MARKET REPORT
TERMINAL 91 DEVELOPMENT OPTIONS STUDY




Port of Seattle

DRAFT FOR DISCUSSION

December 28, 2010

Prepared for

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PURPOSE

The Port of Seattle's has determined that a portion of its Terminal 91 property is surplus to marine operations and is exploring development options. The Port has engaged Arai Jackson Ellison Murakami (AJEM) and Kidder Mathews (KM) to assist in the evaluation of development options for the property. This report is an assessment of the supply and demand characteristics of the relevant real estate markets and an estimation of the development potential of the Port's surplus property.

CONTEXT

The nation is still recoiling from one of the deepest economic recessions to hit in recent history. The real estate industry has been particularly hard hit. The recessions effects included; sale transaction volume slowing to a trickle, frozen capital markets, falling rental rates and property values, and a development industry that has been turned in-side-out. The good news is that the economy and certain segments of the real estate industry are showing signs of recovery. Employment growth figures, the most influential indicators of recovery in the real estate industry, to date, have yet to show signs of recovery.

PROPERTY DESCRIPTION

The subjects of this study are two Terminal 91 properties. They are referred to as the West Yard, located to the south of the Magnolia Bridge along the waterfront, and the North Bay property, located to the north of the bridge. The West Yard and the North Bay property are approximately 3.2 and 30 acres, respectively. The properties are currently vacant or used for yard storage and are paved, lighted, and generally level. The current zoning is IG1 U45' a designation that allows for industrial, research, and development uses.

MARKET SUPPLY AND DEMAND

Industrial

The demand for industrial space in the City of Seattle and in the Ballard Interbay Northend Manufacturing & Industrial Center (BINMIC) area has been strong for many years. The demand is so strong that the supply of space is overly constrained and its price high. Businesses, driven to reduce costs, have been forced to locate out of town on less expensive real estate within close proximity of low cost labor. When compared to other markets, the recent recession has had only a modest impact on industrial space demand in Seattle. The demand that remains the strongest is from small industrial tenants and owner/users.

Flex

Flex space, that relatively small segment of the market made up of flexible industrial buildings that contain 50% office space, includes showroom, light distribution, light manufacturing, and research and development uses. The outlook for future demand in that segment of the Seattle flex market that caters to high tech, research, and development firms is modest, but good. In the BINMIC flex market the demand picture is less robust. One the other hand, historically the market for lower cost flex space, made up of the other uses, has been constrained in Seattle and BINMIC. Just like its industrial cousin, most new flex space development has recently occurred outside the City due to lack of affordable, developable land. It is clear that there is and will continue to be demand for this type of space in the City and in the BINMIC market, however, the building type and user base is small and easily over supplied.

Office

Buildings in the 74 million square foot Seattle office market are currently 13% vacant, representing almost 10 million square feet of space. Asking rental rates are down more than 15% from the peak of the market in 2007. Vacancy

in the submarket market area, made up of the Magnolia, Queen Anne, Interbay, Ballard, Freemont, and Lake Union, is currently 12%. The Class A vacancy in the submarket is 27%, attributable mostly to a few empty buildings. Recent demand for office space in the submarket has been for waterfront or water-proximate property, a trend that is likely to continue given its scarcity. Projections, based on historical events, suggest that it may be five to seven years until the development of new speculative office space is feasible in Seattle or in the submarket.

Biotech

Although smaller than other leading US biotechnology centers, the metropolitan Seattle biotechnology center is the home of a fast growing and vibrant biotechnology community. The area has an abundance of startup and early stage firms but is somewhat lacking in larger established firms as several area companies have been acquired in recent years. Biotech space can take two forms; headquarters/lab/medical technology space and manufacturing space. Biotech manufacturing plants do not necessarily need to be co-located with a company's headquarters or research facilities and are sited in a similar fashion to other industrial requirements; driven by low cost labor and real estate. Biotech headquarters/ lab/medical technology space in Seattle is focused in, the amenity laden, South Lake Union area, an environment that allows scientists to easily collaborate with one another, based on close proximity.

The biotech space market in the region is relatively small, estimated to be approximately out 5.8 million square feet; up from 2.1 million square feet in 1990. Seattle's share of the market is roughly 4.8 million square feet and most of the balance of the space is located in Bothell. Vacancy in Seattle is estimated to be 3% and in Bothell it is roughly 40%. Transactions in the works in Seattle are expected to put more pressure on the market. In anticipation, developers are permitting new projects in the Lake Union area that are expected to meet the demand for biotech space for much of the decade.

Retail

There is significant demand for retail in the Interbay area. The location is situated between two of Seattle's most affluent neighborhoods; Queen Anne and Magnolia. The IG1 U45 zoning does not allow for the type of retail uses that could capture the greatest demand, however, the data suggests that a modest amount of service retail, that caters to the businesses located on the Terminal 91 property, would be successful. The amount of space that could reasonably be absorbed is between 2,500 to 10,000 square feet of building area.

HIGHEST AND BEST USE

The highest and best use of land or a site as though vacant is defined by the real estate industry as, among all reasonable, alternative uses, the use(s) that yields the highest present land value, after payments are made for labor, capital, and coordination. The IG1 U45 zoning permits a range of industrial and research and development uses, and a limited amount of office space. A process of elimination can be used to establish the highest and best uses for the properties.

The North Bay property is a difficult location for office uses. The adjoining rail yard, marine industrial facilities, and the existing industrial buildings are less suitable for people intensive activities than other locations. The West Yard's location is physically removed from the industrial uses, is waterfront property, and has with views of Elliott Bay and downtown; unique characteristics that don't exist elsewhere in the City of Seattle. It is reasonable to believe that, if permitted, office uses, located on the West Yard, represent the long term highest and best use of the land.

The congestion associated with accessing major highways in the area make the Terminal 91 properties undesirable for industrial development that involves distribution uses. There are other segments of the industrial market that are not as reliant on immediate access to highways and for which demand exists. They

include incubator, small industrial, and flex space. There is demand for small spaces that can serve each of these industrial uses.

During the last ten years 3.5 million square feet of space has been taken out of the Seattle industrial market. During the same period of time millions of square feet of new space has been developed outside the City. The market is constrained and high priced. The data suggests the BINMIC market could capture in excess of 80,000 square feet of demand for industrial space each year, reflecting a portion of demand created within the market and a portion of the demand not fulfilled elsewhere in the City. However, if North Bay is to capture any of the demand it will need to offer space that is priced competitively with markets located outside the City.

Historically, there has been demand for yard storage on the West Yard and North Bay properties, in the form of vehicle parking and equipment storage.

Estimates of property value using the land residual technique can provide perspective about the potential of a use to contribute value to the land. Recognizing the technique is highly sensitive to changes in inputs, the table below suggests the range of land values that would result from each use.

Land Use	Land Value/sf
Office	$56 to $83
Flex	$8 to $13
Small Industrial	$8 to $12
Industrial Incubator	$8 to $12
Yard Storage	$22 to $30

Sensitivity analysis suggests that as rental rates increase in the future, land values could increase. By way of example, with all inputs held constant, a 10% increase in revenue associated with flex, small industrial, and incubator development would result in roughly a $5 per square foot increase in land value.

Comparable land sales data can be used to test the reasonableness of the land residual technique conclusions.

Recent sales of land comparable to the West Yard, with zoning that allows for office building development, have approached $100 per square foot of land area. The most recent sale was made to an owner/user who intends to build on the site. It is reasonable to suggest that an owner/user could purchase/lease the West Yard property; however, anticipating such a demand is difficult. The market data indicates that demand adequate to support speculative office development on the West Yard property may take five to seven years to materialize. Accordingly, is reasonable to discount the value indicated by the comparables to account for holding costs, suggesting the land residual estimate is not unreasonable given its conceptual nature.

Completed sales of similarly zoned property in the area suggest a range of values $37 to $71 per square foot of land area. Since the comparable sales were completed the real estate market has corrected significantly and at about the same time stricter land use regulations were imposed on the City's industrial land. Another factor that impacts the North Bay property in particular is its location compared to the comparables. Each of these factors suggests lower land values than those indicated by the comparable sales data.

CONCLUSION

Market indicators suggest that two approaches to developing the property are possible. The first calls for actively marketing the property for a single large user that values the unique opportunity to acquire a large property located close to downtown Seattle. This approach may require many years before it is realized as transactions of this nature occur rarely. The second approach focuses on a combination of uses. The West Yard's current highest and best use is to hold for office development with an interim use as yard storage. The highest and best use of the North Bay property is for yard storage. If emphasis is placed on industrial job creation, the development of a range of small industrial and flex buildings, located on lower cost land with competitive rental rates represents the best use of the land.

Introduction

PURPOSE OF THE ASSIGNMENT

The Port of Seattle has contracted with Arai Jackson Ellison Murakami (AJEM) to evaluate development options for the Port of Seattle's Terminal 91 surplus properties. GVA Kidder Mathews (GVAKM) is providing real estate consulting services in support of AJEM's work. GVAKM's primary task is to assess the real estate markets and understand the potential of the property to support new development. The scope of work for this work involves a current analysis of the industrial, flex, office, retail, and land markets. This report presents key data, findings and conclusions.

METHODOLOGY

In 2005 the Port of Seattle conducted an in depth study of North Bay that included market, economic, and environmental analysis. The study covered a broad range of development scenarios, ranging from development under the zoning in place at the time to mixed use development requiring zone reclassifications. This study focuses only on uses permitted under the current zoning code.

PROPERTY DESCRIPTION

There are two Port of Seattle surplus properties at Terminal 91 that are the subject of this study; that property that is referred to as the West Yard, located to the south of the Magnolia Bridge along the waterfront, and the property referred to as North Bay, located to the north of the bridge. The image (Exhibit I-1) shows the location of the property in the context of its immediate neighborhood.

The **West Yard** is a rectangular shaped parcel of property located south of the Magnolia Bridge that measures approximately 3.2 acres, with roughly 1,000 feet of frontage on the water. There are currently no improvements on the property. It is accessed by traveling westbound on the Magnolia Bridge and using the bridge exit ramp to West Marina Place. Exiting the property is via the eastbound on-ramp to the Magnolia Bridge from West Marina Place. There is no access from the West.

North Bay is an irregular shaped property measuring approximately 30 acres. A portion of the property is improved with five industrial buildings that measure a total of 332,117 square feet. The buildings were constructed between as long ago as 1955 and as recently as 2007. They range is size between 25,000 and 95,000 square feet and are used primarily for warehousing and cold storage. Major tenants include Trident Seafood and City Ice.

The property is accessed in one of two ways. (1) From Elliott Avenue West to the Magnolia Bridge to West Marina

Exhibit I-1

Place, and (2) from the north via the Dravis Street Bridge and 20th Avenue West.

ZONING

The Terminal 91 property is zoned IG1 U/45'. The function of the IG1 Zone is an area that provides opportunities for manufacturing and industrial uses and related activity, where these activities are already established and viable, and their accessibility by rail and/or waterway make them a specialized and limited land resource.

Typical permitted land uses in the IG1 Zone include a wide range of agricultural, commercial, institutional, manufacturing, parks and open space, storage, transportation and utility uses. As principal uses, many non-industrial uses are limited on gross floor area on a lot. Important examples include: office, retail sales and sales and services each at 10,000 square feet per lot. Uses with limitation on maximum size are further limited to floor areas of 2.5 times lot size. Research and development has no size limit.

The zoning code indicates there is no maximum height limit; except that non-industrial principal uses are limited to 45 feet as designated on the City's Official Land Use Map. There is a separate agreement with the Magnolia and Queen Anne Neighborhoods that limits all uses to 65 feet.

