bounded by the Willamette River and Slough to the west, Mission Street to the south, D Street to the north, and 12th Street to the east. The Salem central business district (CBD) is also closely integrated with adjoining neighborhoods such as South Salem and NE Salem. The CBD is generally an area of civic, institutional, and commercial uses with heavier residential areas located to the south.

Demographics:

The following information reflects the demographics for the subject's general market area.

MARKET AREA DEMOGRAPHICS			
Description	1 Mile Radius	3 Mile Radius	5 Mile Radius
Population			
2014 Population	9,624	93,754	217,548
2009 Population	9,542	89,469	205,827
2000 Census Population	9,465	81,681	184,066
Change 2009-2014	0.86%	4.79%	5.69%
Change 2000-2009	0.81%	9.53%	11.82%
Households			
2014 Households	3,692	35,086	79,677
2009 Households	3,668	33,520	75,548
2000 Census Population	3,688	31,084	68,458
Change 2009-2014	0.65%	4.67%	5.47%
Change 2000-2009	-0.54%	7.84%	10.36%
Housing Units (current year)			
Total Housing Units	4,149	36,195	80,856
Owner Occupied	31.90%	48.90%	53.30%
Renter Occupied	56.50%	43.70%	40.10%
Vacant Housing Units	11.60%	7.40%	6.60%
Income (current year)			
Average Household Income	\$49,970	\$59,272	\$60,750
Median Household Income	\$38,920	\$47,660	\$50,981
Per Capital Income	\$22,361	\$23,338	\$23,035

Source: STDB Online

As noted in the table above, above average growth is anticipated to occur in the subject's market area (5-miles radius) over the next few years.

The population projections above may be misleading as such forecasts were rendered prior to the recent economic crisis with historical facts playing a major role. Downward trended home prices, rising unemployment rates, and escalating vacancy rates for various commercial real estate types may weaken the reliability of the forecasted trade area population statistics in the above table.

**Residential
Development:**

Residential development within the Central Business District is limited. There are a handful of older apartment buildings and some newer condominium projects as well. In particular, two newer apartment projects were recently developed in the subject's immediate neighborhood. The Bishop and the Metropolitan Buildings are located adjacent to one another and include eight and twelve units, respectively. The rental rates range from approximately \$900 to \$1,800 per month and the owner offered two-year leases with an option to buy the units later as condominiums. Several other downtown buildings are slated to be renovated with residential apartments or condominiums as a component. New condominium projects are just beginning to take hold in the CBD. Several new projects have been constructed in the past 2 years; however, sell-out has been negatively impacted in 2008/2009 by the current recession.

Adjoining neighborhoods of Salem include single family and multi-family uses, as well as scattered mobile home parks. Most new and proposed subdivisions are south of Kuebler Boulevard and in the western portion of the neighborhood. New construction on in-fill lots is not uncommon. Homes in the northern portion of the neighborhood tend to be older, dating to the early 20th Century, gradually becoming newer toward the south.

The apartment market in South Salem is strong. Rental rates in South and Southeast Salem are near the upper end of the range for the Salem area. There was an influx of new construction in 1998 as a result of the strengthening apartment market. Between 1998 and 2001, more than 130 units were added to the South Salem apartment market. The apartment vacancy in South Salem rarely increases much over 5%.

Single family development in the subject's area tends to be older, dating to the early 20th Century. There are also a handful of older apartment buildings and some newer condominium projects as well. Homes in close proximity to the subject and Bush Park tend to be older, well maintained, craftsman/bungalow style residences.

**Commercial
Development:**

Commercial Street dominates the market area; it is the major commercial arterial in the CBD and South Salem, which extends from the CBD on the north to Kuebler Boulevard in the south. Liberty Road also has commercial uses, especially near the confluence with Commercial Street and near Kuebler Boulevard, but is not as intensively developed. Along Commercial Street are several neighborhood shopping centers, several "box" retailers (Roth's IGA, Safeway, Fred Meyer, Albertson's, WinCo Foods, Wal-Mart), auto dealerships, numerous strip and freestanding commercial buildings, office buildings, banks, service stations, and restaurants, and other commercial uses.

The most significant commercial development near the subject is the recent completion of the Salem Convention Center and the adjoining Phoenix Grand Hotel in Salem's CBD. The convention center contains 29,400 square feet of convention, theater, banquet space, trade show space, and classroom activity space. The Phoenix Grand Hotel contains a total of 193 guest suites and is the headquarters hotel for the convention center. This was a major redevelopment project that has contributed to the rejuvenation of the downtown core area.

Office development in the Central Business District and the South Salem neighborhoods is substantial, with the two areas providing the first and second largest office districts respectively. The CBD contains the State Capital, City Hall, Civic Center, Willamette University, the Marion County Courthouse and office complex, and multiple State of Oregon office buildings. Although there are several large buildings, much of the office space is in smaller buildings. Some of the major properties in South Salem include Morrow Crane building, Re/Max building, Kelly Greens, Candalaria Terrace, Candalaria Plaza, Creekside Corporate Center, University Station, Mission Oaks, and the 925 Commercial Street Building.

Industrial development is limited within the CBD of Salem; however, there are a few older remaining industrial developments located along the Willamette River, just north of the CBD. Outside of this, the nearest industrial development is primarily located in the eastern part of the larger market area in two locations: north and south of McGilchrist Street and in the Fairview Business Park, south of Madrona Avenue. The industrial developments around McGilchrist Street are older single-tenant and multi-tenant buildings that are a mix of metal and concrete constructions. Many of these developments are occupied by owner-users. This area benefits from the proximity to the Southern Pacific Railroad and adjacent to McNary Field, Salem's municipal airport.

The Fairview Business Park is a newer industrial park south of Madrona Avenue and is dominated almost solely by single-tenant and multi-tenant concrete tilt-up buildings. Most of the properties are warehouse/office or flex developments; however, there are some office properties in the park. Some of the prominent businesses in the park include Yamasa Soy Company, Supra Products, Oregon Telcom, Sunwest Management, and I-MEX, a manufacturer of ink cartridges

Community Services:

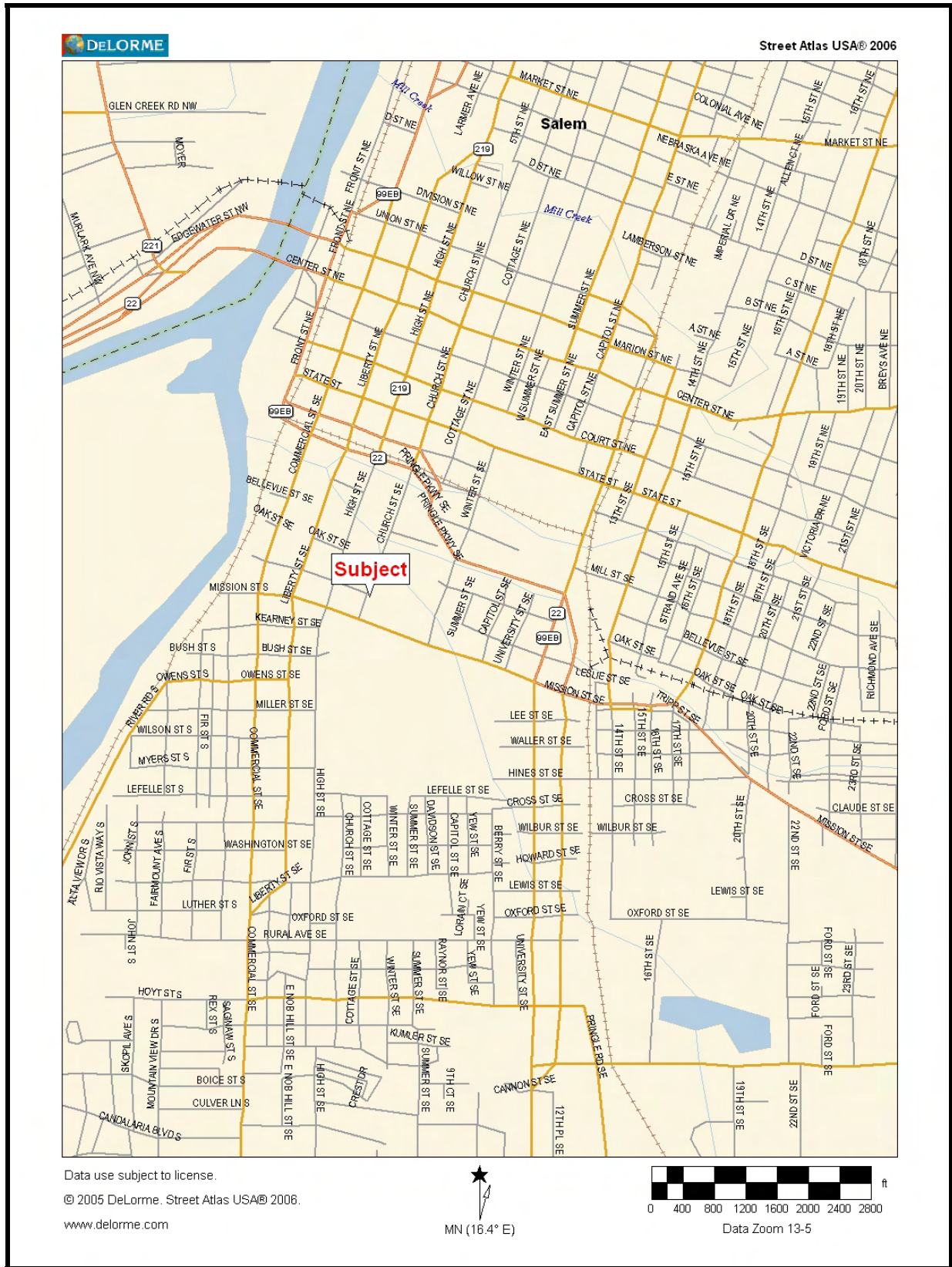
A wide variety of community services are available within the market area including fire, police, public library, and public transportation facilities.

The Salem Hospital is adjacent to the site and occupies much of the land between Bush Park and Willamette University. It is Salem's largest private employer. The facility has gone through a major renovation and construction phase in recent years. In 2003, a new five-story building was added to house infant, child, and pregnancy services. In October 2006, construction on a new seven-story, 347,700 SF building began and it opened in May in 2009. The \$219 million replaced approximately half of the existing hospital beds and include three sky bridges to the other buildings at the hospital campus.

Summary:

Overall, the subject market area is characterized as a stable residential area with commercial development located on major arterials, with close proximity to the downtown Salem core. Commercial uses are well established. Considering the recent economic recession, the subject's area is anticipated to see growth commensurate with similar markets in the regional area, however, softer growth than that seen over the past three to five years.

MARKET AREA MAP



SITE & IMPROVEMENT DESCRIPTIONS



PGP
VALUATION INC.

SITE DESCRIPTION

- General Description:** The subject site includes two tax parcels bound by Mission Street to the south, Church Street to the west, Winter Street to the east, and Salem Hospital and Pringle Creek/Park to the north.
- Size:** 8.37 acres (364,597SF) according to Marion County records
- Topography:** Generally level, with slight slope to the north toward Pringle Creek.
- Adjacent Properties:**
- North: Salem Hospital, Pringle Creek, and Pringle Park
 - South: Mission Street, across which is Bush Park and Willamette University's football and baseball stadiums.
 - East: Winter Street, across which is professional office development.
 - West: Church Street which separates the subject from single family residential development.
- Utilities:** All utilities are available to the site. There is a well on site that is not actively used. No current water rights were found to be associated with the site.
- Street Improvements:**
- Mission Street SE is a two way, two lane, asphalt paved arterial street with center turn refuge, curbs, sidewalks, and street lights.
- Winter Street SE and Church Street SE are two way, two lane, asphalt paved local streets. They also has curbs, sidewalks and street lights.
- Direct curb-cut access is available from Winter Street and Church Street, but not Mission Street.
- Accessibility/Exposure:** Access to the site is good from the surrounding streets described above. Exposure is good from Mission Street.
- Easements:** We were not provided with a title report. Upon inspection, there did not appear to be easements or encumbrances which would have a negative impact on the subject property. If questions arise regarding easements, encroachments or other encumbrances, further research is advised.
- Title/Deed Restrictions:** The client has indicated that there is pending legal action as to title of Lots 5 & 6 of Block 25. There was a reversionary clause in the original conveyance. In the 1990's a Quiet Title action was pursued and the State obtained quit claim deeds from 72 out of 102 possible heirs. This information has been

SITE & IMPROVEMENT DESCRIPTIONS (CONTINUED)

provided by the State of Oregon. Legal advice regarding title is beyond the scope of this assignment. If questions arise, further research is advised.

Tax lot 300 reportedly has a deed restriction that allows no permanent structures other than park equipment for the protection of erosion on Pringle Creek. This area could feasibly be used for landscaping requirements upon redevelopment.

Zoning:

The subject site is zoned Public-Private Education (PE) by the City of Salem. Allowed uses are limited primarily to education related uses. This valuation is based upon the extraordinary assumption that a zone change could be made available to develop the site with mixed use or commercial office development. Adjacent zonings include Public Health (Salem Hospital), Commercial Office, Single Family Residential, and Public Amusement (Park). In addition, a planned development would be probable given the size of the site. Although the City of Salem Planning Department can not commit to a zone change without an application, it is considered reasonable and has occurred on comparable properties – including the former Boise Cascade site located along Front Street (see land sale comparable 3).