The property is currently divided into a large number of small lots. The code provides for each lot, if large enough, to contain 10,000 square feet of office space. There has been some discussion between the Port and the City of Seattle about consolidating some of the permitted office space into one location. Throughout this report references to this consolidation possibly taking place on the West Yard property are based on the modification to the code. In addition, the West Yard is restricted by shoreline zoning requirements, and any redevelopment of the property would need to respond to the code.

Market Overview

The market overview provides context for the analysis of each of the real estate market segments. The overview provides a near-term national economic forecast, a summary of the national real estate markets, a Puget Sound economic forecast, and a real estate cycle discussion and forecast.

NATIONAL ECONOMIC OUTLOOK

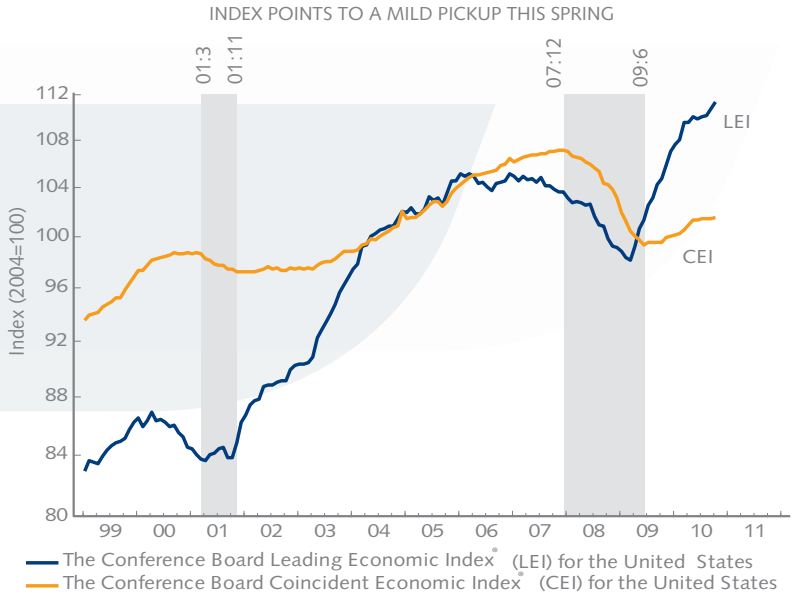
The Conference Board Leading Economic Index® (LEI) for the U.S. Increases Again

NEW YORK, November 18, 2010

The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.5 percent in October to 111.3 (2004=100), following a 0.5 percent increase in September, and a 0.1 percent increase in August. Says Ataman Ozyildirim, economist at The Conference Board: "The LEI remains on an upward trend, suggesting the modest economic expansion will continue in the near term. The LEI's growth has been slowing this year, but gains in the financial components helped its pickup in October."

Says Ken Goldstein, economist at The Conference Board: "The economy is slow, but latest data on the U.S. LEI suggest that change may be around the corner. Expect modest holiday sales, driven by steep discounting. But following a post-holiday lull, the indicators are suggesting a mild pickup this spring."

The Conference Board Coincident Economic Index® (CEI) for the U.S. increased 0.1 percent in October to 101.5 (2004=100), following no change in September, and no change in August. The Conference Board Lagging Economic Index® (LAG) increased 0.1 percent in October to 108.7 (2004=100), following a 0.5 percent increase in September, and a 0.1 percent increase in August.



Latest LEI Trough March 2009, Latest CEI Trough June 2009
Shaded areas represent recessions as determined by the Nationa Bureau of Economic Research.
Source: The Conference Board

Exhibit M-1

NATIONAL REAL ESTATE MARKETS

Industrial & Flex

Total Industrial inventory in the U.S. market area amounted to 19.8 billion square feet in 558,240 buildings as of the end of the third quarter 2010. The Flex sector consisted of 2.2 billion square feet in 84,736 projects and the Warehouse sector consisted of 17.6 billion square feet in 473,504 buildings. During the last 12 months, 579 new buildings measuring 31.9 million square feet were completed. Within the Industrial market there were 57,590 owner-occupied buildings accounting for 3.6 billion square feet or 18% of all Industrial space.

The U.S. Industrial market ended the third quarter 2010 with a vacancy rate of 10.3%. Vacancy was 10.0% and 13.0%, respectively for warehouse and flex space segments of the market. The vacancy rates have generally been unchanged during the past 12 months as net absorption has been almost non-existent.

Nationally, quoted rental rates for available Industrial space averaged $5.22 per square foot per year at the end of the third quarter 2010. This represented a 1.3% decrease since the end of the second quarter, when rents were reported at $5.29 per square foot. Warehouse rates averaged $4.66, down from the second quarter when they were $4.72 per square foot. Flex rates averaged $10.19, up slightly from last quarter's $10.06 per square foot.

Total year-to-date industrial building sales activity in 2010 is up compared to the previous year. In the first six months of 2010, the market saw 1,565 industrial sales transactions with a total volume of $5.3 billion. The price per square foot has averaged $44.82 this year. In the first six months of 2009, the market posted 1,203 transactions with a total volume of $4.1 billion. Averaging $52.31 per square foot. Cap rates have been higher in 2010, averaging 8.95%, compared to the first six months of last year when they averaged 8.70%.

Office

Total office inventory in the U.S. market area amounted to 9.8 billion square feet in 439,217 buildings as of the end of the third quarter 2010. The Class-A office sector consisted of 3.1 billion square feet in 16,806 projects. There were

178,558 Class-B buildings totaling 4.6 billion square feet, and the Class-C sector consisted of 2.1 billion square feet in 243,853 buildings. Within the Office market there were 15,718 owner-occupied buildings accounting for 667 million square feet of office space.

During the past twelve months 920 new buildings measuring 58 million square feet were completed.

The office vacancy rate in the U.S. market area for all building classes was 12.9% at the end of the third quarter 2010, up from 12.7% at the end of the fourth quarter 2009. The overall vacancy rate in at the end of the third quarter 2010 was 11.7% in U.S.'s central business districts and 13.2% in the suburban markets. Vacancy in Class A buildings was 15.2% and is Class B and Class C buildings it was 13.2 and 8.9 respectively.

The average quoted asking rental rate for available office space, all classes, was $21.61 per square foot per year at the end of the third quarter 2010 in the U.S. market area. The average quoted rate within the Class-A sector was

$26.78, while Class-B rates stood at $19.45, and Class-C rates at $16.21.

The average quoted asking rental rate in U.S.'s CBD was $26.64 at the end of the third quarter 2010, and $20.51 in the suburban markets. .

Total office building sales activity in 2010 were up compared to 2009. In the first six months of 2010, the market saw 698 office sales transactions with a total volume of $11.4 billion. The price per square foot averaged $180.96. In the same first six months of 2009, the market posted 464 transactions with a total

volume of $6.8 billion. The price per square foot averaged $176.22. Cap rates have been higher in 2010, averaging 8.7% compared to the same period in 2009 when they averaged 8.2%.

Retail

Total retail inventory in the U.S. market area amounted to 11.8 billion square feet in 880,447 buildings and 89,831 retail centers, as of the end of the third quarter 2010. Over the past four quarters, a total of 48.8 million square feet of new retail space in 2,003 buildings has been built in U.S.

U.S.'s retail vacancy rate at the end of the third quarter 2010, stood at 7.3%, basically unchanged during the past 12 months. The amount of vacant sublease space in the U.S. market has trended down over the past four quarters and currently measures 33 million square feet or two tenths of 1%.

Average quoted asking rental rates in the U.S. retail market are down over previous quarter levels, and down from their levels four quarters ago. Quoted rents ended the third quarter 2010 at $15.18 per square foot per year, triple net. That compares to $15.36 per square foot in the second quarter 2010, and $15.81 per square foot at the end of the fourth quarter 2009. This represents a 1.2% decrease in rental rates in the current quarter, and a 4.15% decrease from four quarters ago.

Total retail center sales activity in 2010 was up compared to 2009. In the first six months of 2010, the market saw 771 retail sales transactions with a total volume of $4.7 billion. The price per square foot averaged $105.26. In the same first six months of 2009, the market posted 565 transactions with a total volume of $2.9 billion. The price per

square foot averaged $107.81. Cap rates have been higher in 2010, averaging 8.64% compared to the same period in 2009 when they averaged 7.94%.

PUGET SOUND ECONOMIC FORECAST

The Puget Sound Economic Forecaster's Dick Conway and Doug Pedersen are optimistic about a job turnaround in the Puget Sound region. In their September 2010 news

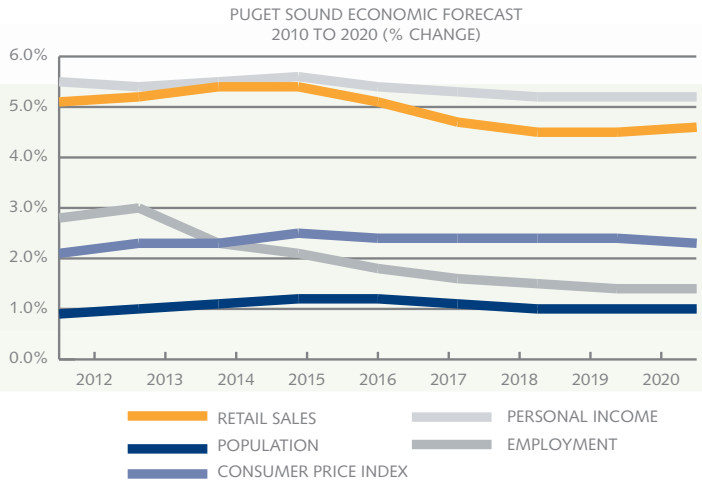


Exhibit M-2

letter they predict that, assuming no bubbles, between 2010 and 2020 nearly 370,000 new jobs will be created. The graph (Exhibit M-2) shows the rate of growth of several key economic indicators; employment, personal income, consumer price index, population growth, and retail sales. The forecast for each indicator shows positive growth throughout the decade.

MARKET CYCLES

The demand for real estate is cyclical in nature. Real estate cycles represent a pattern of prices over a fairly long period of time, ranging from two or three years to over 20 years. Cycles account for interim price movements of real estate properties, however, real estate cycles are not exact cycles because they are neither periodic nor resemble each other in an exact manner.

Each cycle differs from previous cycles in terms of its causes, length, depth, and effect on different property types and regions. Real estate cycles behave differently from other market cycles, such as the stock or commodities markets. Real estate markets are imperfect, less liquid, and slower to respond to economic changes.

The typical market cycle can be described in four phases; recession, recovery, expansion, and oversupply. The recession phase is marked by increasing vacancy and more the completion of new projects. During the recovery phase vacancy begins to decline and new construction is nonexistent or limited. In the expansion phase vacancy continues to decline and the construction of new projects begins. In the oversupply phase new projects are completed and vacancy begins to increase.

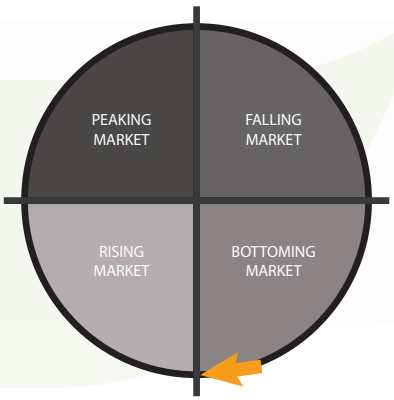


Exhibit M-3

In most practitioner's opinion, the Seattle real estate market is nearing the end of its recessionary phase as shown in Exhibit M-3. Rental rates and vacancies have corrected and signs of recovery are present in some market segments.

Industrial Market Analysis

Industrial buildings are a type of building(s) adapted for a combination of uses such as assemblage, processing, and/or manufacturing products from raw materials or fabricated parts. Additional uses include warehousing, distribution, and maintenance facilities.

SEATTLE INDUSTRIAL MARKET

Seattle businesses are located in 2,149 industrial buildings containing approximately 60.3 million square feet of space. The distribution of the buildings is shown in Exhibit I-1. The average building measures 28,900 square feet. Forty percent of the buildings measure less than 10,000 square feet and 33% of the buildings measure between 10,000 and 25,000 square feet.

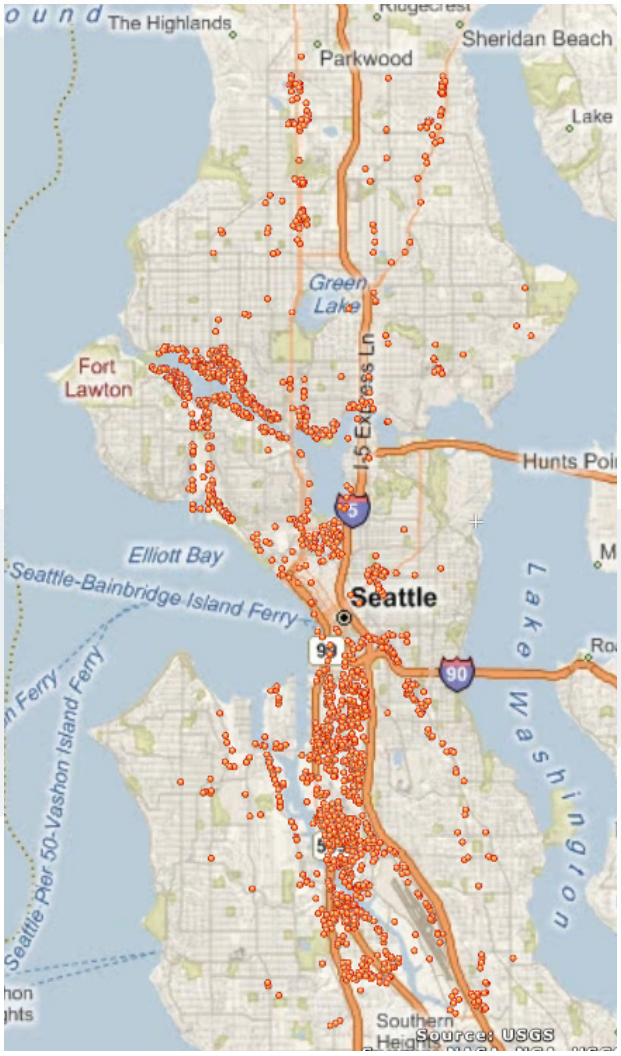


Exhibit I-1

Forty-nine percent of the buildings were constructed prior to 1960 and another 36% were built between 1960 and 1980. Sixty one percent of the buildings are warehouses and 26% are manufacturing buildings. The balance of the inventory consists of distribution, refridge/cold storage, truck terminal, and other. Today there is no new industrial space under construction.

Approximately 40% of the building inventory is occupied by owner/users, accounting for 500 buildings each averaging approximately 50,000 square feet. Sixty percent and 1,600 buildings are occupied by tenants in buildings measuring, on average, 20,000 square feet.

The data suggests buildings in the Seattle Industrial market are generally small, older and in many cases functionally obsolete. During recent times there has been a reduction in inventory as a result of two factors. Zoning changes have allowed non-industrial uses to creep into industrial neighborhoods and big projects have resulted in industrial building demolitions. Examples of these projects include the Harbor Island Marine Terminal, Quest and Safeco Fields, and the King County Metro and Sound Transit maintenance bases.

Absorption

Since 2000 alone, the existing inventory of industrial buildings in the City of Seattle has declined by 3.5 million square feet, due to demolitions and conversion to other uses.

Delivery and Construction

There are currently no new buildings proposed or under construction in the Seattle Industrial Market. During the last

ten years 744,000 square feet of new industrial buildings have been constructed in Seattle.

Construction Costs

RS Means reports that the national average for hard costs to build a typical 100,000 square foot factory building averages $96 per square foot. A 100,000 square foot tilt-up concrete warehouse building is estimated to cost $70 per square foot. The cost estimates are exclusive of land costs, site work, and soft costs. Engineering News Construction Cost Index indicates that construction costs have increased each year during the last ten years between 2% and 6%, with year to date 2010 figure equal to a 4.4% increase.

Vacancy

In Seattle vacancy in all industrial buildings is currently 4.7% or 2.8 million square feet. Since 2000, vacancy has remained below 5%, reflecting the limited supply of land and little new construction. Exhibit I-2 shows historical vacancy each year since 2000.

Buildings that measure less than 10,000 square feet are 3.6% vacant. Those that are between 10,000 and 24,999 square feet are 3.1% vacant. Buildings in the 25,000 to 99,000 square feet are approximately 6% vacant. Buildings over 100,000 square feet are about 4% vacant. The sublease space available equals 0.1%.

Exhibit I-2

Vacancy in only the tenant occupied building category is 8%. In tenant occupied buildings that measure less than 25,000 square feet, vacancy is 4%. In this category of building those that measure between 25,000 and 99,000 square feet are 8% vacant and those over 100,000 square feet are 14% vacant.

Sublease Space

Sublease space accounts for one tenth of one percent (.01%) of total inventory. During the past ten years sublease space has averaged between 0% and one half percent (.05%). Currently sublease asking blended rental rates are roughly 20% to 30% less than for space that is available direct from the landlord.

Rental Rates

In the Seattle Industrial market, the average asking blended rental rate averages $.65 per square foot, per month, triple net. Rates have increased since 2000, when they were $.49 per square foot. Exhibit I-3 shows the changes in asking rental rates over the past decade.

The asking rates for smaller buildings, less than 10,000 square feet average $.88 per square foot, compared to $.54 per square foot for buildings over 100,000 square feet. The rates for building less than 25,000 square feet were $.56 per square foot in 2000, rose to a peak in the fourth quarter of 2008 of $.90 per square, and since have dropped off to $.75 per square foot.

The typical industrial building in the market consists of shell space and office space. Rental rates are quoted on a blended basis; a rate for the building shell and another for the office space are combined. Most, but not all of the Seattle Market is an add-on market where rent is charged for the entire shell of the building and additional rent is added-on for the office space area. Blended rates can be misleading because the amount of office space in a warehouse building can have a significant impact on the blended rate calculation.

Market rental rates for recently completed transactions are presented in the table below (Exhibit I-4). Shell rates range from $.52 to $.62 per square foot per month.

Exhibit I-3

Office rates range from $.75 to $.85 per square foot. The resulting blended rates represent a broad range, from $.55 to $.93 per square foot. Each transaction involves rental rate escalations, concessions, and tenant improvement contributions that impact the effective rental rate the tenant will actually pay.

The demand for small industrial spaces has historically pushed rental rates to the highest levels. The business parks located in the close-in Seattle industrial market demonstrate the dynamic. A representative from Harsch Investments, the owners of four business parks, indicated that in the last fourteen years, 2010 is the first time that any of their properties have experienced material vacancy.

The combined vacancy for all of Harsch's business parks currently stands at less than 5%. Harsch's parks generally offer spaces that measure between 600 and 5,000 square feet. Blended rental rates for the smallest spaces are as high as $.82 per square foot and the larger spaces as high as $.75 per square foot. The Harsch business parks provide a range of services and are located with easy access to highways and both the airport and seaports.

Agents who regularly work the Seattle Industrial market suggest that depending on the age, quality, and location of the building, shell rates range from $.50 to $.75 and add-on office rates from $.75 to $.80 per square foot. Lease terms typically range from five to ten years and in some cases a few months of free rent is involved. Rent escalations can range from 3% to 4%. Tenant improvement contributions by the landlord are ranging from $5 to $10 per square foot of office space, depending on the existing conditions.

Recent Lease Transactions

Costar has tracked leasing transactions in Seattle's industrial market for 11 years. The transactions are primarily new leases, but also include a small number of renewals. On average, each year there is 1.3 million square feet and 108 new industrial leasing transactions completed in the City.

During the last year, 135 industrial leasing transactions totaling 2.2 million square were completed in Seattle.

Seattle Industrial Leases

Name/Location	Age	Coverage	SF	Whse	Office/ Percent	Begin/ Term (Mos)	Term	Shell Rate	Office Rate	Blended Rate
Seattle Distribution Center 6795 E. Marginal Way S.	1967	NA	12,838	11,336	1,502 13%	Oct-10 62	mos.	$0.62	$0.85	$0.65
Northwest Corporate Park 600 S. Brandon St.	1977	60,113 61%	33,689	32,295	1,394 4%	Aug-10 60	mos.	$0.58	$0.85	$0.59
Allied Waste 54 S. Dawson	1950/ 1989	187,613 29%	53,817	35,161	18,656 53%	Jan-10 60	mos.	$0.58	$0.84	$0.93
Industrial Distribution Group 5601 1st Avenue S	1959	91,476 51%	46,669	41,669	8,000 11%	Oct-09 60	mos.	$0.50	$0.75	$0.57
NW Corporate Park Bldg M & O 417 - 419 S Fidalgo Street	1967	130,680 15%	19,500	18,000	1,500 8%	Feb-09 123	mos.	$0.52	$0.85	$0.55

Exhibit I-4

Seventy percent or 95 transactions, measuring 360,000 square feet, involved tenants occupying less than 10,000 square feet.

During 2010 significant lease transactions include a 56,461 square foot leased by Charlie's Produce located at 3800 1st Avenue South, Pacific Terminals lease of 157,515 square feet at 3480 West Marginal Way South, and Associated Grocers renewal of its lease 925,653 lease at 3301 South Northfolk Street.

Sales Activity

In greater Puget Sound, 1,712 industrial building sales have taken place since 2000. Median price ranged from a low of $65 in 2000 to a high of $122 per square foot in 2008. Since 2008 the median sale price has fallen to $103 per square foot. Median capitalization rates were 8.75% in 2000. They dropped to 6.1% in 2007 and have since increased to 7.8%, where they have been for the first three quarters of 2010.

This compares with RERC's 3rd Quarter Investment Survey national estimates that that indicate that going-in capitalization rates for industrial buildings are between 6.3% and 10%, with an average of 7.9%. The warehouse cap rate average is slightly lower at 7.7%.

Since 2000 Costar has tracked 477 industrial sales in the City of Seattle, worth $1.1 billion dollars. The median price of the sales was $104 per square foot, ranging from a low of $75 per square foot in 2000 to a high of $203 in 2009.

Since January of 2009, Costar Comps has tracked 26 industrial sales in the City of Seattle. The sales ranged in price between $395,000 and $16.6 million. The median price was $182 per square foot of building area. Twenty of the sales were owner/user sales, three sales were investments, and three were unidentified. Fifteen of the sales were over $1 million dollars and only one sale was over $5 million. During 2010 there have been no sales in excess of $10 million.

Seattle Market Forecast

Demand Drivers

The universe of existing businesses located in Seattle totals 35,173 total firms employing approximately 530,000 employees. Exhibit I-5 shows the number and type of businesses that are currently operating in Seattle. The retail, services, and finance sectors make up 81% of all businesses and all employees. The other 19% of the businesses, include construction (Cons/Res), manufacturing, and wholesale trade (WTU), commonly associated with the use of industrial space.

Demand Indicators

Indicators of demand for industrial real estate can be categorized as follows:

- Anticipated Economic Growth,
- Employment Growth,
- Manufacturing Output,
- Building Vacancy,
- Age of Building Inventory,
- Changes in Rental Rates,
- Land Supply.