Flood Plain:

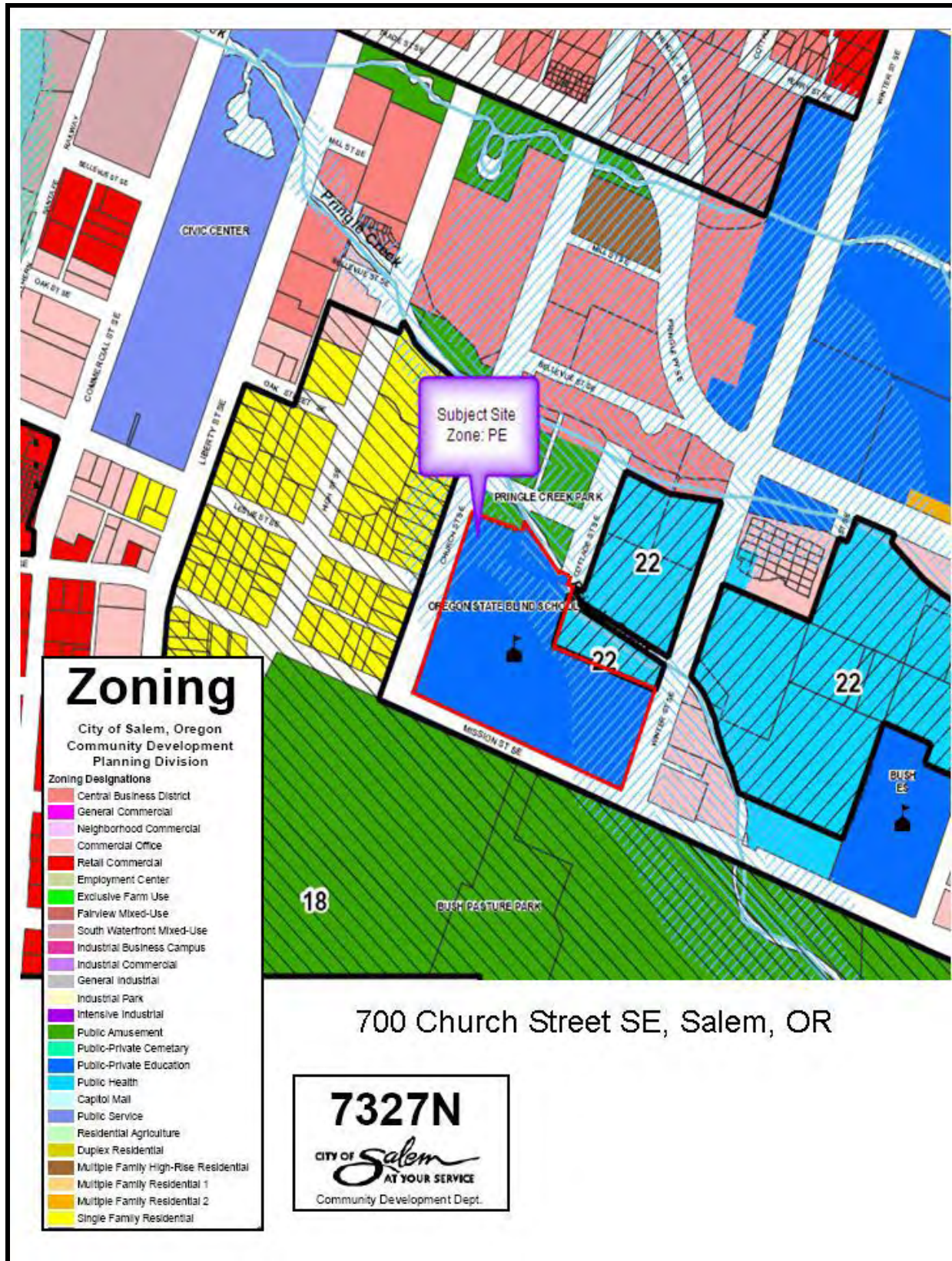
The northern portion of the subject is in Flood Zone AE, which corresponds to areas subject to flooding from Pringle Creek. Flooding is relatively common along the Willamette River and along several creeks traversing the City of Salem. This is referenced by Federal Emergency Management Agency Flood Map, 41047C0341H, dated January 2, 2003.

The flood plain has not had a significant adverse impact on development in the area. Several of the comparables used in the valuation include areas within the floodplain.

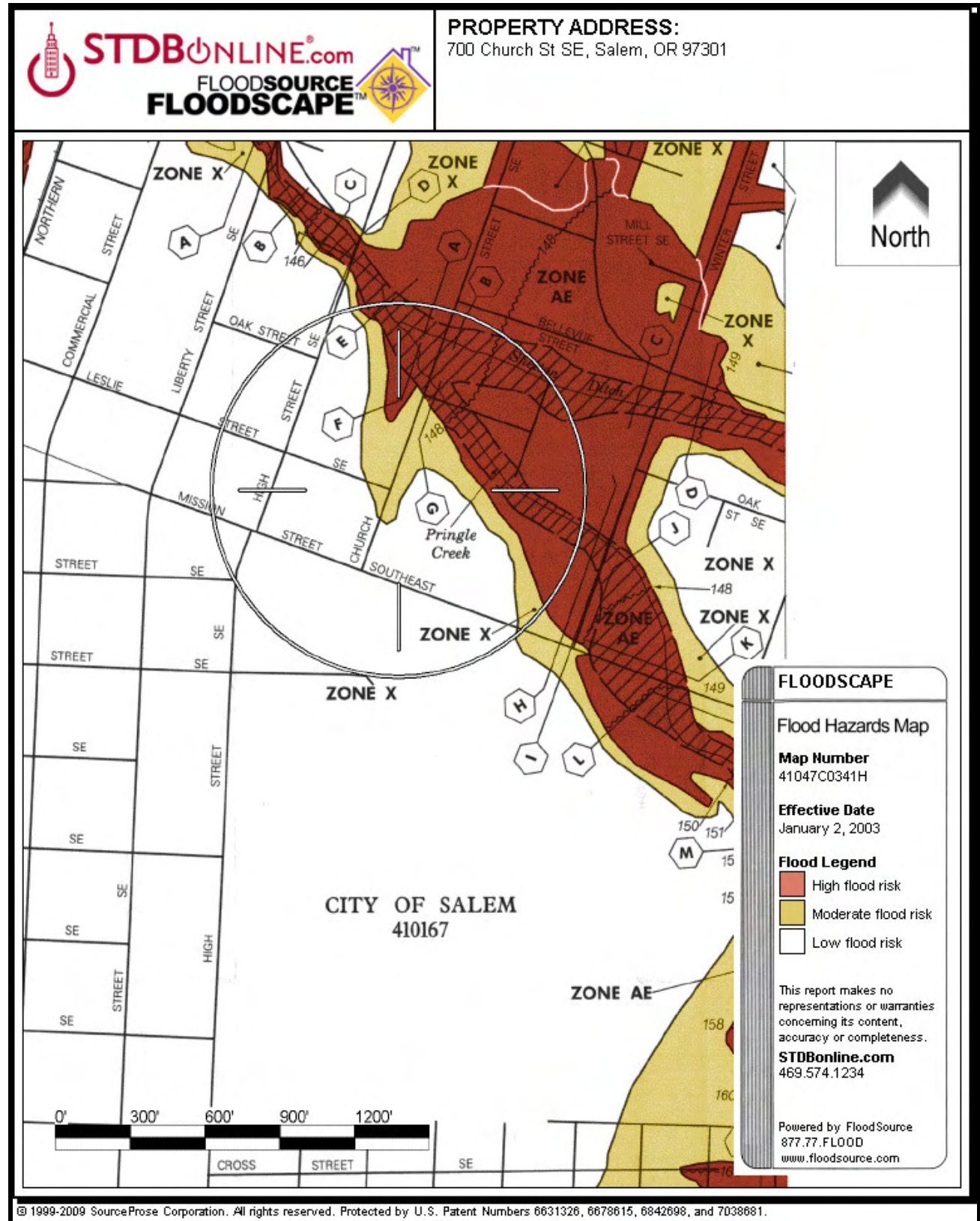
Site Rating:

Overall, the subject site is considered a good site in terms of its location, exposure and access. The physical and locational characteristics would support a wide range of development option. However, the current zoning is restrictive to educational related uses.

ZONING MAP



FLOOD MAP



AERIAL PHOTOGRAPH



SUBJECT PROPERTY PHOTOGRAPHS



PGP
VALUATION INC.



Shop Building



Boiler Building

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Gym and Pool Building.



Interior of Gym.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Dorm Building (Bracher Lounge – added 1966).



Looking south to dormitory.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Living area within Dormitory.



Looking west to the north wing of the school building.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Looking north from Mission Street to Howard Hall.



Interior of Howard Hall.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Administration Building.



First level office area within Admin Building.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Dining Hall.



Kitchen area of Dining Hall.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Looking north to School Building.



Auditorium of school building.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Interior of Infirmary Building.



Residence at the northwest corner of the site.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Second residence on site.



Tax lot 300 – parking area with deed restriction on use.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Shared access at north end of property – Salem Hospital to left.



Playground at the east end of the site.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Street scene: Looking east along Mission Street.



Street Scene: Looking west along Mission Street.

SUBJECT PROPERTY PHOTOGRAPHS (CONTINUED)



Street Scene: Looking north along Church Street.



Pringle Creek at north end of the property.

IMPROVEMENT DESCRIPTION

Property Type:	School
No. Buildings:	The school campus consists of 9 primary buildings and 2 residences. The existing buildings were constructed between 1920 and 1970 consisting of an administration building, infirmary, dining hall, 2 dormitories, gym/pool building, boiler building, maintenance building, and school building.
Size: Gross Building Area:	Approximately 100,000 SF (based on Otak report and approximate sizes of the residences and shop building)
Occupancy:	The School for the Blind has vacated the property. There are two minor offices leases and a parking lot lease. The leases are not considered in the valuation as they are reported to be near termination and the requested interest to be appraised is fee simple.
Year Built:	1920-1970
Age/Life Analysis:	The buildings have reached the end of their economic life.
Quality & Condition:	The buildings are in fair condition and are of average construction. While they have generally been adequately maintained, no significant updating, remodeling, or renovations were noted.
Summary:	On the following page is a chart summarizing the existing buildings. Because the buildings have reached the end of their economic life, their description is limited. An analysis of the property's value as a school and as vacant land is presented in the highest and best use section.

SITE & IMPROVEMENT DESCRIPTIONS (CONTINUED)

BUILDING SUMMARY

	Building Name	Year Built	Total SF	Basement	Structure	Comments
1	Administration	1957	3,710	No	Concrete with brick veneer	Two level office building
2	Infirmary	Late 1950's	2,769	No	Concrete with brick veneer	Single-story concrete/brick building with built-up roof cover. Interior includes multiple rooms for medical related use.
3	Dining	1957-1960	10,030	Yes	Concrete and brick	This building has a commercial grade kitchen and walk-in coolers. The basement level has limited daylight and used primarily for storage.
4	Howard	1923 and 1958	12,500	Yes	Concrete, wood, and brick v	One of the original buildings on campus and expanded in 1958. Built as a dormitory. Basement level has window wells.
5	School Building	1950	24,780	Partial	Concrete and brick	This building has an auditorium, two levels of classrooms, tile walls on the main level, and a partial basement with access to steam tunnels.
6	Irvine	1934 and 1966	27,192	Yes	Concrete with brick veneer	This is a residence hall. There are shared bathrooms and a large lounge area added in 1966.
7	Gym	1958	8,895	No	Wood with brick veneer	This facility has a two-lane bowling alley, gym, pool, locker rooms, and second level work-out area.
8	Boiler	1920's	2,151	No	Brick	A one-story, non-reinforced brick building with partial mezzanine. There is also a large brick chimney.
9	SFR 1	1940's	2,700	No	Wood frame	This single family residence is reported to be a 3 bed, 2 bath home. An interior inspection was not performed. Most likely asbestos siding.
10	SFR 2	1940's	2,100	No	Wood frame	This single family residence is reported to be a 3 bed, 1 bath home. An interior inspection was not performed. Most likely asbestos siding.
11	Shop Building	1960's	3,000	No	Steel frame, metal clad	Steel shop building with metal roll-up doors at grade. There is a wood frame mezzanine area as well as a shop office.
Total:			99,827			

Note: Building sizes were taken from a conditions assessment report by Otak, provided by the client for buildings 1 through 8.



In this section, market conditions which influence the subject property are analyzed. The major factors requiring analysis are the supply and demand conditions in the subject market.

Marketability as a School Facility

As a school building, there is a relatively narrow market of users for the buildings as they currently exist.

Other possible users for the subject would be public schools, charter schools, and community college, or extension campuses of existing college/university programs. Sales research has been conducted regionally. There are several examples of charter schools throughout the nation building new school buildings in the 30,000 SF to 100,000 SF + range or renovating historic school structures. According to the National Alliance of Public Charter Schools, there are over 1.4 million students enrolled in 4,600 charter schools throughout the nation. There are 10 states without charter school laws and 26 states which place restriction on the number of charter schools. Oregon is not one of them. For the most part, charter schools in Oregon have located in former school buildings or building conversions. A limiting factor for demand for the subject as a charter school or private school is the age, quality, and secondary condition of the buildings. In addition, the availability of financing for acquisition and renovation has become increasingly difficult due to credit issues in the banking industry.

Please refer to the highest and best use section in the following pages for an analysis of school building sales and listing.

The school use is an owner/user or build to suite type of real estate. This makes the aggregate supply and demand characteristics difficult to estimate. Through population growth and aging public buildings, demand is assured. However, the availability of funding for such building is more difficult to quantify.

If the subject were to be used as a school, significant capital would be necessary to renovate and/or convert the existing buildings. The subject does not compete well with other school facilities on the market based on the age, condition, and lack of updating over the years. Overall, the marketability as a school is limited.