Seattle Business Profile

		Businesses		Approximate Employment Distribution
	NAICS Code	Number	Percent	
Construction and Re-sources (Const/Res):	11, 21, 23	2,400	6.9%	3.5%
Finance, Insurance and Real Estate (FIRE):	52, 53	3,561	10.1%	9.5%
Manufacturing:	31-33	1,338	3.8%	6.3%
Retail:	44, 45	7,397	21.0%	20.2%
Services:	51, 54-56, 61p, 62, 71, 72, 81	15,648	44.5%	44.9%
Wholesale Trade, Trans., and Util. (WTU):	22, 42, 48, 49	2,793	8.1%	9.4%
Government (excluding education):		670	1.9%	5.6%
Other:		1,366	3.9%	0.5%
		35,173	100%	100%

Souce: ESRI

Exhibit I-5

The indicators that are often used to estimate future demand are shown in the list below. The indicators that have historically correlated best with the absorption of industrial space are manufacturing output and total employment. Manufacturing output is a measure of the changes in the quantity manufactured products. National data is available for manufacturing output and can be used to estimate absorption for the nation. At the local level, total employment data is available and is the next best indicator of the future demand for industrial space. The demand indicated by each indicator is discussed below.

Manufacturing Output	.88
Employment Based Measures	
Total Employment (non Ag)	.80
Wholesale Trade	.79
Manufacturing	.75
Transportation/Utilities	.66
Business Inventories	.23
Real GDP	.18
Population	.06

Source: AMB Determinants of Industrial Real Estate Demand

Anticipated Economic Growth:

AMB Property Corporation, one of the leading owners and developers of industrial real estate has created the AMB Industrial Business Indicator. AMB's Industrial Business Indicator (IBI) is a proprietary monthly diffusion index developed by integrating customer insights with macroeconomic data to provide leading indications of trends in the U.S. industrial real estate sector, including: strength and direction of its customers' businesses, directional trend of the overall economy; and demand for distribution and industrial space.

AMB's April 2010 index indicated that, nationally, industrial space utilization is on the cusp of expansion, driven by higher production levels, improving imports into the U.S. and rebuilding of inventories. Higher utilization factors will lead to stronger demand for industrial space in the second half of 2010.

In Seattle, long term trends in key industries provide perspective about the demand for industrial space. Business revenue in those industries that are industrial space users; construction, manufacturing, wholesale trade, transportation and warehousing, and utilities have trended upward over the last twenty years as shown in Exhibit I-6.

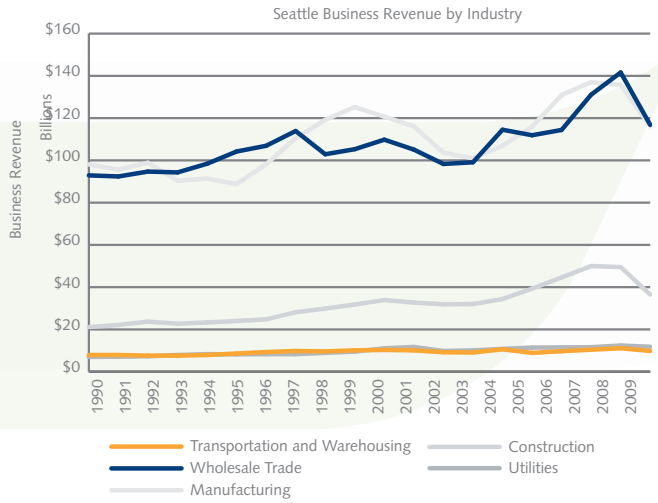


Exhibit I-6

Employment Growth. The Puget Sound Regional Council is projecting that total employment is expected to increase from 580,000 in 2010 to 762,000 by 2040, reflecting a compounded annual increase of between .94% and 1.18% per year over the term. For each new employee in the City demand for an additional 100 square feet of industrial space is created. The data suggests that in the next 10 years there will be demand for 7.8 million square feet of industrial space or 780,000 square feet per year as presented in Exhibit I-7.

Seattle Area Industrial Space Demand

	2000	2010	2020	2030	2040
Employment	528,569	580,713	653,514	708,348	762,395
Annual Compounded Growth		0.94%	1.18%	0.80%	0.73%
SF per Employee	111	99	100	100	100
Occupied Industrial SF	58,835,090	57,512,349	65,351,400	70,834,800	76,239,500
New Demand			7,839,051	5,483,400	5,404,700

Employment growth estimates based on PSRC2006 2040 estimates. No adjustment made for recent recession

It is important to note that while growth is occurring in overall employment, there has been a long term downward trend the manufacturing employment.

Manufacturing Output. In 2002 AMB developed an industrial absorption indicator index. The index is based on the quantity of goods produced, rather than weight or value of the product. The index predicts near term future absorption with a high degree of reliability. AMB's October 2010 Industrial Absorption Index indicated that the industrial market reached an inflection point in the third quarter reflecting positive net absorption for the first time in three years. The timing of this turnaround is consistent with its forecast in June 2009. Net absorption is expected to remain positive throughout the fourth quarter and into 2011.

Building Vacancy. Vacancy has historically remained below 5% in Seattle's industrial markets, making it one of the strongest commercial real estate markets in the region.

Age of Building Inventory. Forty-nine percent of Seattle's Industrial buildings were constructed prior to 1960 and another 36% were built before 1980. The existing buildings are generally small, older, less efficient, and in many cases functionally obsolete when compared to modern facilities.

Changes in Rental Rates. Recently Seattle industrial rental rates have fallen off from highs reached in 2008, however, rates show substantial long-term growth and currently the highest in the region.

Land Supply. The supply of industrial land available and suitable for industrial development is limited. With very few exceptions, demolition of existing buildings is required to make way for new development.

In summary, the indicators of demand for industrial space in Seattle are positive.

- Long term economic growth is anticipated,
- Employment growth is expected,
- Manufacturing output is increasing,
- Vacancy is low,
- Existing inventory is old and functionally obsolete,
- With the exception of the recent market correction rental rates have been increasing and
- Land supply is limited.

Conclusion

When buildings are demolished, the supply is constrained. Since 2000 Seattle industrial inventory has declined by roughly 5%. There are currently no new buildings under construction, only one 15,500 square foot building undergoing renovation, and no proposed buildings. Vacancy for all buildings has remained below 5% since 2000. Rental rates have increased 33% since 2000. During the third quarter of 2009 the demolition of industrial buildings in Seattle came to a halt. The change was the result of two factors; a) the slowing economy, and b) changes in the zoning code that took place in late 2007 which make the transition of industrial lands to non-industrial uses difficult.

In Seattle, buildings that measure less than 25,000 square feet are experiencing vacancy equal to 3% and blended rental rates averaging $.75 per square foot per month. While rental rates are off 17% from recent highs, smaller buildings in the market have held up surprisingly well during the recession. On the other hand, the larger buildings in the market have not fared as well, with vacancy increasing substantially over the last several years.

The demand for industrial space in the BINMIC area has been strong for many years. The demand is so strong that the supply of space is overly constrained and its price high. Businesses, driven to reduce costs, have been forced to locate out of town on less expensive real estate within close proximity of low cost labor. When compared to other markets, the recent recession has had only a modest impact on industrial space demand in Seattle. The demand that remains the strongest is from small industrial tenants and owner/users.

BINMIC INDUSTRIAL MARKET

The Ballard Interbay Northend Manufacturing & Industrial Center (BINMIC) businesses occupy 366 industrial buildings containing 6.66 million square feet of space, up from 6.52

million square feet and 363 buildings in 2000. The diagram (Exhibit I-8) shows the concentrations of industrial buildings.

The average building measures 18,200 square feet. Forty eight percent of the buildings measure less than 10,000 square feet and 35% of the buildings are between 10,000 and 25,000 square feet. Less than 2% of the buildings measure over 100,000 square feet.

Forty six percent of the buildings were constructed prior to 1960 and another 37% were built before 1980, making 83% of the inventory more than 30 years old. Consistent with the rest of the City, sixty three percent of the buildings are warehouses and 26% are manufacturing buildings.

Of the total inventory in the BINMIC market, 1.76 million square feet of space in 60 buildings is owner occupied and the average building measures 29,400 square feet. Seventy three percent of the inventory or 306 buildings are occupied by tenants.

Consistent with the Seattle market, the BINMIC industrial market is dominated by small, older, and in many cases functionally obsolete buildings.

Absorption

During the last ten years the inventory of industrial buildings has increased by 130,000 square feet. During this period of time new buildings have been added and old buildings demolished or converted to non-industrial uses.

Delivery and Construction

There is currently no pure industrial space under proposed or under construction in the market.

Vacancy

Today, 3% of the 6.7 million square feet of space in the BINMIC market is vacant. During the last ten years vacancy has, for the most part, been in the ranges of 1% to 4%. Buildings that measure less than 10,000 square feet are 2% vacant and those that are between 10,000 and 25,000 square feet are 3% vacant. Buildings in the 25,000 to 49,000 square foot range are 6% vacant and those over 50,000 square are 3% vacant.

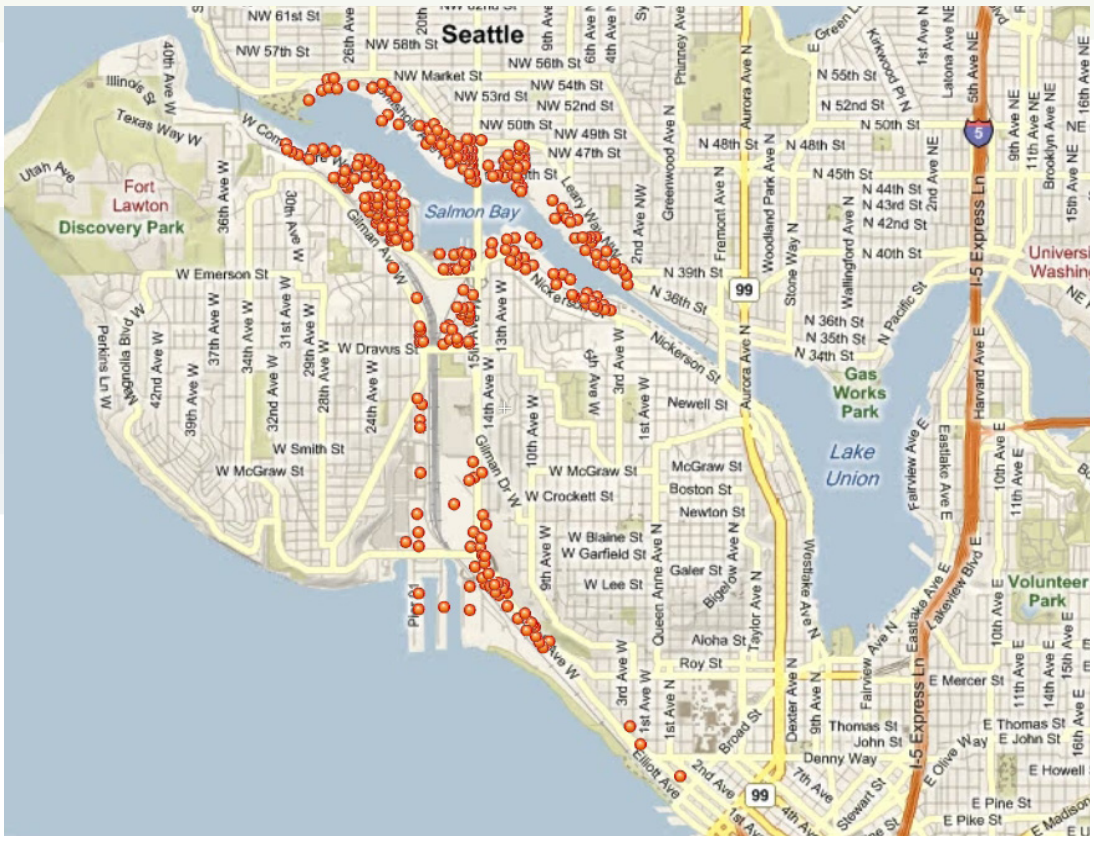


Exhibit I-8

Sublease Space

There is virtually no sublease space available in the BINMIC market.