Market Analysis as Development Land

In the section ahead, it is concluded that improvements have reached the end of their economic life. Therefore, the marketability of the subject as a redevelopment site is analyzed.

The subject is currently zoned for Public Education. This zone was applied based on the pre-existing school use. It is reasonable to assume that a zone change would be possible. Based on development in the area, use as part of the Salem Hospital campus (or Willamette University campus), residential development, office development, and mixed use development are likely options. Although the City of Salem Planning Department can not commit to a zone change without an application, it is considered reasonable and has occurred on comparable properties – including the former Boise Cascade site located along Front Street (see land sale comparable 3).

Hospital or Educational Uses

Demand is difficult to quantify from two large land users in the immediate area – Willamette University and the Salem Hospital. Each has a large and expanding campus in the immediate area and has severely limited options for expansion. This is demonstrated by the above market purchase price of the Bush School site in 2002 by the Salem Hospital. This site sold for \$5,700,000, or \$54.75/SF – without adjustment for demolition costs. It is located less than 2 blocks from the subject and was zoned PE (Public Education). This transaction is considered above market. Willamette University was also reported to have had interest in the site. Funding and future expansion plans are considerations for gauging the demand for expansion sites by each institution. However, the needs of the two potential buyers does not necessarily consider into the definition of market value, as each would have a typical motivation given the very limited opportunities to expand each campus.

Commercial Office Development

In the subject’s immediate area is office development. This portion of the analysis will address the supply and demand for commercial office space. The major factors requiring analysis are the supply and demand conditions in the subject market and submarket for office development. To analyze supply and demand in the subject’s market, we have relied on published studies by CoStar Property®. The subject is located in the Marion County Submarket within the Portland/Salem MSA Market.

The following chart displays the supply, vacancy, asking rents and net absorption figures within the submarket for flex/office properties.

Portland/Salem Msa Market & Marion County Submarket (Flex/Office)				
SUPPLY			VACANCY	
<u>Period</u>	<u>Market</u>	<u>Submarket</u>	<u>Market</u>	<u>Submarket</u>
2003	125,701,828	8,615,373	13.3%	3.1%
2004	126,557,106	8,643,735	12.0%	3.3%
2005	127,289,009	8,749,126	10.1%	4.5%
2006	129,276,984	8,814,926	9.5%	6.3%
2007	130,176,856	8,905,620	8.4%	6.6%
2008	131,447,661	9,085,547	8.8%	7.8%
Q1 2009	131,826,470	9,087,779	10.1%	8.6%

AVERAGE ASKING RENT PSF/MO. (FS)			NET ABSORPTION	
<u>Period</u>	<u>Market</u>	<u>Submarket</u>	<u>Market</u>	<u>Submarket</u>
2003	\$1.44	\$1.21	246,496	119,658
2004	\$1.42	\$1.15	3,145,411	-23,459
2005	\$1.43	\$1.20	2,775,779	-30,798
2006	\$1.50	\$1.28	1,666,605	-174,109
2007	\$1.60	\$1.34	2,945,789	178,359
2008	\$1.62	\$1.35	-691,206	9,779
Q1 2009	\$1.61	\$1.34	-354,327	-18,326

Source: CoStar Property®

FS= Full Service

Y-T-D= Year-to-Date

MARKET ANALYSIS (CONTINUED)

Vacancy is increasing and rents have flattened and are beginning to decrease. New construction has been met with lower levels of net absorption and employment growth for this sector is decreasing. Sale activity suggests moderate depreciation due to falling rental rates and increasing capitalization rates

Both the submarket and market are reporting negative net absorption YTD in 2009. In addition, since mid 2008, the unemployment rate has risen from just under 6% to 12.1% as of July 2009. The economic recession is a concern for the flex/office market going forward. Overall, the demand for office land is low to moderate at this time.

Residential Development

Most new development in the area has been apartment or condominium development. This is consistent with the location and also how several of the development sites purchased in the past several years have been developed.

The Salem MSA is experiencing modest construction activity in all areas of commercial and residential development. The following is a profile of historical building permits issued in the Salem MSA since 1995.

RESIDENTIAL BUILDING PERMITS FOR SALEM MSA^{1/}, 1995-2009(YTD)

Type	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 Q.1
Multi-Family	1,033	1,402	960	895	419	366	543	404	421	642	283	624	449	2	29
Single Family	1,253	1,524	1,746	1,708	1,659	1,361	1,248	1,556	1,549	1,963	1,128	1,729	1,342	142	70
TOTAL	2,286	2,926	2,706	2,603	2,078	1,727	1,791	1,960	1,970	2,605	1,411	2,353	1,791	144	99

Notes: Salem MSA includes Marion and Polk Counties.

Source: U.S. Census Bureau.

Moderate population growth is anticipated for the Salem MSA during the next five years based on forecasts provided by The Site-To-Do-Business Online. Population in the Salem MSA is projected to increase over 8.5 percent from 2008 to 2013; slightly ahead of the State of Oregon and the nation. Please note that 2008 figures are the most recent figures and revisions due to the recession are expected.

Population growth in the Salem MSA will create the formation approximately 2,350 new households per year ($11,781 \div 5$ Years). The Salem MSA housing market will experience demand for over 12,000 new housing units over the five-year forecast period, or about 2,400 housing units per year ($12,032 \div 5$ Years).

However, as evidenced by the building permit chart, new condominium and single family development has slowed considerably due to the economic recession and credit issues in the banking industry. A review of absorption rates for new condominium development in the market area indicate sales rates at an all time low of one to two units per month per project. Overall, the demand for condominium and single family land is low to moderate.

**SUMMARY OF DEMOGRAPHIC FORECASTS
SALEM MSA, 2008-2013**

Location	% Growth/Year			2008-2013
	2008	2013	Change	
POPULATION				
Salem MSA	392,477	426,408	33,931	1.67%
Oregon	3,814,725	4,105,010	290,285	1.48%
United States	309,299,265	328,770,749	19,471,484	1.23%
HOUSEHOLDS				
Salem MSA	138,767	150,548	11,781	1.64%
Oregon	1,484,798	1,598,922	114,124	1.49%
United States	116,384,754	123,932,585	7,547,831	1.26%
HOUSING UNITS				
Salem MSA	148,262	160,294	12,032	1.57%
Oregon	1,631,564	1,758,196	126,632	1.51%
United States	129,997,839	139,075,766	9,077,927	1.36%

Source: Site-To-Do-Business Online

Apartments—Building permits for multifamily construction saw a reduction in 1999 but remained steady with an average of 470 permits per year from 2002 through 2007. The slight influx of new activity during 2006 encountered improved economic conditions during late 2007 and early 2008. This was partially due to the downturn in the mortgage lending market and that mortgage interest rates increased from historical lows encouraging the a move-out of owner households to rental properties throughout the region. Due to increased construction costs and the downturn in the lending market, 2008 saw a dramatic drop-off in permit activity. The second half of 2008 and so far in 2009 construction has been at a virtual stand still, due to the national recession that will likely continue through the remaining of the year.

The Miles Report provides a summary of vacancy and average rent levels for the Salem-Keizer apartment market. The survey of over 27,000 apartment units is conducted by Brian K. Miles, of SMI Commercial Real Estate, for seven market locations in the Salem-Keizer area in two major groupings (Winter 2008). The two major groupings are Post-1990 construction and Pre-1990 construction. The Winter 2008 report shows total average market vacancy is 3.18% with Post-1990 construction having vacancy rates by unit type ranging from 2.61% (1BD/1BA units) to 4.14% (2BD/1.5BA units), which is up from the same time one year prior. The reported vacancy rate was 3.95% for 2BD/2BA units and 3.09% for 3BD/1BA, which are considered most similar to the subject's proposed units. Although, vacancy has improved from 5.6 percent in 2003, no 2009 reports are currently available.

**SALEM/KEIZER – ALL UNIT TYPES
HISTORICAL APARTMENT VACANCY RATES**

Year	Vacancy
2002	4.47%
2003	5.60%
2004	5.43%
2005	5.58%
2006	3.24%
2007	2.81%
2008	3.18%
Min	2.81%
Max	5.60%
Average	4.33%

Source: The Miles Report
Winter 2003 through 2008

Overall, considering the relatively low apartment vacancies in the market area, the demand for multifamily land is considered moderate to good.

Summary & Conclusions

There is a base level demand for educational buildings throughout Oregon. Population growth and increasing enrollment in education programs supports this type of use. However, there are no quantifiable vacancy and absorption statistics. Based on market observations, there appears to be limited demand for older campus properties that have not been updated. In addition, the highest and best use section which follows demonstrates that the highest and best use is for demolition and redevelopment.

As a redevelopment site, there is moderate demand. There has been good demand in recent years with many mixed use and office projects being developed within several blocks of the subject. In addition, the Salem Hospital and Willamette University have severe land constraints that may create conditions where they are motivated buyers for the subject. . Current turmoil in the financial industry as well as the poor economic conditions have significantly slowed demand for office and mixed use developments. While there may be limited demand in the near term, the long term outlook is good due to limitations on the supply of available sites near Salem's CBD.



The highest and best use of an improved property is defined as that reasonable and most probable use that will support its highest present value. The highest and best use, or most probable use, must be legally permissible, physically possible, financially feasible, and maximally productive. The highest and best use concept is based upon traditional appraisal theory and reflects the attitudes of typical buyers and sellers who recognize that value is predicated on future benefits. This theory is based upon the wealth maximization of the owner, with consideration given to community goals. A use which does not meet the needs of the public will not meet the above highest and best use criteria.

In keeping with proper appraisal theory, the analysis will begin by analyzing the subject as though it is vacant without any consideration given to the existing improvements. Following this section, an analysis of the existing improvements or the potential/proposed improvements will be considered.

“AS VACANT” ANALYSIS

Legally Permissible

The legal factors influencing the highest and best use of the subject property are primarily government regulations such as zoning ordinances. The subject site is comprised of two parcels zoned Public Education. This zone has been applied due to the existing educational use. In this analysis, a zone change is assumed. While the City of Salem can not give a decision on what the zone change may be or the likelihood, it is common for large redevelopment sites to acquire a zone change. This occurred on the Boise Cascade site (Land Sale Comparable 3) which saw its zone change from General Industrial to a mixed use zone. Likely uses would include professional office or mixed use development. Based on the extraordinary assumption that a zone change would be likely, the highest and best use is for office or mixed use development.

Physically Possible

The site is generally level with multiple access points and average to good access and exposure. It is located adjacent to the hospital with residential development and professional office development in the immediate area. The site is located in a mixed use area just south of the CBD. The immediate area is dominated by the Salem Hospital, Willamette University and related uses. Physical limitation would be setback requirements and flood areas along Pringle Creek. Overall, the site would support a wide range of uses, including office, residential, and mixed use development.

Marketability/Financially Feasible

The market conditions influencing the subject as a vacant site are summarized on the previous pages of this report. The financial feasibility of those uses that meet the legal and physical tests are discussed and analyzed further in this section. Supply and demand conditions affect the financial feasibility of possible uses. Until recently, market conditions have generally been improving and new construction is occurring throughout the region. However, the economic recession is a concern for the all sectors of development (residential, retail, industrial, office) going forward. The financial feasibility of near term development of the subject would require a high degree of owner user space, or pre-leasing. Market conditions do not likely support near term development of the larger site under a speculative development scenario. However, the long term outlook for the area is good.

Maximally Productive

The final test of maximum productivity is now applied to the uses that have passed the first three tests. Of the financially feasible uses, the maximally productive use is the use that produces the highest residual land value. The subject has unique marketability in that the two most likely buyers are non-profit institutions (Willamette University and Salem Hospital). The demand from these two users depends largely on funding, growth, and future plans for each campus. These users would likely pay more than a typical investor.

An investor would likely capture the highest return through having a mixed development that includes a professional/medical office component. However, this type of use may require a short term hold until market conditions improve. Testing which mixed use is maximally productive is considered to be beyond the scope of this analysis.

Conclusion - Overall, the highest and best use is concluded to be demolition of the existing buildings and future redevelopment. A 2 year hold prior to development would be supported based on current economic conditions.

“AS IMPROVED” ANALYSIS

Legally Permissible

Legally possible uses of the subject site were previously discussed. For the highest and best use “as improved”, the analysis shifts from a survey of potential uses to an evaluation of the proposed improvements. According to a review of the City of Salem zoning code, the current use is an outright permitted use.

Physically Possible

The physical and location characteristics of the subject improvements have been previously discussed in this report. The buildings are older and in need of renovation or updating if they are to be used for educational purposes. However, they do function adequately for education purposes.

Alternative Uses and Market Feasibility

In addition to legal and physical considerations, analysis of the subject property "as improved" requires the treatment of two important issues: 1) consideration of alternative uses for the property; and 2) the marketability of the most probable use. In the following analysis, alternative uses are treated first, followed by a marketability analysis. The five possible alternative treatments of the property are demolition, expansion, renovation, conversion, and use "as-proposed". In analyzing an improved property, the five options above are evaluated considering physical, legal, financial feasibility, and marketability criteria. Each of the options is discussed briefly.

Demolition – The test of reasonableness for demolition versus other alternative uses is analyzed using sales of school facilities relative to the value of the site as if vacant.

On the following pages are several sales and listings of school facilities. It is noted that these facilities are schools that were purchased for continued use as schools, or where the improvements are likely to remain on the site.