Rental Rates

In the BINMIC market, the average asking blended rental rate for industrial space is $.82 per square foot, per month, triple net. In recent times, rates have increased significantly - ten years

ago the rate was $.49 per square foot. Exhibit I-9 shows the change in rental rates since 2000. The average asking rate for smaller buildings, less than 25,000 square feet is $.89 per square foot. Asking rates for buildings less than 25,000 square feet were $.52 per square foot in 2000 and rose to a peak in the fourth quarter of 2008 of $.96 per square. It is important to note that the amount of office space in a building will significantly impact the blended rental rate.

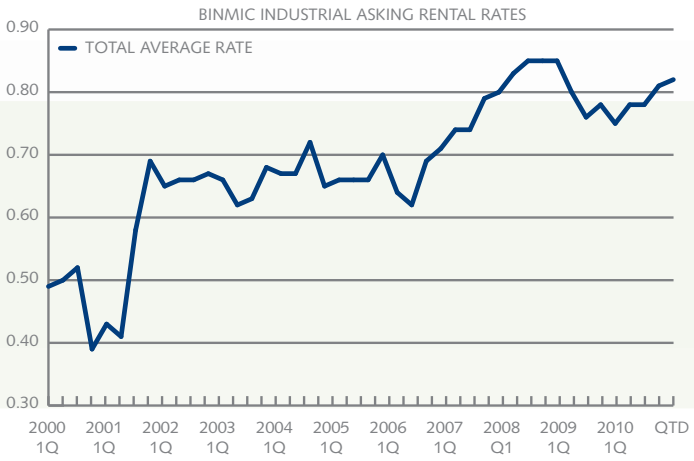


Exhibit I-9

Rental rates tracked by Costar for 11 lease transactions that closed during the last 12 months averaged $.77 per square foot.

Exhibit I-10 shows the details from is a list of industrial lease transactions that were completed during 2010. The indicated rental rates vary significantly, however some rules of thumb apply. Rental rates for some water dependent locations tend to be lower, given the limited demand. Rates for larger spaces are generally lower and rates for smaller spaces are higher. Spaces that have visibility from the major thoroughfares can demand higher rates. And most importantly the age and condition of the building has a major impact on achievable rental rates.

Recent Lease Transactions

According to Costar, during the last 11 years, each year on average, there have been 100,000 square feet and 14 new leasing transactions completed in the BINMIC industrial market. In 2010 leasing 19 transactions totaled 64,000 square feet. The majority of the transactions were less than 10,000 square feet.

The larger transactions in the market that were completed during the last year include; Puget Sound Energy's 30,544 square foot lease at 1123 Elliott Ave West, a 10,603 square foot lease at 943 NW 50th Street in Ballard, Ocean Beauty's 7,950 square foot lease at 1116 W Ewing Street, and 6,200

BINMIC Industrial Lease Comparisons

Name/Location	Age	Lot/ Coverage	Bldg SF	Whse	Office/ Percent	Begin/ Term (Mos)	Blended Rate/ Escalations	Comments
Maximun Conformance 2122 W. Elmore Street	1,963	20,037 94%	18,929	15,617	3,312 17%	Jan-10 36 mos.	$0.55 2.5%/year	Sublease
Ocean Beauty 1116 West Ewing Street	1957	71,002 71%	50,223	7,950	1,950 25%	Aug-10 63	$0.50 3%/year	5 mos. 1/2 rent Rowing Club
Rowe Building 943 NW 50th Street	1972	12,632 113%	14,320	3,717	N/A	Mar-10 NA	$0.59	
3425 16th Avenue West	1991	5,662 98%	5,570	5,570	N/A 11%	Sep-10 NA	$0.61	
910 NW 48th Street	1916	4,356 101%	4,400	4,400	0 0%	In Process 60	$0.94	$.14 Add. Rent for TI
Batch Building 4616 14th Avenue NW	1948	26,136 70%	18,240	2,500	0 0%	Nov-10 36	$0.90	
Frosty's Marine 1133 NW 46th Street	1979	N/A	5,630	5,630	0 0%	Mar-10 56	$0.85 3%/year	
Viking Rafts 1145-55 NW 46th Street	1987	27,007	23,040	7,800	0 0%	Sep-10 18	$0.90 3%/year	

Exhibit I-10

square foot lease at 925-927 NW 50th Street.

One of the largest tenants in the market and one of Seattle's largest manufacturing employers, GM Namplate, has been exploring relocation opportunities for a number of years. The property is currently for sale and it is reasonable to believe that relocation is possible.

Sales Activity

Costar tracked 82 sales of industrial building between 2000 and 2010, for a total of $165 million. Of the buildings that sold, 90% sold for less than $5 million dollars. The under $5 million group represented 53% of the total dollar volume. Of this group, since January of 2009 seven sales have closed for a total of $8.1 million. Four of the transactions were owner/user buyers, one was and investment buyer, and two it is unknown whether they were owner/user or investment buyers. Two of the sales closed in 2009 and five closed in 2010.

The largest transactions were the 20,294 square foot 4220 22nd Avenue West Building that sold for $1.8 million, the Rolls Royce Building located at 4451 14th NW that sold for $1.7 million, and the 7,776 square foot Neuvant Building that sold for $1.2 million.

There are currently 24 industrial buildings, measuring 390,000 square feet, listed for sale in the Commercial Broker's association market areas of Magnolia/Queen Anne and Ballard/Freemont. The buildings range in price from $595,000 to 10.5 million. On a per square foot basis the asking prices for the buildings range from $100 to $300. The average age of the listed buildings is 1947, with a roughly a third of the buildings refurbished in the in the 1970s and 1980s. Many of the buildings are mix use, containing retail, office, and industrial space. Most are owner/user buildings.

BINMIC Market Forecast

Demand Drivers

In BINMIC market, there are approximately 992 businesses with 11,977 employees. Retail, services, and finance make up 64% of all businesses and 49% of all employees. Thirty six percent of the businesses are construction, manufacturing, and wholesale trade. The table below (Exhibit I-11) shows the number and type of businesses that are currently operating in the BINMIC.

BINMIC Business Profile

	NAICS Code	Businesses		Approximate Employment Distribution
		Number	Percent	
Construction and Resources (Const/Res):	11, 21, 23	104	10.5%	7.5%
Finance, Insurance and Real Estate (FIRE):	52, 53	63	6.4%	6.0%
Manufacturing:	31-33	105	10.6%	23.1%
Retail:	44, 45	203	20.5%	18.3%
Services:	51, 54-56, 61p, 62, 71, 72, 81	328	33.1%	22.6%
Wholesale Trade, Trans., and Util. (WTU):	22, 42, 48, 49	153	15.4%	20.2%
Government (excluding education):		9	0.9%	1.8%
Other:		27	2.7%	0.3%
		992	100%	100%

Source: ESRI

Exhibit I-11

Demand Indicators

The key indicators of the demand for industrial space in the City of Seattle also provide and indication about the demand for industrial space in the BINMIC area. The trends in anticipated economic growth, employment growth, manufacturing output, and land supply suggest continued demand for industrial space.

Examination of vacancy, age of the building inventory, and changes in rental rates specific to the BINMIC area provide and indication future demand for space within BINMIC.

Employment Growth. The Puget Sound Regional Council projects total employment in Magnolia, Interbay, Ballard,

Fremont, and Queen Anne, to increase from 33,025 in 2010 to 49,040 by 2040. For each new employee demand for an additional 100 square feet of industrial space is created. The data suggests that in the next 10 years there will be demand for 467,300 or 47,000 square feet per year. as presented in Exhibit I-12.

BINMIC Market Employment Forecast

	2000	2010	2020	2030	2040
Employment	31,538	33,025	37,788	43,070	49,040
New Employment		1,487	4,763	5,282	5,970
SF per Employee		100	100	100	100
Demand for New Space		148,700	476,300	528,200	597,000

Employment growth estimates based on PSRC2006 2040 estimates. No adjustment made for recent recession

Exhibit I-12

Building Vacancy. Industrial vacancy in the BINMIC area is 3%. Most real estate practitioners believe vacancy less than less than 5% is overly constrained. In a competitive business environment over constrained real estate conditions drive tenants to other markets; precisely the long-term dynamic that has been at work in Seattle and the BINMIC area for decades.

Age of Building Inventory. With only 17% of the buildings built after 1980, it is easy to conclude that most of the inventory is functionally obsolete, indicating possible demand for new buildings in the market.

Changes in Rental Rates. Since 2000 asking rental rates in the BINMIC industrial market have increased 67%. This figure represents significant growth when considering to the average asking industrial rate in the region only increased by 21% over the same period. Again demand is indicated.

LOCATION ANALYSIS

North Bay

Industrial site selection often involves making quantitative and qualitative assessments of competing markets. The North Bay property can be analyzed in a similar fashion to understand its competitive strengths and weaknesses. The following assessment reflects how large scale industrial space users might assess and compare key Puget Sound industrial markets. The competitive markets identified for evaluation are BNMIC, Duwamish, Everett, and the Kent Valley. Key considerations are evaluated for each market.

Travel Time to Employee Housing. The cost of housing in North Seattle and in particular the subject's neighborhood is high compared to the other markets. The high cost of housing extends travel time for lower cost labor that can only afford to live in less expensive suburban or rural locations.

Travel Time to Executive Housing. The subject is well located in relation to executive housing. The large stock of executive housing in the immediate area makes the location attractive for executives who are often key site selection decision makers.

Travel Time to Passenger Airports. The subject is located reasonably close to SeaTac International Airport, however, its competitors the Duwamish and Kent Valley offer better access and shorter drive times.

Proximity to Air Freight Service. The subject market is also reasonably close to local airfreight terminals; both SeaTac and Boeing Field. The Duwamish and the Kent Valley markets have superior access.

Proximity to Rail. The Ballmer Rail Yard is located directly adjacent to the site with rail spurs that directly serve the property, making rail service excellent. The Duwamish and Kent Valley markets also have competitive rail infrastructure and service.

Proximity to Major Arterials. Most industrial real estate is all about proximity to major roadways. The majority of the regions industrial buildings are located within a reasonable proximity of the I-5 corridor. The subject's access to major roadways is viewed as less attractive than the competing markets; congestion being the biggest negative factor.

Public Infrastructure. Preliminary indications suggest that for uses that do not have extraordinary infrastructure demands, the subject's infrastructure is adequate. When

comparing the subject to the other markets, the age of its infrastructure may put it at a slight disadvantage, given that new development may require incremental upgrades.

Travel Time to Customers. The subject location with respect to industrial businesses customer base is difficult to determine. It can be said that it is centrally located within the region, arguably better than the competing industrial markets. On the other hand, the traffic congestion and the travel time to I-5 are drawbacks.

Inventory of Buildable Land. The subject's competitive position with respect to available buildable land is interesting. On one hand, the subject is one of the largest close-in development sites. On the other hand, because the supply of land supply is so limited, the location is probably not on the minds of site selectors.

Land Cost. The cost of land in the subject market is higher than the competing industrial markets. From a cost perspective the subject is at a disadvantage.

Taxations. Taxes in the City of Seattle are slightly higher than in the competing market jurisdictions, making the cost of occupancy lower outside the City of Seattle.

Vibration/Noise Nuisance. Most industrial locations that are served by rail have noise and vibration considerations. The subject's adjoining rail yard and marine terminal create noise and vibration impacts, likely greater than in the other suburban industrial markets. Interestingly, noise impacts from new development at the subject will likely be less tolerated than the same impacts would be in competing markets given the proximity to the adjoining residential neighborhoods.