HIGHEST AND BEST USE ANALYSIS (CONTINUED)

SCHOOL SALE COMPARABLE SUMMATION TABLE					
LOCATION INFORMATION	COMPARABLE 1	COMPARABLE 2	COMPARABLE 3	COMPARABLE 4	COMPARABLE 5
Property Name:	Laurelwood Academy	Evergreen/Redmond High School	Future Morningside Private School (Seventh Day Adventist)	Former DeLake School	Waldorf School
Address: City/State:	38950 SW Laurelwood Road Gaston, OR	437 SW 9th Street Redmond, OR	2611 14th Avenue NW Olympia, WA	540 Highway 101, NE Lincoln City, OR	2300 SE Harrison Street Milwaukie, OR
SALE INFORMATION					
Transaction Date:	8/27/2009	8/27/2009	4/9/2009	12/1/2005	7/2/2002
Transaction Price:	\$4,500,000	\$3,500,000	\$1,961,000	\$1,600,000	\$3,650,000
Analysis Price:	\$4,500,000	\$3,500,000	\$1,361,000	\$1,600,000	\$3,650,000
Rights Transferred:	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Market Time:	3 Year(s)	9 Month(s)	N/A	2 Year(s)	
PHYSICAL INFORMATION					
Site Size (acres):	47.66	3.44	4.05	2.71	7.24
Site Size (sf):	2,076,070	149,846	176,418	118,048	315,374
Zoning:	AF-5	Public Facilities	RLI (Residential Low Impact - 4-8 units/ac)	General Commercial	R-1-B, Milwaukie
Property Type:	School	School	Private School	School	School
Project Size:	135,177	63,000	20,830	17,013	52,447
Year Built:	1960s	1921	1972	1946 and 1957.	1936; remodeled 1978.
No. of Buildings:	6	3	1	1	1
ANALYSIS INFORMATION					
Price per SF:	\$33.29	\$55.56	\$65.34	\$94.05	\$69.59
REMARKS					
Remarks:	This is the active listing of a school facility that includes an administration building, science building with lab, industrial arts/shop building, music hall/gymnasium, boys dormitory, and girls dormitory. There is excess land listed separately.	Active listing of a public school building. The building has historic significance and will be sold with a deed restriction to retain the main building. The City is reported to be willing to rezone the property for commercial conversion.	According to the listing broker, the buyer plans to remodel the building to a private school and \$600,000 was allocated to 6-acres of surplus land zoned R 4-8. The building is 50/50 office/warehouse. Thus, in this analysis we have deducted the \$600,000 surplus land figure. Includes 120 parking spaces (5.76 parking ratio).	Most of the value is in the land. The property was placed on the market in February 2002 for \$2,050,000. Significant appreciation in market interest in property during LCSD negotiations with the City. The city representative did indicate that the city did attribute some value to improvements. A nearby redevelopment site of 1.4 acres sold in 2005 for \$765,000, indicating a supporting site for the school of approximately 1.5 million.	This school was closed by the school district due to changing demographics. It is located in the city center near the city hall. The supporting site has split zoning with part residential and the balance zoned for commercial development. The school was not actively marketed. Initially sought by the City of Milwaukie, a bond measure to purchase the school failed. The Waldorf School purchased at the asking price of the school.

SCHOOL SALE COMPARABLE PHOTOGRAPHS



School Sale 1



School Sale 2



School Sale 3



School Sale 4



School Sale 5

HIGHEST AND BEST USE ANALYSIS (CONTINUED)

The comparables presented indicate a range of \$33/SF to \$94/SF. Only Comparable 1 (\$33/SF) has dormitories on the campus. Considering the age, condition, and size, the subject would compete toward the low end of the range. A value as a school is estimated to be less than \$3,500,000.

In the site valuation section of this report, it was determined that the value as if vacant is \$7,700,000. In order for the improvements to continue to contribute value to the property, the value/SF would need to be greater than \$77/SF. This price level is not supported by the school comparables. Therefore, demolition is supported as the highest and best use.

Renovation – Renovation of the existing buildings is not supported as the highest and best use.

Expansion – Expansion is not a likely treatment without additional renovation/conversion of the existing structures.

Conversion – The subject property would not lend itself well for alternative uses under a conversion scenario. While office, church, or other uses may be possible, they do not appear to be financially feasible.

Continued Use As Is – As demonstrated above, the value of the land as if vacant is greater than that as improved. Therefore, continued use as an education facility is not supported as the highest and best use.

Among the five alternative uses, demolition of the existing structures and redevelopment of the site is supported as the highest and best use.

Marketability

As previously indicated in the Market Overview, the subject property will have good appeal as a redevelopment site; however, the marketability in the short term is diminished due to the current conditions in the financial markets and slumping economy. Although current economic conditions have dampened demand for potential uses (office, apartment, condominium, mixed use), the lack of land available and long term outlook for the area market area suggests good marketability for the subject site. The value as a mixed use redevelopment site also indicates the threshold of value that the Salem Hospital or Willamette University should pay if they decide to purchase the property.

Conclusion

The highest and best use has been concluded as demolition of the existing buildings for redevelopment.



The appraisal process is designed to evaluate all factors that influence value. Regional and market area information has been presented to inform the reader of general outside influences that may affect value. In addition, the subject property has been described and the highest and best use concluded. The next portion of the appraisal process deals directly with the valuation of the subject property. The following paragraphs describe the standard approaches to value that were considered for this analysis. The use or exclusion of these approaches is indicated following their discussion.

Cost Approach

This approach is based upon the principle that the value of the property is significantly related to its physical characteristics, and that no one would pay more for a facility than it would cost to build a like facility in today's market on a comparable site. In this approach, the market value of the site is estimated and added to the estimated depreciated value of the improvements.

This approach is not applicable, as the improvements no longer contribute value to the site.

Income Approach

In the income approach a property's capacity to generate income is analyzed. This income is in turn capitalized into an indication of present value. Two fundamental methods are used in the income capitalization approach, Direct Capitalization and Yield Capitalization. These methods are described below:

Because the subject's highest and best use is for demolition and redevelopment, the income capitalization approach is not applicable and will not be presented.

Sales Comparison Approach

This approach is based on the principle of substitution. This principle states that no one would pay more for the subject property than the value of a similar property in the market. In active markets with a sufficient number of appropriate comparables, this approach is a good indicator of value that may best reflect market behavior. Alternatively, this approach may offer limited reliability because many properties have unique characteristics which cannot be accounted for in the adjustment process. This approach analyzes sales of comparable properties with regard to the nature and condition of each sale. The Sales Approach is an applicable approach for valuing the subject and is used in this analysis.

Analysis of Value Conclusions

The Sales Comparison Approach will be relied upon as the sole indicator of value. This will be used to establish the hypothetical value of the subject As If Vacant. Deduction will be made for demolition costs and environmental remediation to determine the as is market value. In addition, the extended holding period is considered.



Introduction

In this section, the value of the subject site is estimated by comparing it with sales of similar vacant land located in the subject's market area. Land value is influenced by a number of factors; most prominent of which are location and development potential. This factor, as well as others, is considered in the following analysis.

Unit of Comparison

The most relevant unit of comparison is the price per square foot of land area. This indicator best reflects the analysis used by buyers and sellers in this market.

Comparable Selection

A thorough search was made for similar land sales in the immediate area. However, given the size of the subject and mixed use zoning, we expanded our search area. The land sales selected for this analysis are the best indicators available and provide a reasonable estimate of the value of the subject's site as if vacant.

Adjustments

The lack of uniformity in the market prevents the direct market extraction of most dollar adjustments. However, dollar adjustments to the comparable sales were considered for property rights transferred, financing terms, conditions of sale, expenditures immediately after purchase, such as demolition costs and etc. bonds assumed at purchase, and market conditions. General or qualitative analysis reflecting market behavior is also used to determine which comparable sales are superior or inferior to the subject. This analysis establishes value parameters for the subject, allowing for a final value conclusion. The following adjustments or general market trends were considered for the basis of valuation.

Property Rights Transferred - The fee simple rights for each of the comparable sales were transferred. Therefore, none of the comparables required any adjustments for property rights.

Financing - All of the comparables were either cash sales or involved typical market financing. Therefore, no adjustments are necessary.

Conditions of Sale - All of the sales were sold at arm's length or are market transactions without any undue duress. Therefore, none of the comparables required any adjustments for conditions of sale.

Buyer's Expenditures Immediately After Purchase – Comparable sales are adjusted for demolition costs to reflect a vacant site. None of the comparables required additional adjustments for buyer's expenditures immediately after purchase.


SITE VALUATION (CONTINUED)

Market Conditions - An adjustment for market conditions, also known as a date of sale adjustment, was considered. However, due to the lack of significant data to apply an appropriate or accurate quantitative adjustment, qualitative adjustments are made to the comparables.

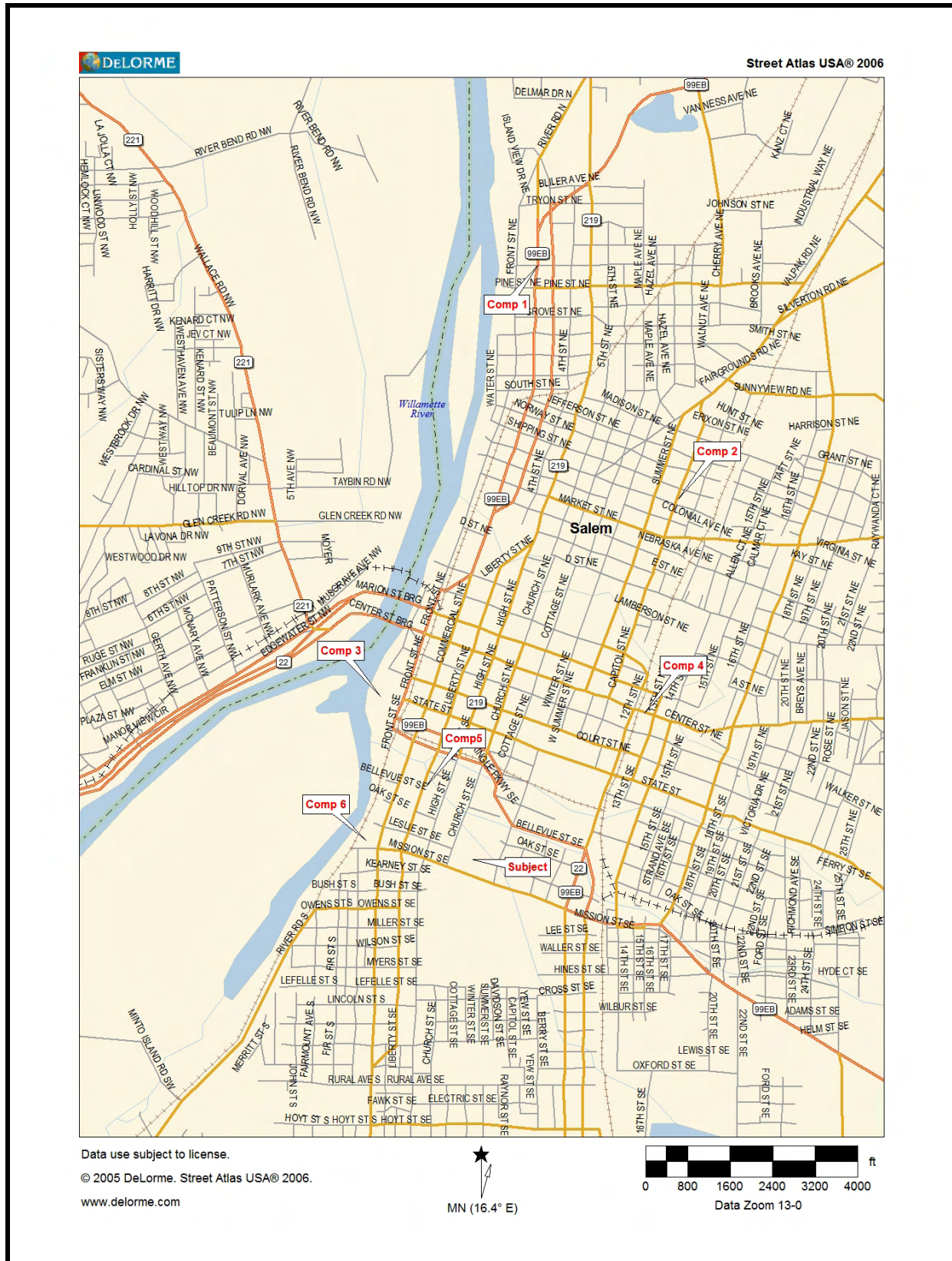
Physical Characteristics - The lack of uniformity in the market prevents direct extraction of adjustments from the marketplace. General analysis reflecting market behavior is used to determine which comparables are superior or inferior to the subject. It is generally proven in the market place that smaller parcels with similar locations, access, and exposure, will sell at a higher price per square foot. The sales do not indicate a quantifiable adjustment; however, a qualitative adjustment is used in the analysis.

Presentation

The following Land Sales Summation Table and Location Map summarize the sales data. Following these items, the sales are adjusted for applicable elements of comparison and the site value is concluded.