Proximity to Container Port. The subject is reasonably well situated to the Harbor Island container terminal; however, it is not as well located to access the Port of Tacoma terminal. The Duwamish industrial market is driven, to a large part, by its proximity to Harbor Island and the Duwamish waterway. The Kent Valley industrial market is best situated to access both the Port of Seattle and Port of Tacoma marine container terminals.

Soil Quality. The soils conditions, both stability and contamination, are an issue for the Seattle industrial markets. Soil stability is an issue in the Kent Valley. In Everett, specifically around Paine Field, soils are better for supporting structures. The cost to build on the subject is greater than the other suburban industrial markets, putting it at an economic disadvantage.

Topography. Developers and users want level land on which to place new industrial buildings. Uneven topography requires grading that drives occupancy costs upward, putting any such site at a competitive disadvantage.

Quantitative Analysis. Exhibit I-13 quantifies the strengths and weaknesses of each of the competing industrial markets.

Comparative Location Analysis

	BINMIC	Duwamish	Everett	Kent Valley
Travel Time to Employee Housing	2	3	4	4
Travel Time to Executive Housing	5	3	3	3
Travel Time To Passenger Airports	3	5	2	4
Proximity to Air Freight Service	3	5	4	5
Proximity to Rail	5	5	3	4
Proximity to Major Arterials	2	5	3	5
Public Infrastructure	3	3	4	4
Travel Time to Customers	3	4	3	4
Inventory of Buildable Land	3	3	4	4
Land Cost	1	2	4	5
Taxations	2	2	3	3
Vibration/Noise Nuisance	2	2	3	3
Proximity to Container Port	3	5	2	5
Soil Quality	1	1	4	2
Topography	5	5	3	5
	45	56	52	63

Exhibit I-13

Naturally, site selection criteria will vary by firm and the results the analysis will vary in each situation. The outcomes below suggest how a firm contemplating locating a large facility in the region might think about each market. Small firm's would look at the site differently, possibly

putting more weight on the close-in location and less weight on other factors including the increased occupancy costs.

West Yard

The West Yard is markedly less industrial in nature than North Bay; it is further from the rail yard, other industrial buildings, and the influence of Magnolia Bridge. Looking at the property from an industrial real estate perspective, the West Yard's characteristics are, in most ways similar to the North Bay property. In the industrial context, it's only differences are that it is not served directly by rail and its size limits development potential.

CONCLUSION

Historically, demand for industrial space in the BINMIC market is so strong that landlords have been able to charge, in some cases, more than twice as much as competing markets. A sampling of asking blended rental rates in competing markets includes; Everett at $.38, Kent Valley at $.36, and Port of Tacoma/Fife at $.39 per square foot per month. Demand has always been stronger and rental rates higher for smaller spaces.

While demand can be viewed as strong over the long term, a combination of historical market conditions and current events make the future picture less clear. Property owners in the market have become so accustomed to low vacancy and high rental rates that the market has not adjusted to the effects of the recession. There is very little activity in the market; the average time a space is on the lease market in Seattle is 17 months and in BINMIC it is 12 months. The recession has put many businesses under substantial pressure making the very prospect of moving daunting. Looking forward to a time when the effects of the recession have lessened, it is reasonable to believe that the market will adjust to new realities and/or demand will increase.

In the City of Seattle, on average, each year there is 1.3 million square feet and 108 new industrial leasing transactions completed. In 2010 the numbers were 135 transactions totaling 2.2 million square feet. Seventy percent or 95 transactions, measuring 360,000 square feet, involved tenants occupying less than 10,000 square feet.

The data suggests there is employment driven demand for new industrial space in the City equal to 780,000 square feet per year.

According to Costar, during the last 11 years, each year on average, there have been 100,000 square feet and 14 new leasing transactions completed in the BINMIC industrial market. In 2010 leasing 19 transactions totaled 64,000 square feet. The majority of the transactions were under 10,000 square feet. The employment projections indicate that there will be demand for new industrial space equal to 47,000 square feet per over the next ten years.

The BINMIC market can capture a portion of the roughly 100,000 square feet of historical demand generated from within as well as a portion of the demand for the City as a whole. It is reasonable to suggest that the North Bay property could capture 50,000 square feet or 50% of the BINMIC demand as well as 10% or 36,000 square feet of the City-wide demand for small tenants; for a total annual capture of 86,000 square feet. However, if North Bay is to capture any of the demand it will need to be priced competitively with markets located outside the City.

Flex Market

Flex buildings are buildings designed to be versatile, which may be used in combination with office (corporate headquarters), research and development, quasi-retail sales, and including but not limited to industrial, warehouse, and distribution uses. At least half of the rentable area of the building must be used as office space. Flex buildings typically have ceiling heights under 18', with light industrial zoning. Flex buildings can also be called incubator, tech and showroom, light distribution, light manufacturing, and research and development.

SEATTLE FLEX MARKET

The Seattle flex market is the home of 186 buildings measuring 7.6 million square feet. In 2000 there was 6.6 million square feet of space in 173 buildings. Fifty eight percent of the buildings were constructed before 1960 and another 29% were constructed between 1960 and 1999. The building inventory is dispersed amongst 15 different Seattle submarkets. SoDo has the largest single share of the market, with 38% or 2.8 million square feet. The Queen Anne and Lake Union markets together have 22% and 1.7 million square feet of the Seattle flex market inventory. Exhibit F-1 shows the concentration of existing flex buildings in the Seattle Market.

Vacancy

Vacancy in the market is currently 7.1%, totaling 862,016 square feet. In 2000 vacancy was at a low of 2% and then increased to 8.4% in the first quarter of 2005. By 2006 vacancy was down to 2.7%, followed by an increase that began in mid 2008. There is currently an additional 110,196 square feet of sublease space on the market that represents an additional .01% vacancy.

Rental Rates

Flex rental rates are highly dependent on location and building type. A moderate sized space located in an older building in the South Duwamish market, with grade level doors and lower clear heights will garner a lower rate than a multi-story building located in the South Lake Union market. The blended rental rates in these two scenarios could be as little as $10 per square foot and as high as $60

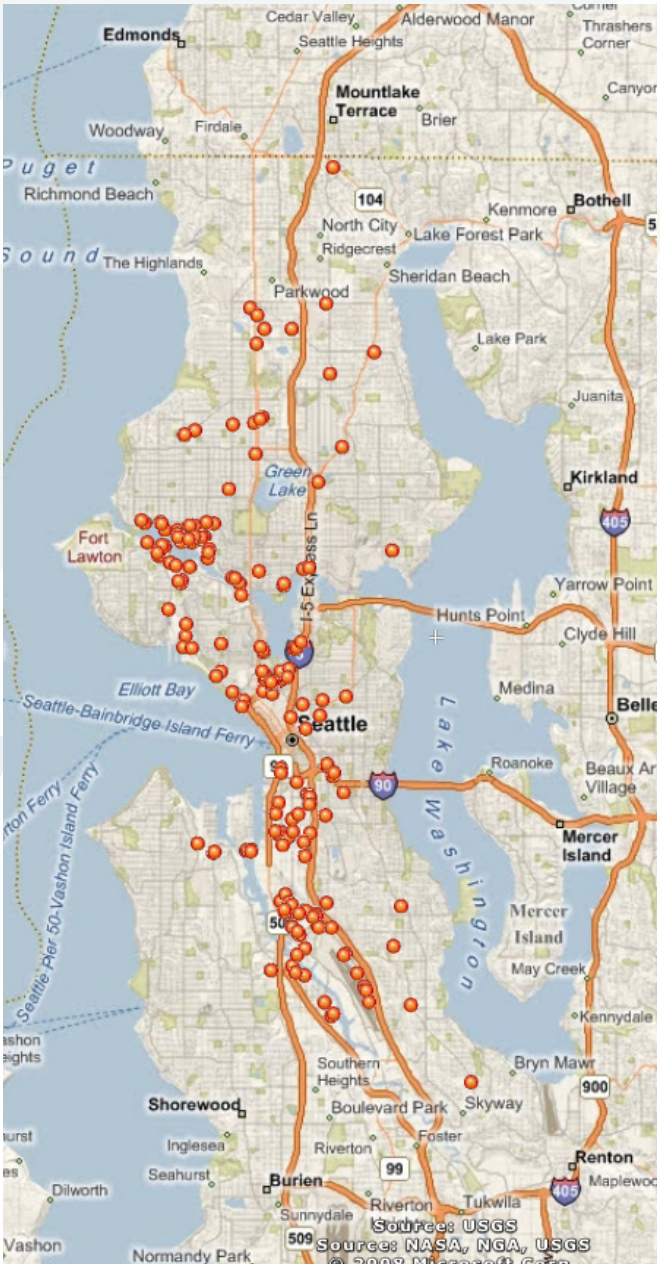


Exhibit F-1

per square foot. To facilitate discussion and analysis, a base rental rate that is based on the cost to create modern single story flex space, such as the Gateway North or Cedar River Corporate Park is instructive. The rate can then be adjusted for location and building type. A rate equal to $.60 for shell space and an add-on of $.80 for the office portion of the space is representative of the market for flex space in the South Duwamish market.

New Construction & Absorption

There are currently no new flex buildings under construction or proposed projects in the Seattle market. During the last ten years, 930,000 square feet of new flex buildings have been added to the market. Two thirds of this total, was the 2004 addition of Amgen's Helix Campus that measures 686,000 square feet. Adjusting for the 2004 anomaly, on average 24,000 square feet of new space has been added to the market each year during the last decade.

Forecast

The graph (Exhibit F-2) forecasts vacancy through 2015, assuming that flex space is absorbed at a rate equivalent to the previous five year average and new buildings are delivered and absorbed based on the know construction activity, which in this case is none. The analysis suggests that vacancy rates will decline from the current level of 7.1% to below 6%. The graph shows the amount of new space delivered to the market since 2001, in blue. Known construction and deliveries are projected into the future. The yellow bars represent the amount of space absorbed by the market each quarter. The trend line, in red, displays the projected market vacancy. The forecast suggests that if no new buildings are constructed and space is absorbed as it was during the last five years, vacancy will decline slightly.

What the analysis does not show is that 75% of the flex inventory is located outside of Seattle. In Puget Sound there is 31 million square feet of space in 1031 properties that are currently 13% vacant. Since 2000, 4.4 million square feet of new flex space has been constructed. The data suggests that historically there is demand for flex space that is being met in other markets.

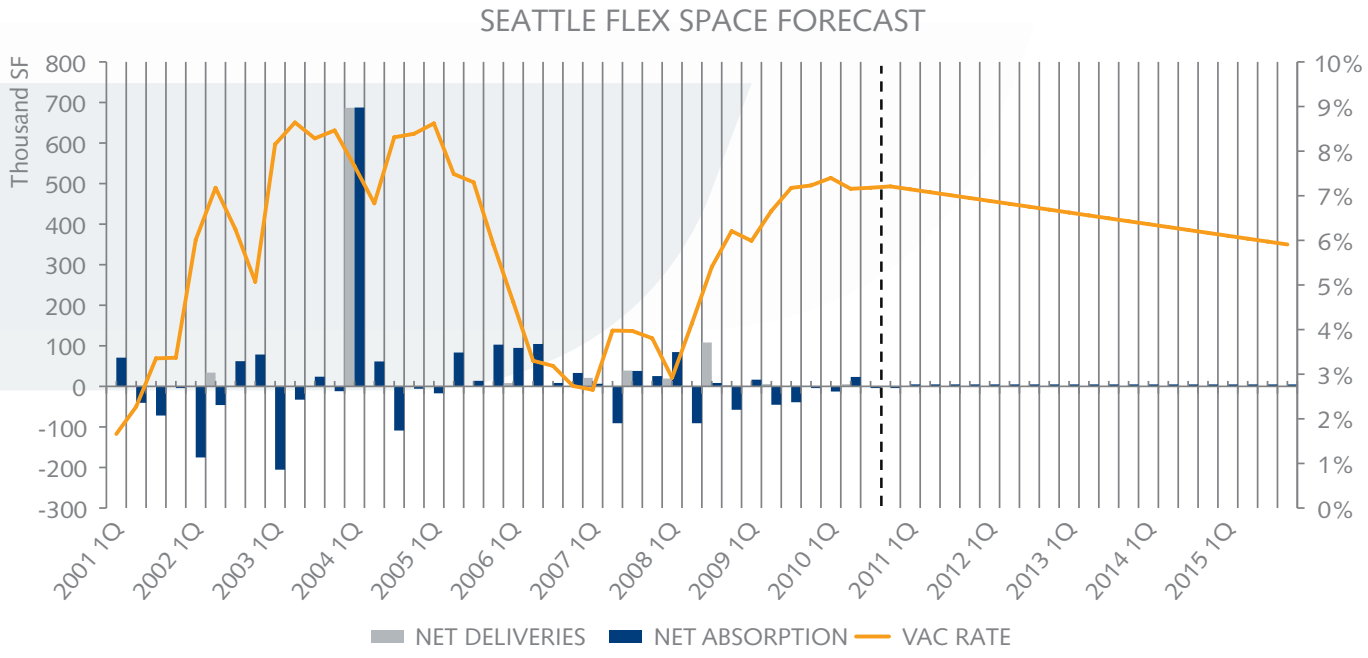


Exhibit F-2

Recent Sales Activity

During 2010 Costar tracked five flex building sales in the City of Seattle, worth $41 million dollars, shown in Exhibit F-3. The buildings measured at total of 259,409 square feet, for an average sale price of $158 per square foot, with sales ranging from a low of $120 per square foot to a high of $263 per square foot. RERC's 3rd Quarter National Investment Survey estimates that going-in capitalization rates for flex buildings are between 6.5% and 12%, with an average of 8.5%. In Korpacz's 3rd Quarter National Survey respondents indicated that cap rate for flex space range from 7.5% to 12%, with an average of 9.15%.

Property	SF	Closing Date	Sale Price	Price/ SF	Cap Rate
Central Park Multi Property	60,600	12/1/2010	$8,350,000	$137.79	-
224 Westlake North	34,997	11/8/2010	$4,214,000	$120.41	-
3876 Bridge Way N Bridgeway Bldg	13,567	2/26/2010	$1,900,000	$140.05	-
Portfolio	126,145	Contract	$20,000,000	$158.55	-
3247-3257 16th Ave W Trey Bldg	24,100	Contract	$6,450,000	$267.63	8.61%

Exhibit F-3

BINMIC FLEX MARKET

In BINMIC there are 27 flex buildings measuring 1.4 million square feet as shown in the concentration map (Exhibit F-4). In 2000 there was 630,000 square feet of space in the market and then in 2004 Amgen's Helix facility was added to the inventory; more than doubling the amount of flex space in the market. Of the 630,000 square feet that was build before 2004, 267,000 square feet or 42% was constructed before 1960. Sixty six percent of the pre 2004 inventory was constructed before 1980.

Vacancy

Vacancy in the Seattle flex market is currently 4.0% or 55,113 square feet. Vacancy has been less than 5% since 2003 when it jumped up to 15% in 2002 and again in 2000. There is currently no sublease space on the market.

Rental Rates

Rental rates for flex space in the BINMIC market are currently inconsistent and flex space transactions are almost non-existent. Rental rates for newer flex buildings located in the Seattle area are $.60 to $.70 per square foot for shell space with an add-on of $.80 to $.90 for the office component.

New Construction & Absorption

There are currently no new flex buildings under construction or proposed projects in the Seattle market. During the last ten years, 930,000 square feet of new flex buildings have been added to the market. Two thirds of this total, was the 2004 addition of Amgen's Helix Campus that measures 686,000 square feet. Adjusting for the 2004

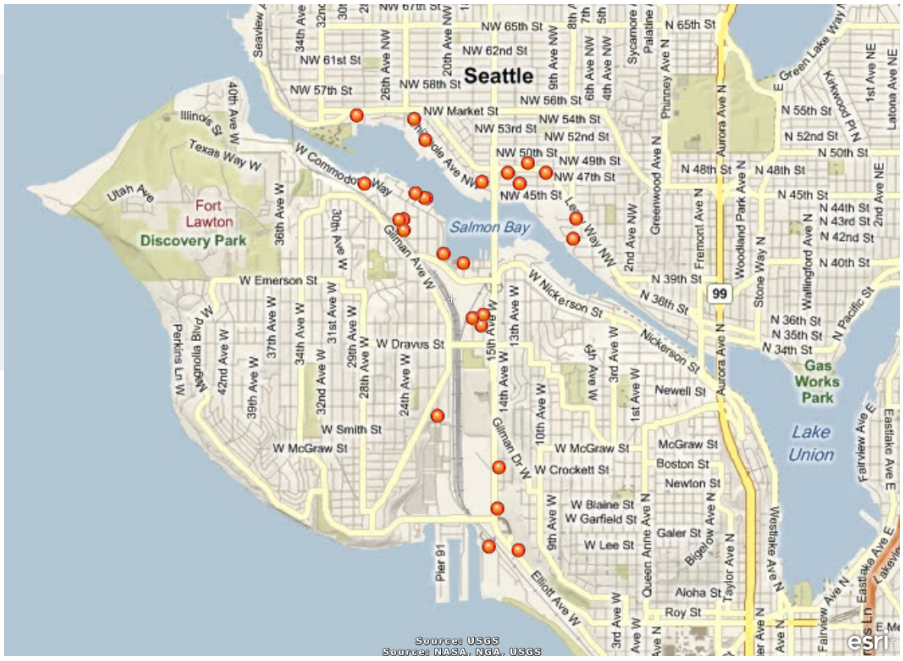


Exhibit F-4

anomaly, on average 24,000 square feet of new space has been added to the Seattle market each year during the last decade.

Forecast

Historically the market for lower cost flex space has been constrained to the extent most new development has recently occurred outside the City of Seattle. It is clear that there is and will continue to be demand for this type of space in the BINMIC market. On the other hand, the demand from the segment of the flex market that caters to high tech, research, and development firms is not as robust in BINMIC. The Biotech Market Analysis section of this report forecasts the demand for high end of the flex market.

LOCATION ANALYSIS

The location analysis examines a number of proximity and site characteristics, assesses strengths and weaknesses, and contrasts the subject location to competing locations. The competing locations have been identified as the Duwamish, Everett, and the Kent Valley. The analysis is consistent with the methodology used by many site selectors and mirrors the informal process most businesses undertake when contemplating new facilities. The analysis and the findings are generally consistent with Industrial Location Analysis; however, some of the considerations take on different importance.

North Bay

The key location considerations and discussion are as follows:

Travel Time to Employee Housing. The cost of housing in North Seattle and in particular the subject's neighborhood is high compared to the other markets. The high cost of housing extends travel time for lower cost labor that can only afford to live in less expensive suburban or rural locations. Its proximity of higher cost labor that is well educated is a plus for those flex space users who rely on a highly educated work force. The subject has an advantage in this regard compared to the competing markets.

Travel Time to Executive Housing. The subject is well located in relation to executive housing. The large stock of executive housing in the immediate area makes the location attractive for executives who are often key site selection decision makers.

Travel Time to Passenger Airports. The subject is located reasonably close to SeaTac International Airport, however, its competitors the Duwamish and Kent Valley offer better access and shorter drive times.

Proximity to Air Freight Service. The subject market is also reasonably close to local airfreight terminals; both SeaTac and Boeing Field. The Duwamish and the Kent Valley markets have superior access.

Proximity to Rail. The Ballmer Rail Yard is located directly adjacent to the site with rail spurs that directly serve the property, making rail service excellent. Flex users do not typically require rail service, and while it is a nice amenity; it is not a factor in the site selection process.

Proximity to Major Arterials. The subject's access to major roadways is viewed as less attractive than the competing markets; congestion being the biggest negative factor. For flex space users, access to the I-5 corridor is not as important as for general industrial uses.

Public Infrastructure. Preliminary indications suggest that for uses that do not have extraordinary infrastructure demands, the subject's infrastructure is adequate. When comparing the subject to the other markets, the age of its infrastructure may put it at a slight disadvantage, given that new development may require incremental upgrades.

Proximity to Amenities. The subject has good access to downtown Seattle, arguably the regions richest cultural center. The subject is better located than the competing markets to access a broad array of urban amenities. .

Travel Time to Customers. The subject location provides good access to the Seattle CBD and its concentration of businesses; customers and service providers. The central location is arguably better than the competing markets.

Inventory of Buildable Land. The subject's is in a unique position of being one of the largest undeveloped parcels of land with close proximity to downtown Seattle. The

Everett and Kent Valley markets have a larger inventory of developable land than the subject. In the Duwamish market there are a small number of large parcels that could support a substantial amount of development; however, they are not currently available.

Land Cost. The cost of land in the subject market is higher than the competing markets. From a cost perspective the subject is at a disadvantage.

Taxations. Taxes in the City of Seattle are slightly higher than in the competing market jurisdictions, making the cost of occupancy lower outside the City of Seattle.

Vibration/Noise Nuisance. The subject's adjoining rail yard and marine terminal create noise and vibration impacts, likely greater than in the other suburban industrial markets. Noise and vibration at the subject could be an issue for some flex space users and not for others. For flex space uses that are consistent with traditional industrial uses like incubator, manufacturing and light distribution, noise and vibration created by the adjoining industrial uses will not be an issue. Other flex uses, such as tech, research, and development may find the noise from adjoining uses disruptive.

Proximity to Container Port. The subject is reasonably well situated to the Harbor Island container terminal; however, it is not as well located to access the Port of Tacoma terminal. The Duwamish market is driven, to a large part, by its proximity to Harbor Island and the Duwamish waterway. The Kent Valley market is best situated to access both the Port of Seattle and Port of Tacoma. Some flex users will find access to the Ports an important consideration and for others the proximity is not a factor.

Soil Quality. The soils conditions, both stability and contamination, are an issue for the Seattle industrial markets. Soil stability is an issue in the Kent Valley. In Everett, specifically around Paine Field, soils are better for supporting structures. The cost to build on the subject is greater than the other suburban industrial markets, putting it at an economic disadvantage.

Topography. Developers and users want level land on which to place new industrial buildings. Uneven topography requires grading that drives occupancy costs upward, putting any such site at a competitive disadvantage.

Quantitative Analysis. Exhibit F-5 quantifies the strengths and weaknesses of each of the competing industrial markets. Naturally, site selection criteria will vary by firm and the results the analysis will be different in each situation. The ratings below suggest how a firm might think about each market. Small firm's would look at the site differently, possibly putting more weight on the close-in location and less weight on other factors including the increased occupancy costs.

Comparative Location Analysis

	BINMIC	Duwamish	Everett	Kent Valley
Travel Time to Employee Housing	4	3	3	3
Travel Time to Executive Housing	5	3	3	3
Travel Time To Passenger Airports	3	5	2	4
Proximity to Air Freight Service	3	5	2	4
Proximity to Major Arterials	3	5	3	5
Public Infrastructure	3	3	4	4
Proximity to Amenities	4	3	2	2
Travel Time to Customers	5	3	3	3
Inventory of Buildable Land	3	3	4	4
Land Cost	1	2	4	4
Taxations	2	2	3	3
Vibration/Noise Nuisance	2	2	3	3
Soil Quality	1	1	4	2
Topography	5	5	3	5
	44	45	43	49

Exhibit F-5

West Yard

For flex space users, the analysis of the West Yard is

consistent with the North Bay location analysis, however, the sites attributes make is more attractive. The proximity to the water, views, and distance from the adjoining industrial land uses make it an location that would be viewed favorably by any flex user. The cost of land rules the site out for lower intensity uses, such and incubator, manufacturing, and light distribution. The high tech flex users would find the site attractive, just as Immunex (Amgen) found its location desirable.