 LAND SALES SUMMATION TABLE							
Comparable 1	Transaction (Status/Date)	Analysis Price	Site Size (Acres/SF)	Intended Use	Zoning	Price per Acre	Price per SF
Commercial Site 2410-2460 Commercial Street Salem, OR	Recorded 3/30/2009	\$465,000	0.44 19,166	Commercial - Automotive	CR (Retail Commercial)	\$1,056,818	\$24.26
Comparable 2							
Former Artic Circle 1415 Capitol St NE Salem, OR	Recorded 1/20/2009	\$779,500	0.62 27,007	Office - Medical Dental	CR (Retail Commercial) and Multi-Family	\$1,257,258	\$28.86
Comparable 3							
Boise Cascade Mill Site Front Street Salem, OR	Recorded 12/27/2007	\$8,250,000	10.94 476,546	Demolition and mixed use	GI: Proposed Rezone to Mixed Use	\$754,113	\$17.31
Comparable 4							
Redevelopment Land 1280 Center St NE Salem, OR	Recorded 7/26/2007	\$1,725,000	1.16 50,530	Future redevelopment	CR (Retail Commercial)	\$1,487,069	\$34.14
Comparable 5							
Proposed Waterplace 480-510 Liberty St Salem, OR	Recorded 7/07-11/07	\$2,150,000	1.15 50,094	Mixed Use - Office/Retail	CO Commercial Office	\$1,869,565	\$42.92
Comparable 6							
745 Commercial/115 Mission. Meridian Condominium Site Salem, OR	Recorded 4/04-11/05	\$2,910,000	2.52 109,771	Commercial - Condominiums	River Oriented Mixed Use	\$1,154,762	\$26.51

LAND SALES LOCATION MAP





COMMERCIAL SITE

LAND SALE 1

Location Information

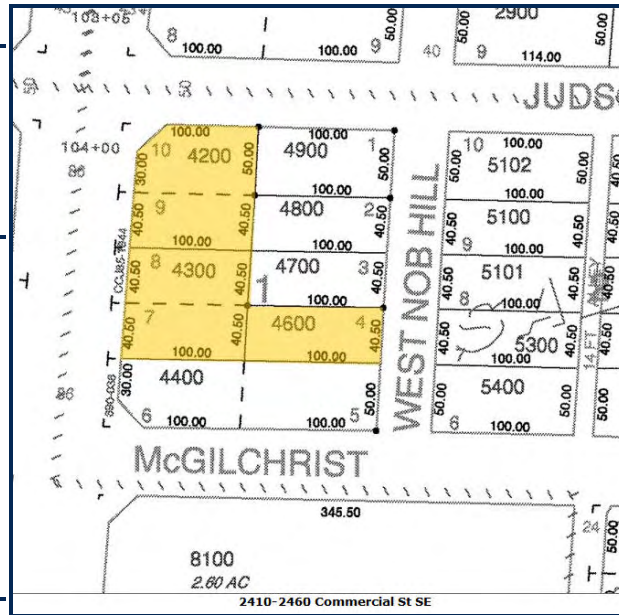
Address: 2410-2460 Commercial Street
 City, State, Zip Code: Salem, OR
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: R89646, R89648, R89649

Sale Information

Buyer: Donofrio LLC
 Seller: Nelson Trust
 Transaction Date: 3/30/09
 Transaction Status: Recorded
 Transaction Price: \$465,000
 Analysis Price: \$465,000
 Recording Number: 3047-295
 Rights Transferred: Fee Simple
 Financing: Cash
 Conditions of Sale: Purchase Option
 Marketing Time: Not On Market

Physical Information

Allowed Use: Commercial
 Intended Use: Commercial - Automotive
 Use at Sale: Car lot
 Site Size - Acres SF
 Net: 0.44 19,166
 Gross: 0.44 19,166
 Zoning: CR
 Shape: L-Shaped
 Topography: Level
 Access: Good
 Exposure: Good
 Corner: Yes
 View: No
 Off-Site Improvements: Completed
 Easements: Standard
 Environmental Issues: None Noted
 Utilities: All available



Analysis Information

ID# 11690

Price -	per Acre	per SF
Gross:	\$1,056,818	\$24.26
Net:	\$1,056,818	\$24.26

Confirmation

Name: Susan Cobb
 Source: Seller
 Phone No. / Date: 503.363.3136 8/24/09

Remarks

This is an L-shaped lot with good exposure along Commercial Street SE in Salem. The buyer had been leasing the lot for several years as a car lot. No improvement value assigned.



FORMER ARTIC CIRCLE

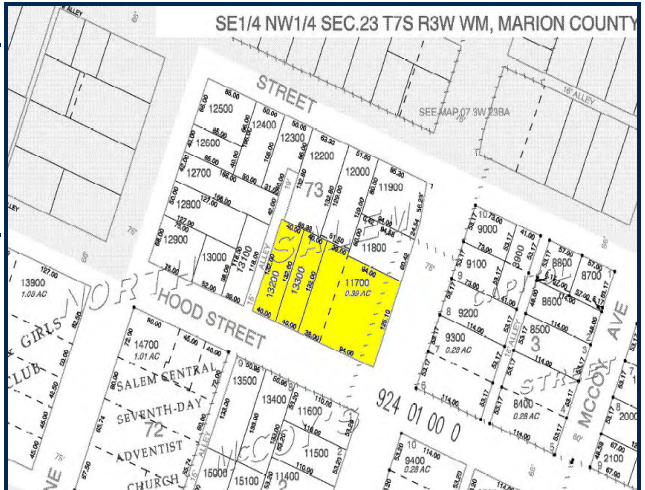
LAND SALE 2

Location Information

Address: 1415 Capitol St NE
 City, State, Zip Code: Salem, OR 97301
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: 073W23BD 11700, 13200, 13300

Sale Information

Buyer: Pending N/A
 Seller: TAN, DAVID YOU WEI &
 Transaction Date: 1/20/09
 Transaction Status: Recorded
 Transaction Price: \$750,000
 Analysis Price: \$779,500
 Recording Number: N/A
 Rights Transferred: Fee Simple
 Financing: Cash to Seller
 Conditions of Sale: Arm's Length



Physical Information

Allowed Use: Commercial
 Intended Use: Office - Medical Dental
 Use at Sale: Former Artic Circle Restaurant
 Site Size -

	Acres	SF
Net:	0.62	27,007
Gross:	0.62	27,007

 Zoning: CR (Retail Commercial) and Multi-Family
 Shape: Rectangular
 Topography: Level
 Access: Good
 Exposure: Good
 Corner: No
 View: No
 Off-Site Improvements: Complete
 Environmental Issues: None noted
 Utilities: All available

Analysis Information

ID# 10085

Price -	per Acre	per SF
Gross:	\$1,257,258	\$28.86
Net:	\$1,257,258	\$28.86

Confirmation

Name: Confidential
 Company: Confidential
 Source: Appraiser

Remarks

This is the pending purchase of the former Artic Circle Restaurant at the corner of Hood St and Capitol St. The buyer plans on developing an owner occupied medical office.



FORMER MILL SITE BOISE CASCADE SALEM

LAND SALE 3

Location Information

Address: Front Street
 City, State, Zip Code: Salem, OR 97301
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: 7S3W27BA TL 1490, 1600, 1700, 1800, 2000, 2100, 3000, 3100: 7S3W27BD TL 300, 701, 801

Sale Information

Buyer: Larry Tokarski & Dan Berrey
 Seller: Boise Cascade LLC
 Transaction Date: 12/27/07
 Transaction Status: Recorded
 Transaction Price: \$7,250,000
 Analysis Price: \$8,250,000
 Recording Number: 29020055
 Rights Transferred: Fee Simple
 Financing: Cash to Seller
 Conditions of Sale: Arm's Length
 Marketing Time: 1 Year(s)

Physical Information

Allowed Use: Industrial
 Intended Use: Mixed Use - Other
 Use at Sale: Former Paper Mill
 Site Size - Acres SF
 Net: 10.94 476,546
 Gross: 12.87 560,617
 Zoning: GI: Proposed Rezone to Mixed Use
 Shape: Irregular
 Topography: Level
 Access: Average
 Exposure: Good
 Corner: Yes
 View: Yes
 Off-Site Improvements: Complete
 Easements: No adverse easements noted
 Environmental Issues: Formerly contaminated. Site reported clean at time of sale.
 Marine Frontage:
 Contamination: Improvements contain asbestos.
 Utilities: All available



Analysis Information

ID# 8528

Price -	per Acre	per SF
Gross:	\$563,326	\$12.93
Net:	\$662,706	\$15.21

Confirmation

Name: Fred Birnbaum
 Company: Boise Cascade
 Source: Seller's Representative
 Phone No. / Date: 208.384.6052 3/27/08

Remarks

This is a waterfront mill site that was purchased for mixed use (office/retail/residential) development. The site had nearly 500,000SF of improvements. While there may be potential for re-use/conversion of the shells of some of the historic structures, the majority of the square footage of improvements currently on-site will have to be demolished. No value was attributed to the improvements.

The gross site size was reduced 15% to account for likely setback requirements. The buyer is in the process of demolishing the buildings for redevelopment (8/09). A demolition cost of \$1,000,000 has been estimated by the appraiser and added to the sales price in analyzing the sale.



REDEVELOPMENT LAND

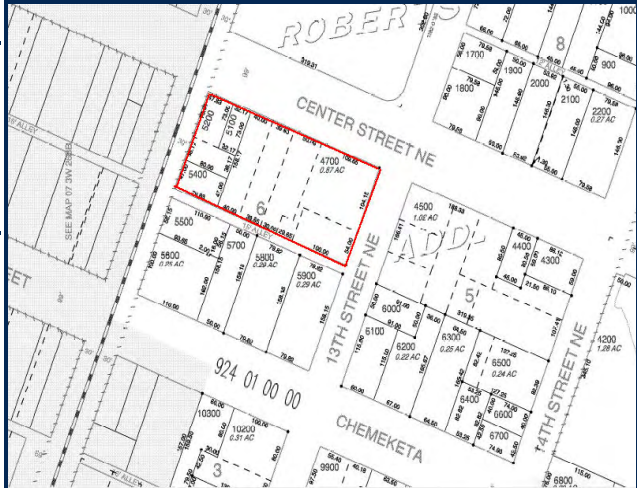
LAND SALE 4

Location Information

Address: 1280 Center St NE
 City, State, Zip Code: Salem, OR 97301
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: 073W26BA 4700, 5100, 5200, 5400

Sale Information

Buyer: Parkwood Northwest LLC
 Seller: Osteon Partners
 Transaction Date: 7/26/07
 Transaction Status: Recorded
 Transaction Price: \$1,650,000
 Analysis Price: \$1,725,000
 Recording Number: 28470157
 Rights Transferred: Fee Simple
 Financing: Cash to Seller
 Conditions of Sale: Arm's Length



Physical Information

Allowed Use: Commercial
 Intended Use: N/A
 Use at Sale: Three condemned houses on site and an old two story office. Buyer plans to demolish and redevelop

Site Size -
 Net: 1.16 Acres 50,530 SF
 Gross: 1.16 Acres 50,530 SF

Zoning: CR (Retail Commercial)
 Shape: Rectangular
 Topography: Level
 Access: Good
 Exposure: Good
 Corner: Yes
 View: No
 Off-Site Improvements: Completed
 Environmental Issues: None Noted
 Utilities: All available

Analysis Information

ID# 10084

Price -	per Acre	per SF
Gross:	\$1,487,069	\$34.14
Net:	\$1,487,069	\$34.14

Confirmation

Name: Terri Frohnmeyer
 Company: First Commercial
 Source: Broker
 Phone No. / Date: 503.364.7400 11/12/08

Remarks

This is the sale of four parcels that make up a half city block in Salem at the corner of 12th St. and Center St. At the time of sale, the site was improved with three condemned houses and an old office building. However, the sales price reportedly reflects land value only as the buyer plans to redevelop. A demolition estimate was not available. An estimate of \$75,000 in demo costs has been applied to the sales price.



PROPOSED WATERPLACE

LAND SALE 5

Location Information

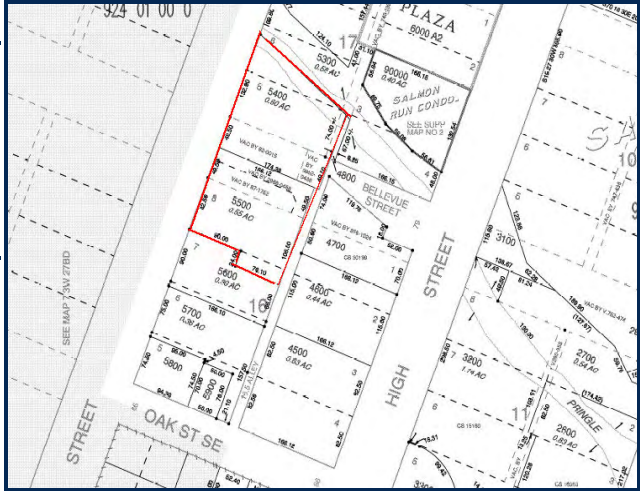
Address: 480-510 Liberty St
 City, State, Zip Code: Salem, OR 97301
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: R89104 & R89096, 073W27AC05400&5500

Sale Information

Buyer: Liberty Ventures LLC
 Seller: 510 Liberty LLC and Brooks
 Transaction Date: 7/07 and 11/07
 Transaction Status: Recorded
 Transaction Price: \$2,050,000
 Analysis Price: \$2,150,000
 Recording Number: 29870166
 Rights Transferred: Fee Simple
 Financing: Cash to Seller, assemblage
 Conditions of Sale: Arm's length
 Marketing Time:

Physical Information

Allowed Use: Commercial
 Intended Use: Mixed Use - Office/Retail
 Use at Sale:
 Site Size - Acres SF
 Net: 1.15 50,094
 Gross: 1.15 50,094
 Zoning: CO Commercial Office
 Shape: Irregular
 Topography: Level
 Access: Average
 Exposure: Good
 Corner: No
 View: No
 Off-Site Improvements: Complete
 Easements: None noted
 Environmental Issues: Creek Frontage
 Utilities: All available



Analysis Information

ID# 10080

Price -	per Acre	per SF
Gross:	\$1,869,565	\$42.92
Net:	\$1,869,565	\$42.92

Confirmation

Name: Anita Risberg
 Company: AD Risberg Commercial Investment
 Source: Seller's Broker
 Phone No. / Date: 503.363.5995 11/12/08

Remarks

Future site of Water Place office building. Located at the southern fringe of Salem's CBD across from Salem's City Hall. Two parcels were purchased in total. One was improved with the Tudor Rose Restaurant and the other was improved with an older motel. The buyer did not attribute value to the improvements and planned to raise them and develop and office building. Demolition costs of \$100,000 estimated and added to the sale price. Broker reported the sale of the Tudor Rose Restaurant at \$850,000 and the motel at \$1,200,000.

745 COMMERCIAL STREET AND 115 MISSION ST.

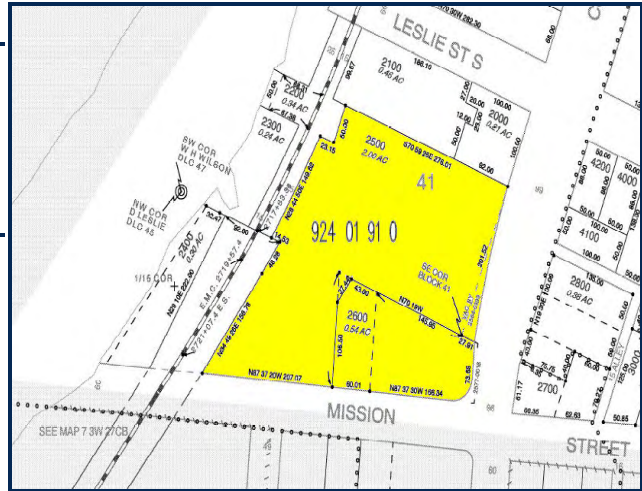
LAND SALE 6

Location Information

Address: Meridian Condominium Site
 City, State, Zip Code: Salem, OR 97301
 County: Marion
 MSA: Portland-Salem, OR-WA CMSA
 APN: 73W27BD 2500 & 2600

Sale Information

Buyer: Misscom LLC
 Seller: Grey Dolphin LLC
 Transaction Date: 4/1/04 and 11/05
 Transaction Status: Recorded
 Transaction Price: \$2,710,000 (two transactions)
 Analysis Price: \$2,910,000 (two transactions)
 Recording Number: n/a
 Rights Transferred: Fee Simple
 Financing: Cash to Seller
 Conditions of Sale: Arm's Length



Physical Information

Allowed Use: Commercial
 Intended Use: Commercial - Condominiums
 Use at Sale:
 Site Size -

	<u>Acres</u>	<u>SF</u>
Net:	2.52	109,771
Gross:	2.52	109,771

 Zoning: River Oriented Mixed Use
 Shape: Slightly Irregular
 Topography: Sloping
 Access: Good
 Exposure: Good
 Corner: Yes
 View: No
 Off-Site Improvements: Completed
 Easements: Standard
 Environmental Issues: None Noted
 Utilities: All available

Analysis Information

ID# 10078

Price -	per Acre	per SF
Gross:	\$1,075,397	\$24.69
Net:	\$1,075,397	\$24.69

Confirmation


Name:
 Company:
 Source: Confidential
 Phone No. / Date:

Remarks

Purchased for the development of the Meridian Condominiums (89 units proposed). The site has views of the Willamette Slough but is separated from the river by a rail right of way. This reflects two transactions to assemble the site. The former Capital Inn (TL 2500) was purchased for \$1,750,000, or \$20.50/SF). A former medical office building was purchased for \$960,000 (TL 2600, \$45.15/SF). The sales combined sales price has been adjusted by \$200,000 to account for demolition costs.

Analysis

The following table summarizes the analysis of the land sale comparables based upon a qualitative analysis:

 LAND SALES ANALYSIS		
Comparable 1	Commercial Site	Comparison to Subject
Analysis Price	\$465,000	Date of Sale: 3/30/2009 Similar
Price/SF	\$24.26/SF	Location: Average Similar
Analysis	<p>This is a recent sale of a paved lot with exposure along SE Commercial Street. It has superior exposure and significantly smaller size which place upward pressure on the price/SF; however, these factors are offset by the slightly inferior general location (further from CBD) and shape. Overall, these factors are offsetting and the comparable is a reasonable indicator.</p>	Size (acres): 0.44 Smaller
Overall Indicator		Access: Good Superior
		Exposure: Good Superior
		Shape: L-Shaped Sl. Inferior
		Topography: Level Similar
		Utilities: All Available Similar
Comparable 2	Former Artic Circle	Comparison to Subject
Analysis Price	\$779,500	Date of Sale: 1/20/2009 Similar
Price/SF	\$28.86/SF	Location: Average Sl. Inferior
Analysis	<p>This is the pending sale of a small, corner site located northeast of the CBD. The location is inferior; however, this is offset by the smaller size. Overall, this is a reasonable indicator due to offsetting characteristics.</p>	Size (acres): 0.62 Smaller
Overall Indicator		Access: Average/Good Sl. Superior
		Exposure: Average/Good Sl. Superior
		Shape: Rectangular Similar
		Topography: Level Similar
		Utilities: All Available Similar
Comparable 3	Boise Cascade Mill Site	Comparison to Subject
Analysis Price	\$8,250,000	Date of Sale: 12/27/2007 Older
Price/SF	\$17.31/SF	Location: Good Superior
Analysis	<p>This is the 2007 sale of the former Boise Cascade site. It has river frontage and is traversed by Pringle Creek. The buyer purchased the site for redevelopment which required a zone change and demolition of the existing improvements. After adjustment, this comparable is a slightly low indicator due to the risk associated with the large project from the buyer's side. The buildings over Pringle Creek will need to be removed and additional setbacks may be required.</p>	Size (acres): 10.94 Sl. Larger
Overall Indicator		Access: Average/Good Sl. Superior
		Exposure: Good Superior
		Shape: Irregular Similar
		Topography: Level Sl. Inferior
		Utilities: All Available Similar
Comparable 4	Redevelopment Land	Comparison to Subject
Analysis Price	\$1,725,000	Date of Sale: 7/26/2007 Older
Price/SF	\$34.14/SF	Location: Average Sl. Inferior
Analysis	<p>This site was purchased for redevelopment. It is 2 blocks from major State of Oregon offices and its location is slightly inferior to the subject. This is offset by the superior market conditions in 2007 and the smaller site size. Overall, this is a reasonable indicator for the subject, but slightly high due to superior market conditions.</p>	Size (acres): 1.16 Smaller
Overall Indicator		Access: Average/Good Sl. Superior
		Exposure: Average/Good Sl. Superior
		Shape: Rectangular Similar
		Topography: Level Similar
		Utilities: All Available Similar

SITE VALUATION (CONTINUED)

Comparable 5		Proposed Waterplace	Comparison to Subject	
Analysis Price	\$2,150,000		Date of Sale:	7/07-11/07 Older
Price/SF	\$42.92/SF		Location:	Good Superior
Analysis	This is the sale of a site in close proximity to the subject. The buyer assembled two improved parcels for development of an office building. The site has frontage along Pringle creek. This is a good indicator; however, it sold under superior market conditions. Due to this factor and the smaller size, it is a slightly high indicator.		Size (acres):	1.15 Smaller
Overall Indicator	High		Access:	Average/Good Sl. Superior
			Exposure:	Good Superior
			Shape:	Irregular Similar
			Topography:	Level Similar
			Utilities:	All Available
Comparable 6		745 Commercial/115 Mission.	Comparison to Subject	
Analysis Price	\$2,910,000		Date of Sale:	4/04-11/05 Older
Price/SF	\$26.51/SF		Location:	Average/Good Sl. Superior
Analysis	This is the dated sale of a site located 3 blocks to the east of the subject. It reflects two sites assembled for construction of a mixed use condominium project that is near completion. The site has river views and good exposure. Although the sale is dated, no adjustment is warranted. Values generally increased between 2004 and 2008 and have declined since 4th quarter 2008. Overall, this is a reasonable indicator.		Size (acres):	2.52 Smaller
Overall Indicator	Good		Access:	Good Superior
			Exposure:	Good Superior
			Shape:	Similar
			Topography:	Sloping Sl. Inferior
			Utilities:	All Available Similar

In addition to the sales presented, there is the April 2002 sale of Bush Elementary School. This site was purchased by the Salem Hospital for \$5,700,000, or \$54.75/SF – without adjustment for demolition costs. It is located less than 2 blocks from the subject and was zoned PE (Public Education). The zone has since been changed to PH (Public Health) and redeveloped by the Hospital. This sale demonstrates the demand and above market price that the Salem Hospital was willing to purchase. It was rumored that Willamette University had also bid on the project.

Conclusion

The subject site is bracketed by the comparables. The value conclusion is based on fair market value. While the Salem Hospital and Willamette University may pay an above market price due to motivation (each has land constraints while also having growing campuses), this motivation is excluded from our analysis when determining market value – which assumes a buyer and seller are “typically motivated.” The motivation of the Hospital would be atypical.

If the site were vacant and ready for development, a unit value of \$25/SF to \$35/SF is supported. However, the current recession and slow demand for both residential and commercial real estate would suggest a unit value at the low end of this range. The larger size of the subject relative to the comparables also places downward pressure on the unit value considering current market conditions. Considering these factors, a value of \$25/SF is concluded before an adjustment for the holding period.

Another factor that must be considered is that all of the comparables above were purchased for near term development. Current market conditions would most likely postpone any development in the next one to two years. Projects at Comparable 3 (Boise Cascade mixed use site), 5 (Waterplace office), and 6 (The Meridian – an 89 unit condo project with 3 units sold) have encountered weak to moderate demand. Absorption and/or sellout of these projects will impact the timing of a speculative mixed use or office development on the subject site.

If a speculative developer were to purchase the site today and assume a 2 year holding period, a further discount would be required. Based on a 15% annual return, an additional one year hold (one year marketing and one year hold for development in 2011), an adjustment of -15% is supported.

SITE VALUATION (CONTINUED)

Therefore, a unit value of (\$25/SF x 85%) \$21.25/SF is concluded. This value establishes a base amount in which the Salem Hospital or Willamette University would need to bid in order to acquire the subject. It should be noted that the motivation of these two potential buyers may drive an eventual purchase price upward. This is demonstrated by the above market purchase price of the Bush School site in 2002 by the Salem Hospital for \$54.75/SF – without adjustment for demolition costs. This transaction is considered above market.

SUMMARY OF COMPARABLE ANALYSIS			
Comp. No.	Price/SF	Indicator	
5	\$42.92	High	
Subject	-	-	
4	\$34.14	Good	
2	\$28.86	Good	
6	\$26.51	Good	
1	\$24.26	Good	
3	\$17.31	Sl. Low	
Statistical Analysis (Price/SF)			
Low	\$17.31	Median	\$27.69
High	\$42.92	Average	\$29.00
CALCULATION OF VALUE			
Concluded Price/SF	Site Size (SF)		Value
\$21.25	x	364,597	= \$7,700,000

The market value above reflects the value of the entire site; which is relatively large considering its proximity to the CBD. The client has requested that the appraiser analyze the relative value difference if the parcel were to be subdivided and sold off in smaller parcels.

The selling of smaller parcels could drive up the unit value. However, the following factors need to be considered:

- The sell out period and holding costs would offset a portion of the increase in unit price.
- There has not been a significant discount applied in the conclusion above for the subject's size, as there is a shortage of large development sites near the Salem CBD. Therefore, a substantial increase in the unit value for smaller parcels is not supported.

The State of Oregon would have little in the way of holding costs and therefore may be able to achieve a slightly greater overall value through the sell-out of smaller parcels. However, a higher Market Value is not supported.

The value concluded above reflects the Hypothetical "As If Vacant" value. To determine the "As Is" market value, adjustments for demolition and site clean up must be made.

AS IS MARKET VALUE



In the previous section, the hypothetical market value as if vacant is presented; which assumes that the subject is a vacant site ready for development.

The As Is Value requires adjustment for costs that a buyer would incur in order to redevelop the site.

Demolition and Site Clean Up Costs

The existing improvements have reached the end of their economic life. In the highest and best use section, it was demonstrated that the value as a vacant site is greater than if it were to be purchased for continued use of the improvements. .

The client has provided a demolition and site clean up costs as follows:

Demolition and Site Clean Up Costs	
Enironmental Assessment & Alta Surve	\$161,184
Hazardous Materials Abatement	\$1,081,931
Demolition & Site Clean Up	\$991,468
Total Costs	\$2,234,583
Rounded:	\$2,230,000

The cost above includes costs associated with creating a vacant site. Asbestos containing materials have been identified on site. The costs include abatement of asbestos containing material in the buildings and around underground piping.

Typically an adjustment for contingencies is made. However, the State is required to pay prevailing wage, which makes the estimate of costs presented above higher than a typical investor/developer may pay. Therefore, no contingency is added. Additional costs savings may accrue to a developer; however a bid by a qualified contractor would be necessary to quantify the difference.

As Is Value Conclusion

The chart below summarizes the As Is market value of the subject property:

VALUE SCENARIO(S)	INTEREST APPRAISED	DATE	VALUE
Hypothetical Market Value*	Fee Simple	August 19, 2009	\$7,700,000
As-Is Market Value	Fee Simple	August 19, 2009	\$5,470,000

* This value assumes the site is vacant and ready for development.

This value estimate is subject to assumptions and limiting conditions presented in this report.

CERTIFICATE OF APPRAISAL



We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are the signers' personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- The signers of this report 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.
- The signers have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- The engagement in this assignment was not contingent upon developing or reporting predetermined results.
- The 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.
- The 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, and the *Uniform Standards of Professional Appraisal Practice*, as set forth by the Appraisal Standards Board of the Appraisal Foundation.
- Jeff Grose, MAI and made a personal inspection of the subject property and the comparables with the exception of Comparables 2 and 3.
- Brian Kelley, MAI performed an internal desk review and did not inspect the subject.
- No one else provided significant appraisal assistance.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives. As of the date of this appraisal, Jeff Grose, MAI and Brian L. Kelley, MAI are currently certified under the continuing education program of the Appraisal Institute.

Handwritten signature of Jeff L. Grose in blue ink.

Jeff L. Grose, MAI
OR State Certified General Appraiser
No. C000722

September 10, 2009

Date

Handwritten signature of Brian L. Kelley in blue ink.

Brian L. Kelley, MAI
Certified General Real Estate Appraiser
State of Oregon License #C000141

September 10, 2009

Date

ADDENDA



PGP
VALUATION INC.

Definitions
Qualifications of Appraisers
Qualifications of PGP Valuation Inc

Definitions

PGP Valuation Inc

These definitions were extracted from the following sources or publications:

- *The Dictionary of Real Estate Appraisal*, Fourth Edition, Appraisal Institute, Chicago, Illinois, 2002 (*Dictionary*).
- *Uniform Standards of Professional Appraisal Practice*, 2006 Edition (*USPAP*).
- *The Appraisal of Real Estate*, Twelfth Edition, Appraisal Institute, Chicago, Illinois, 2001 (*12th Edition*).
- *Marshall Valuation Service*, Marshall & Swift, Los Angeles, California (*MVS*).

Absolute Net Lease

A lease in which the tenant pays all expenses including structural maintenance and repairs; usually a long-term lease to a credit tenant. (*Dictionary*)

Accrued Depreciation

The difference between the reproduction or replacement cost of the improvements on the effective date of the appraisal and the market value of the improvements on the same date. (*Dictionary*)

Ad Valorem Tax

A real estate tax based on the assessed value of the property, which is not necessarily equivalent to its market value. (*12th Edition*)

Aggregate of Retail Values (ARV)

The sum of the appraised values of the individual units in a subdivision, as if all of the units were completed and available for retail sale, as of the date of the appraisal. The sum of the retail sales includes an allowance for lot premiums, if applicable, but excludes all allowances for carrying costs. (*Dictionary*)

Arm's-length Transaction

A transaction between unrelated parties under no duress. (*12th Edition*)

As-Is Value

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*)

Assessed Value

The value of a property according to the tax rolls in ad valorem taxation; may be higher or lower than market value, or based on an assessment ratio that is a percentage of market value. (*12th Edition*)

Average Daily Room Rate (ADR)

In hotel analysis, total guest room revenue divided by the total number of occupied rooms. (*Dictionary*)

Band of Investment

A technique in which the capitalization rates attributable to components of a capital investment are weighted and combined to derive a weighted-average rate attributable to the total investment. (*Dictionary*)

Cash Equivalence

A price expressed in terms of cash, as distinguished from a price expressed totally or partly in terms of the face amounts of notes or other securities that cannot be sold at their face amounts. Calculating the cash-equivalent price requires an appraiser to compare transactions involving atypical financing to transactions involving comparable properties financed at typical market terms. (*Dictionary*)

Common Area

The total area within a property that is not designated for sale or rental but is available for common use by all owner, tenant, or their invitees, e.g., parking and its appurtenances, malls, sidewalks, landscaped areas, recreation areas, public toilets, truck and service facilities. (*Dictionary*)

Contract Rent

The actual rental income specified in a lease; may be a combination of base rent, percentage rents, and expense reimbursements. (*12th Edition*)

Cost Approach

A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial profit, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised. (*12th Edition*)

Curable Functional Obsolescence

An element of depreciation; a curable defect caused by a flaw in the structure, materials, or design. (*Dictionary*)

Debt Coverage Ratio (DCR)

The ratio of net operating income to annual debt service; measures the ability of a property to meet its debt service out of net operating income; also called debt service coverage ratio (DSCR). (*Dictionary*)

Definitions

Continued

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*)

Depreciation

In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date. (*Dictionary*)

Direct Costs

1. Expenditures for the labor and materials used in the construction of improvements;
2. The labor, material, subcontractor, and heavy equipment costs directly incorporated into the construction of physical improvements. (R.S. Means) Also called hard costs. (*Dictionary*)

Discounted Cash Flow (DCF) Analysis

The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams as well as the quantity and timing of the reversion and discounts each to its present value at a specified yield rate. DCF analysis can be applied with any yield capitalization technique and may be performed on either a lease-by-lease or aggregate basis. (*Dictionary*)

Discount Rate

An interest rate used to convert future payments or receipts into present value. The discount rate may or may not be the same as the internal rate of return (IRR) or yield rate depending on how it is extracted from the market and/or used in the analysis. See also risk rate; safe rate; yield rate (Y). (*Dictionary*)

Easement

An interest in real property that conveys use, but not ownership, of a portion of an owner's property. Access or right of way easements may be acquired by private parties or public utilities. Governments dedicate conservation, open space, and preservation easements. (*Dictionary*)

Effective Age

The age of property that is based on the amount of observed deterioration and obsolescence it has sustained, which may be different from its chronological age. (*USPAP*)

Effective Date

The date at which the analyses, opinions, and advice in an appraisal, review, or consulting service apply. (*USPAP*)

Effective Date

The rental rate net of financial concessions such as periods of no rent during the lease term; may be calculated on discounted basics reflecting the time value of money, or on a simple, straight-line basis. (*12th Edition*)

Economic Life

The period over which improvements to real property contribute to property value; the term relates to the market extraction and age-life methods of estimating depreciation. (*12th Edition*)

Effective Gross Income (EGI)

The anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses. Effective gross income includes items constituting other income, i.e., income generated from the operation of the real property that is not derived from space rental (e.g., parking rental or income from vending machines). (*Dictionary*)

Effective Gross Income Multiplier (EGIM)

The ratio between the sale price (or value) of a property and its effective gross income; a single year's EGI expectancy or an annual average of several years' EGI expectancies ($EGIM = V/EGI$). (*Dictionary*)

Eminent Domain

The right of government to take private property for public use upon the payment of just compensation. The Fifth Amendment of the U.S. Constitution, also known as the takings clause, guarantees payment of just compensation upon appropriation of private property. (*Dictionary*)

Entrepreneurial Incentive

A market-derived figure that represents the amount an entrepreneur expects to receive for his or her contribution to a project and risk. (*12th Edition*)

Entrepreneurial Profit

A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its market value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development. (*12th Edition*)

Excess Land

In regard to an improved site, the land not needed to serve or support the existing improvement.

In regard to a vacant site or a site considered as though vacant, the land not needed to accommodate the site's primary highest and best use. Such land may be separated from the larger site and have its own highest and best use, or it may allow for future expansion of the existing or anticipated improvement. (*Dictionary*)

Definitions

Continued

Excess Rent

The amount by which contract rent exceeds market rent at the time of the appraisal; created by a lease favorable to the landlord (lessor) and may reflect a locational advantage, unusual management, unknowledgeable parties, or a lease execution in an earlier, stronger rental market. Due to the higher risk inherent in the receipt of excess rent, it may be calculated separately and capitalized at a higher rate in the income capitalization approach. (*Dictionary*)

Expense Stop

A clause in a lease that limits the landlord's expense obligation because the lessee assumes any expenses above an established level. (*Dictionary*)

Exposure Time

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

External Obsolescence

An element of depreciation; a defect, usually incurable, caused by negative influences outside a site and generally incurable on the part of the owner, landlord, or tenant. (*Dictionary*)

Extraordinary Assumption

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in an analysis. An extraordinary assumption may be used in an assignment only if:

- It is required to properly develop credible opinions and conclusions;
- The appraiser has a reasonable basis for the extraordinary assumption;
- Use of the extraordinary assumption results in a credible analysis; and
- The appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions. (*USPAP*)

Fair Market Value

The fair market value of the property taken is the highest price on the date of valuation that would be agreed to by a seller, being willing to sell but under no particular or urgent necessity for so doing, each dealing with the other with full knowledge of all the uses and purpose for which the property is reasonably adaptable and available. (*Dictionary*)

Feasibility Analysis

A study of the cost-benefit relationship of an economic endeavor. (*12th Edition*)

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. See also land-to-building ratio. (*Dictionary*)

Functional Obsolescence

An element of depreciation resulting from deficiencies or superadequacies in the structure. See also curable functional obsolescence; incurable functional obsolescence. (*Dictionary*)

Functional Utility

The ability of a property or building to be useful and to perform the function for which it is intended according to current market tastes and standards; the efficiency of a building's use in terms of architectural style, design and layout, traffic patterns, and the size and type of rooms. (*12th Edition*)

Furniture, Fixtures, and Equipment (FF&E)

The movable property of a business enterprise not classified as stock or inventory or leasehold improvements; frequently found in the ownership of hotels or motels, restaurants, assisted-living facilities, service stations, car washes, greenhouses and nurseries, and other service-intensive properties. Furniture, fixtures, and equipment frequently wears out much more rapidly than other components of those properties. (*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. Gross building area for office buildings is computed by measuring to the outside finished surface of permanent outer building walls without any deductions. 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. See also area. (*Dictionary*)

Definitions

Continued

Gross Leasable Area or Gross Living Area. (GLA)

The total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines, and measured from the center of interior partitioning to outside wall surfaces; the standard measure for determining the size of shopping centers where rent is calculated based on the GLA occupied. The area for which tenants pay rent. See also area. *(Dictionary)*

Garden Apartments

An apartment development of two- or three-story, walk-up structures built in a garden-like setting; customarily a suburban or rural-urban fringe development. *(Dictionary)*

Going-concern Value

1. The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; also called value of the going concern.
2. Tangible and intangible elements of value in a business enterprise resulting from factors such as having a trained work force, an operational plant, and the necessary licenses, systems, and procedures in place.
3. The value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going-concern value. *(USPAP)*

Highest & 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 productivity. *(Dictionary)*

Highest and Best Use of Land or a Site as Though Vacant

Among all reasonable, alternative uses, the use that yields the highest present land value, after payments are made for labor, capital, and coordination. The use of a property based on the assumption that the parcel of land is vacant or can be made vacant by demolishing any improvements. *(Dictionary)*

Highest and Best Use of Property as Improved

The use that should be made of a property as it exists. An existing improvement should be renovated or retained as is so long as it continues to contribute to the total market value of the property, or until the return from a new improvement would more than offset the cost of demolishing the existing building and constructing a new one. *(Dictionary)*

Hypothetical Condition

That which is contrary to what exists but is supposed for the purpose of analysis. Hypothetical conditions assume conditions contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. *(Dictionary)*

Hypothetical Value

The monetary relationship between properties and those who buy, sell or use those properties, based on a hypothetical condition. *(USPAP)*

Income Capitalization Approach

A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year's (stabilized) income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate. *(12th Edition)*

Incurable Functional Obsolescence

An element of depreciation; a defect caused by a deficiency or superadequacy in the structure, materials, or design, which cannot be practically or economically corrected. *(Dictionary)*

Indirect Costs

Expenditures or allowances for items other than labor and materials that are necessary for construction, but are not typically part of the construction contract. Indirect costs may include administrative costs; professional fees; financing costs and the interest paid on construction loans; taxes and the builder's or developer's all-risk insurance during construction; and marketing, sales, and lease-up costs incurred to achieve occupancy or sale. Also called soft costs. *(Dictionary)*

Insurable Value

The value of an asset or asset group that is covered by an insurance policy; can be estimated by deducting costs of non-insurable items (e.g., land value) from market value. *(MVS)*

Interim Use

The temporary use to which a site or improved property is put until it is ready to be put to its future highest and best use. *(12 Edition)*

Definitions

Continued

Leased Fee Interest

An ownership interest held by a landlord with the rights of use and occupancy conveyed by the 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)*

Legally Nonconforming Use

A use that was lawfully established and maintained, but no longer conforms to the use regulations of the current zoning in the zone where it is located. *(Dictionary)*

Market Study

A macroeconomic analysis that examines the general market conditions of supply, demand, and pricing or the demographic of demand for a specific area or property type. A market study may also include analyses of construction and absorption trends. *(12th Edition)*

Marketability Study

A microeconomic study that examines the marketability of a given property or class of properties, usually focusing on the market segments in which the property is likely to generate demand. Marketability studies are useful in determining a specific highest and best use, testing development proposals, and projecting an appropriate tenant mix. *(12th Edition)*

Market Analysis

1. The identification and study of the market for a particular economic good or service.
2. A study of market conditions for a specific type of property. *(USPAP)*

Market Area

The defined geographic in which the subject property competes for the attentions of market participants; the term broadly defines an area containing diverse land uses. *(12th Edition)*

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. *(12th 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:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their own best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
5. 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. *(Office of Comptroller of the Currency (OCC), Title 12 of the Code of Federal Regulation, Part 34, Subpart C - Appraisals, 34.42 (g); Office of Thrift Supervision (OTS), 12 CFR 564.2 (g); This is also compatible with the RTC, FDIC, FRS and NCUA definitions of market value.)*

Net Operating Income (NOI)

The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income, but before mortgage debt service and book depreciation are deducted; may be calculated before or after deducting replacement reserves. *(Dictionary)*

Obsolescence

One cause of depreciation; an impairment of desirability and usefulness caused by new inventions, changes in design, improved processes for production, or external factors that make a property less desirable and valuable for a continued use; may be either functional or external. *(12 Edition)*

Off-site Costs

Costs incurred in the development of a project, excluding actual building construction costs, e.g., the costs of streets, sidewalks, curbing, traffic signals, water and sewer mains; also called common costs; or off-site improvement costs. *(Dictionary)*

On-site Costs

Costs incurred for the actual construction of buildings and improvements on a particular parcel of land. See also construction cost; direct costs. *(Dictionary)*

Definitions

Continued

Overage Rent

The percentage rent paid over and above the guaranteed minimum rent or base rent; calculated as a percentage of sales in excess of a specified breakeven sales volume. (12th Edition)

Overall Capitalization Rate (OAR)

An income rate for a total real property interest that reflects the relationship between a single year's net operating income expectancy and the total property price or value; used to convert net operating income into an indication of overall property value. (Dictionary)

Potential Gross Income (PGI)

The total income attributable to real property at full occupancy before vacancy and operating expenses are deducted. (Dictionary)

Potential Gross Income Multiplier (PGIM)

The ratio between the sale price of a property and its potential gross income (PGIM ÷ VPGI). (Dictionary)

Present Value (PV)

The value of a future payment or series of future payments discounted to the current date or to time period zero. (Dictionary)

Parking Ratio

The number of available parking spaces per rentable unit of area, residential unit, hotel room, restaurant seat, etc.; also, the ratio of total parking area to gross leasable area. The parking ratio is a standard comparison that indicates the relationship between parking spaces or parking area and an economic or physical unit of comparison. (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)

Qualitative Analysis

In the sales comparison approach, the process of accounting for differences between comparables that are not quantified; usually follows quantitative adjustment. (Dictionary)

Quantitative Adjustment

In the sale comparison approach, the process of making numerical adjustments to the sale prices of comparable properties, including data analysis techniques (paired data analysis, grouped data analysis, and secondary data analysis), statistical analysis, graphic analysis, trend analysis, cost analysis (cost-to-cure, depreciated cost), and capitalization of rent differences; usually precedes qualitative analysis. (Dictionary)

Rentable Area

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

Replacement Cost

The estimated cost to construct, at current prices as of the effective appraisal date, a building with utility equivalent to the building being appraised, using modern materials and current standards, design, and layout. (12 Edition)

Reproduction Cost

The estimated cost to construct, at current prices as of the effective date of the appraisal, an exact duplicate or replica of the building being appraised, using the same materials, construction standards, design, layout, and quality of workmanship and embodying all the deficiencies, superadequacies, and obsolescence of the subject building. (12 Edition)

Retrospective Value Opinion

An opinion of value that is likely to have applied as of a specified historic date. A retrospective value opinion is most frequently sought in connection with appraisals for estate tax, condemnation, inheritance tax, and similar purposes. (Dictionary)

Sales Comparison Approach

A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently, applying appropriate units of comparison and making adjustments to the sale prices of the comparables based on the elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant; it is the most common and preferred method of land valuation when comparable sales data is available. (12th Edition)

Scope of Work

The amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following:

- The degree to which the property is inspected or identified;
- The extent of research into physical or economic factors that could affect the property;
- The extent of data research; and
- The type and extent of analysis applied to arrive at opinions or conclusions. (Dictionary)

Shopping Center Types

Community Center: A shopping center of 100,000 to 300,000 square feet that usually contains one junior department store, a variety store or discount department store, a supermarket, and specialty stores. A community shopping center generally has between 20 and 70 retail tenants and the market support of more than 5,000 households.

Definitions

Continued

Neighborhood Center: The smallest type of shopping center, generally with a gross leasable area of less than 100,000 square feet. Typical anchors include supermarkets and pharmacies. Neighborhood shopping centers offer convenience goods and personal services and usually depend on the market support of more than 1,000 households.

Power Center: A large community shopping center with more than 250,000 square feet of space anchored by three or more tenants that occupy 60% to 90% of the space; the number of specialty stores is kept to a minimum. See also shopping center.

Regional Center: A shopping center that offers a variety of general merchandise, apparel, furniture, home furnishings, services, and recreational facilities and is built around one or more full department stores of at least 100,000 square feet each. Regional shopping centers generally have between 400,000 and 750,000 square feet of gross leasable area. *(Dictionary)*

Superadequacy

An excess in the capacity or quality of a structure or structural component; determined by market standards. *(Dictionary)*

Surplus Land

Land not necessary to support the highest and best use of the existing improvement but, because of physical limitations, building placement, or neighborhood norms, cannot be sold off separately. Such land may or may not contribute positively to value and may or may not accommodate future expansion of an existing or anticipated improvement. *(Dictionary)*

Tenant Improvements (TIs)

1. Fixed improvements to the land or structures installed and paid for by a tenant or lessee.
2. The original installation of finished tenant space in a construction project; subject to periodic change for succeeding tenants. *(Dictionary)*

Triple net lease

A net lease under which the lessee assumes all expenses of operating a property, including both fixed and variable expenses and any common area maintenance that might apply, but the landlord is responsible for structural repairs. *(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. There are two variations of net area: single occupant net assignable area and store net assignable area. *(Dictionary)*

Useful Life

The period of time over which a structure may reasonably be expected to perform the function for which it was designed. *(Dictionary)*

Vacancy and Collection Loss

An allowance for reductions in gross potential income attributable to projected vacancy (physical or economic) and potential collection loss considerations. Vacancy is an expected loss in income as a result of periodic vacant space attributable to unrented space and tenant turnover. Credit loss considers nonpayment of rent and can consider units rented at below-market rates (also known as lag vacancy). Vacancy and collection loss is usually estimated on a property-specific basis as part of the reconstructed operating statement in the income capitalization approach and applied, as a percentage, to potential gross income or as a percentage of rentable area of the property; may also refer to a study of vacancy and collection loss in a defined market or submarket. See also frictional vacancy. *(Dictionary)*

Yield Capitalization

The capitalization method used to convert future benefits into present value by discounting each future benefit at an appropriate yield rate or by developing an overall rate that explicitly reflects the investment's income pattern, value change, and yield rate. *(Dictionary)*

Experience

Jeff L. Grose, MAI
Executive Managing Director

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As the Executive Managing Director of the Portland office of PGP Valuation, Jeff Grose leads one of the largest appraisal offices in the nation. Jeff joined PGP in 1998 and has extensive experience valuing a wide range of property types including industrial, office, golf courses, resource land and right-of-ways. In addition to running the daily operations of the Portland office, he manages a highly productive team that specializes in the valuation of industrial and office properties.

Past Experience

Real Estate Appraiser PGP Valuation Inc, 1998-present

Education

Degrees: Bachelor of Science, Business Economics, Willamette University, Salem, Oregon, 1997

Appraisal Institute Courses

- Course 320, General Applications
- Course 510, Advanced Income Capitalization
- Course 520, Highest and Best Use
- Course 530, Advanced Sales Comparison Cost Approaches
- Course 540, Report Writing and Valuation Analysis
- Course 550, Advanced Applications
- Course 710 and 720, Condemnation Appraising
- Appraisal of Non-Conforming Uses

Professional Affiliations & Accreditations

- National Association of Industrial and Office Properties
- Member - Appraisal Institute
- Oregon Mortgage Lender's Association – Board of Directors

State Certifications

- California License #AG043820
- Oregon License #C000722
- Washington License #27011 1100446



Appraiser Certification and Licensure Board

State Certified General Appraiser

28 hours of continuing education required for renewal

Jeff L Grose
PGP Valuation INC
110 SW Yamhill ST STE 200
Portland OR 97204

License No: C000722

Issue Date: 1/8/2008

Expiration Date: 12/31/2009

R. A. (Bob) Keith, Administrator

Experience

Brian L. Kelley, MAI
Managing Director

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Brian L. Kelley was born and raised in Portland, Oregon. He attended Franklin High School in Portland, where he participated in varsity football, basketball, and baseball. He graduated from the University of Oregon with a degree in Business Finance, minoring in Real Estate. For seven years prior to joining PGP Valuation Inc he was active in real estate sales in the Portland metropolitan area. Brian's appraisal assignments vary from timberland to major income-producing properties. He formerly managed the Multi-Family department and is currently a senior member of PGP Valuation Inc's Central Review Team.

Past Experience

Senior Review Appraiser	PGP Valuation Inc, Responsible for reviewing both in house and outside appraisal assignments of all property types.
Associate Real Estate Broker	Steve Meredith Realtors, Inc., primarily residential real estate sales in the Portland, Metropolitan area.
Real Estate Sales Associate	Stan Wiley Realtors, Inc., primarily residential real estate sales in the Portland, Metropolitan area.

Education

Degrees: Bachelor of Science, Business Administration, University of Oregon

Appraisal Institute Courses

- Course 1A-1, Real Estate Appraisal Principles
- Course 1A-2, Basic Valuation Procedures
- Course 1B-A, Capitalization Theory and Technique - Part A
- Course 1B-B, Capitalization Theory and Technique - Part B
- Course 2-1, Case Studies in Real Estate Valuation
- Course 2-2, Valuation Analysis and Report Writing

Other Related Courses

- Introduction to Real Estate
- Real Estate Law
- Real Estate Finance
- Real Estate Taxation
- Real Estate Management
- Real Estate Investment Analysis
- Real Estate Environment Analysis

Classes - Seminars

- Standards of Professional Practice Update
- Standards of Professional Practice - Part A
- Standards of Professional Practice - Part B
- Standards of Professional Practice - Part C
- Hotel/Motel Valuation
- Wetlands Evaluation Issues
- Americans with Disabilities Act Seminar
- Anatomy of a Real Estate Deal
- Developing Tax Credit Financed Low-Income Housing
- How to Value Income Property
- 30 Specialized Appraisal Issues
- Commercial Construction
- Appraisal of Non-Conforming Properties
- Elderly Care Facility Appraisal
- Security Issues and Building Design Seminar
- Siding and Mold Issues Seminar
- Real Estate Fraud: The Appraisers Responsibilities and Liabilities Seminar
- Market Analysis and the Site to do Business
- Non USPAP Regulatory Compliance
- National USPAP 7-Hour Update
- Business Practices and Ethics

Professional Affiliations & Accreditations

- Member of the Appraisal Institute (MAI)
- Portland Metropolitan Association of Realtors

State Certifications

- Oregon No. C000141



Appraiser Certification and Licensure Board

State Certified General Appraiser

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License No: **C000141**

Issue Date: 10/1/2007

Expiration Date: 9/30/2009

Brian L Kelley
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R. A. (Bob) Keith, Administrator

Overview

PGP Valuation Inc

Over its 30 year history, PGP Valuation Inc has developed a strong reputation for quality, credibility and dependability. Throughout the years, PGP has become a primary real estate consultant to REITs such as Macquarie, Centro, Allco and Mirvac; pension funds like CalPers; government agencies such as the Departments of Defense, Navy, Agriculture and Treasury, the State Department; and many Wall Street investment firms. With offices from Honolulu to Boston, coupled with our established name, many people depend on PGP for all of their services across North America.

In November 2006, PGP Valuation merged with Colliers International. The merger satisfied Colliers' need for full appraisal coverage across the United States and formed the largest real estate appraisal group in the world. Colliers International has brokerage locations in 130 countries and appraisal groups in over 50 of them, giving PGP Valuation access to one of the foremost confidential databases in the world.

PGP has developed an impressive appraisal delivery system, called CORE. Costing over \$3 million to develop, it merged our data base and business management systems to our report writing software. The ability to complete large, complicated assignments in a consistent and uniform manner has enhanced our reputation in recent years. In July 2007, PGP Valuation completed 272 appraisals located in 23 states on a \$2.2 billion transaction for Merrill Lynch. The portfolio was completed in three weeks, a week before the due date.

In March 2007, PGP Valuation was awarded a major, five-year RFP from the California Public Employees Retirement System (CalPers) for valuation, consulting and quality control oversight. CalPers was attracted to PGP due to our diversity of appraisal specialties, reputation and technological delivery system.

In November 2008, PGP was named as the quality control supervisor and sole appraisal consultant for the FDIC. PGP Valuation will consult the FDIC on all value and appraisal issues on every bank closing. The 5-year contract is exclusive to PGP Valuation.

A 30-year record has firmly established PGP Valuation as the elite real estate analysis firm in the United States. Consistent, on-time performance has earned us contracts with many of the most desirable clients in the United States.

Qualifications

PGP Valuation Inc

PGP Valuation Inc is a leading provider of real estate valuation and consulting services. Founded in 1978, PGP has 17 offices from coast to coast. PGP's partnership with Colliers International, one of the largest commercial real estate services providers in the world, has expanded PGP's ability to serve clients globally.

PGP has extensive experience in a diverse range of commercial property appraisals, with an expertise in large portfolio valuations. With over 200 experienced appraiser professionals and an efficient commercial appraisal system, PGP has built a reputation for excellence, customer service and responsiveness.

Professional Services

PGP Valuation Inc offers a wide range of services related to the valuation of real estate:

Appraisals:	Single asset and portfolio valuations on all property types, including residential, commercial, industrial, Low Income Housing Tax Credits (LIHTC), infrastructure and easements
	Partial interest and business valuations
Highest and Best Use & Market Studies:	Consultation regarding the most profitable utilization of real property assets
	Feasibility and absorption studies of housing and commercial developments
	Preparation of FNMA condominium market studies and valuation
Consultation:	Analysis of real estate regarding values, site development potential, market standards versus competitive edge amenities, market conditions, etc.
Litigation Support:	Professional opinions as expert witnesses regarding the valuation of real estate
Property Tax Analysis/Appeal:	Representation before government agencies regarding ad valorem taxes, including preliminary value consultation appraisals and Board of Equalization presentations
Government Services:	Consultation, litigation expertise and valuation for the Departments of Defense, Justice, Navy, Agriculture and Interior. In November 2008, PGP Valuation was named as the exclusive Quality Control oversight manager for FDIC.

Office Locations

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