Location Conclusion

Form a location perspective, the North Bay property is well suited for flex space. The location is competitive in most respects; however, the anticipated land cost puts it at a disadvantage. The West Yard is well suited to support high tech flex uses that are housed in multi-story buildings and are not as sensitive to price as their lower tech cousins.

CONCLUSION

There is demand for space from a segment of the flex market made up of firms that have a low cost operating model. These firms use the shell portion of their space for light distribution, light manufacturing, and industrial research and development. Those firms that are not as cost driven which are engaged in technology or need showroom space are not as likely to locate in BINMIC. This segment of the market has other choices in location that have better access and amenities.

The increased revenue associated with the high percentage of office space in flex buildings is attractive to developers, owners and investors; however, success can be elusive. The flex space market is relatively small and can become easily overbuilt. Flex space at the high end of the market frequently contains specialized building improvements with limited potential for reuse. In the BINMIC market, careful consideration to design will allow a new project to capture the demand for flex space while maintaining a lower risk profile.

Office Market

The primary intended use of an office building is to house employees of companies that produce a product or service primarily for support services such as administration, accounting, marketing, information processing and dissemination, consulting, human resources management, financial and insurance services, educational and medical services, and other professional services. Office buildings are characterized by work efficient floor plans, work areas, comfortable heating and cooling, cabling for phones and computers, and other conveniences that allow people conduct business. The interior finish and the structural design of the building supports the activities of the employees. Office buildings are typically configured for high density use, with a ratio of people to square footage in the 150 to 300 or more range and less than 25% of the demised floor space allocated to industrial or retail use. Some physical characteristics of a building may assist in classifying the property as "office" if the property's use is not apparent.

The office building class designation is a way of differentiating buildings of the same building type into different categories of quality. These classes represent a combination of a subjective and objective quality rating of buildings that indicates the competitive ability of each building to attract similar types of tenants. Assigning class codes allows us to compare individual buildings within a market as well as across markets, and also to compare office market conditions between areas in peer groups. For the purposes of comparison, office buildings are categorized into four classes. The options are Class A, B, C, or F, with assignment depending on a variety of building characteristics, such as total rentable area, age, building finishes and materials, mechanical systems standards and efficiencies, developer, architect, building features, location/ accessibility, property manager, design/tenant layout, and much more. Once assigned, a building's class reflects not only characteristics and attributes evaluated objectively, but also the subjective evaluations of finishes and amenities.

PUGET SOUND OFFICE MARKET

Total inventory in the Seattle/Puget Sound office market area amounted to 170.8 million square feet in 6,889 buildings as of the end of the third quarter 2010. Class A office space totaled 54 million square feet in 245 buildings; Class B buildings totaled 88 million square feet in 2,839 buildings; and Class C space totaled 27 million square feet in 3,805 buildings.

The Puget Sound Office market ended the third quarter 2010 with a vacancy rate of 13.0%. Class A projects reported a vacancy rate of 17.2%, Class B projects reported a vacancy rate of 12.2%, and Class C projects reported a vacancy rate of 7.7. The vacancy rate was down over the previous quarter, with net absorption totaling positive 620,796 square feet in the third quarter. Vacant sublease space decreased in the quarter, ending the quarter at 1.7 million square feet. Full service rental rates ended the third quarter at $25.49.

A total of five buildings delivered to the market in the quarter totaling 274,068 square feet, with 2.3 million square feet still under construction at the end of the quarter.

The largest lease signings occurring in 2010 included: the 158,875-square-foot lease signed by Intellectual Ventures at Sunset North Bldg IV in the Eastside market; the 149,832 square foot deal signed by General Service Administration at Fifth & Yesler Building in the Downtown Seattle market; and the 110,111 square-foot lease signed by F5 Networks, Inc. at Elliott West III in the Downtown Seattle market.

During the second quarter of 2010, 10 office transactions closed with a total volume of $110,333,121. The 10 buildings totaled 588,327 square feet with the average price per square foot equal $187.54 per square foot.

SEATTLE OFFICE MARKET

Inventory

There are 1,253 office buildings containing approximately 74.3 million square feet of space in the Seattle office market.

Approximately 47% of this space was constructed prior to 1980, another 23% was built between 1980 and 2000, and approximately 20% of the total office space was constructed since 2000.

EXHIBIT O-1

Office inventory is typically broken into three classes; Class A space, which are the extremely desirable investment grade properties; Class B space, which lack prestige but are generally in good to average condition; and Class C space which are generally no-frills, older buildings that offer basic space. The images in Exhibit O-1 shows the general nature of the building classifications.

Of the total inventory in the Seattle market, approximately 42% is Class A space; approximately 43% is Class B space; and approximately 15% is Class C space. Exhibit O-2 shows the distribution of buildings by class.

Since 2000 the inventory in the Seattle office market has grown by about 16 million square feet. As shown, Class A office space has been growing at a faster rate since 2000, relative to Class B and C office space. Of the total new inventory delivered since 2000, 65% has been Class A space. By comparison only 34%has been Class B space, and about 1% has been Class C space.

Absorption

Annual net absorption, which represents the change in occupied office space from one year to the next, peaked at approximately 2.8 million square feet in 2006; annual net absorption fell precipitously over the next three years dipping to negative 1.1 million square feet in 2009. As of November 2010, year-to-date net absorption stands at almost 1.5 million square feet; approximately 80%, or 1.2 million of this absorption has been Class A space.

Vacancy

Of the total inventory approximately 13.6% or 10.1 million square feet is currently vacant; this is slightly lower than the ten year peak of 14.2%, in fourth quarter 2009.

When broken down by class, it becomes apparent that the 6.3 million square feet of surplus Class A office space is the primary driver behind the spike in overall vacancy.

Class A office vacancy is currently 20.2%. By comparison vacancy in Class B space is 9.8% and vacancy in Class C space is only 5.9%. Overbuilding in the last up cycle is

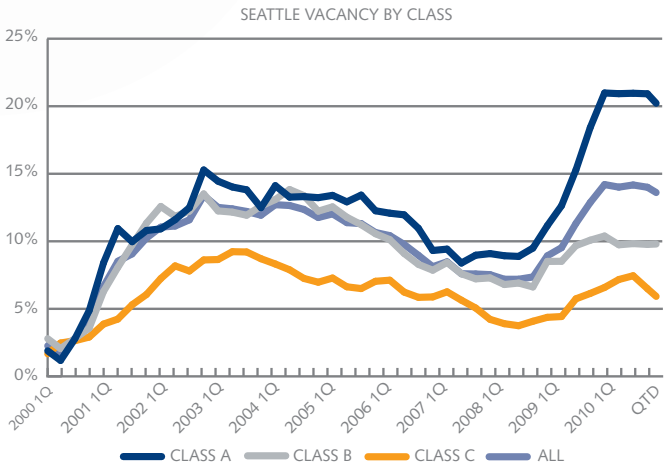


Exhibit O-2

responsible for much of the vacancy up, in buildings built since 2000 vacancy is 22.4%.

There is currently 806,941 square feet of vacant sublease space in the Seattle office market, accounting for approximately 8% of the total vacant space.

Largest Lease Signings

As of third quarter 2010 significant lease transactions include a 149,832 square foot leased by the General Service Administration located at the 2 Fifth and Yelser Building, the Colbalt Groups lease of 104,999 square feet of space located at 5605 Union Station, and the Institute for Systems Biology's lease of 90,458 square feet located at the 6 Rosetta Inpharmatics building.

Exhibit O-3 lists the largest lease signings in the Seattle Market as of third quarter 2010.

Asking rates for buildings built since 2000 are currently $31.29 per square foot. This is down 17% from a five year peak of $37.62, in third quarter 2008. Exhibit O-4 shows the history of asking rental rates since 2000.

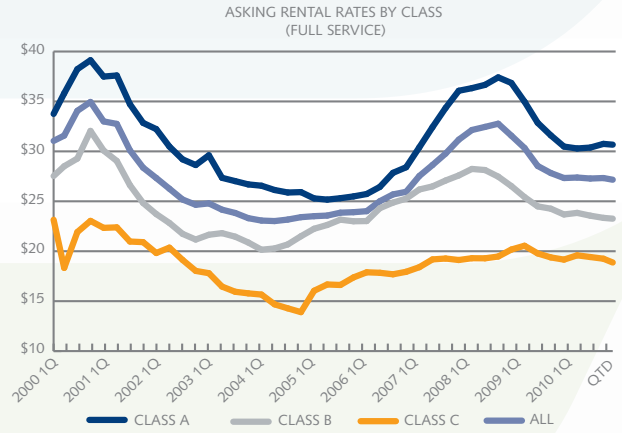


Exhibit O-4

Building	Submarket	Size/SF	Quarter	Tenant Name
2 Fifth & Yesler Bldg	Seattle CBD	149,832	2nd	General Service Administration
5605 Union Station	Pioneer Sq/Waterfront	104,999	3rd	Cobalt Group, Inc.
6 Rosetta Inpharmatics	Lake Union	90,458	3rd	Institute for Systems Biology
73101 Western Building*	Queen Anne/Magnolia	87,538	2nd	Isilon Systems, Inc.
8 Elliott West - Bldg 2 - F5 Networks*	Queen Anne/Magnolia	84,765	2nd	F5 Networks, Inc.
9 Fifth & Yesler Bldg	Seattle CBD	83,240	2nd	General Service Administration
103131 Elliott Ave*	Queen Anne/Magnolia	76,690	2nd	Emeritus
11 West 8th	Lake Union	72,888	1st	Casey Family Programs
14 West 8th	Lake Union	61,500	1st	Seattle Children's Hospital
15 Russell Investments Center	Seattle CBD	58,884	2nd	N/A

*Source: Costar *Indicates a renewal*

Exhibit O-3

Rental Rates

According to CoStar, average quoted rental rates in the Seattle office market are currently $27.16 per square foot, per year, full service. This is down 17% from a five year peak of $32.77, in third quarter 2008.

Class A rental rates are currently $30.65 per square foot, per year; Class B space is $23.26; and Class C space is $18.87 per square foot, per year, full service.

Exhibit O-5 lists rent comparisons for recently completed transactions. Each transaction involves rental rate escalations, concessions, and tenant improvement contributions that impact the effective rental rate the tenant will actually pay.

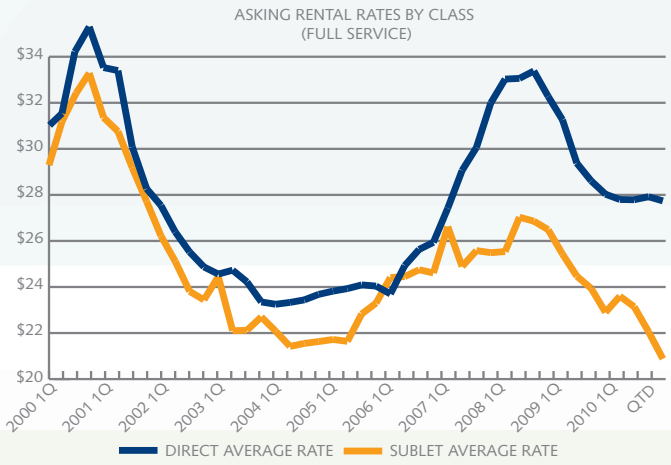


Exhibit O-5

Exhibit O-6 shows the spread between asking rental rates for direct and sublet office space. As of November 2010, asking rental rates for direct space average $27.74 per square foot, full service; sublet space averages $20.88 per square foot. This represents a difference of $6.86 per square foot.

Building Name/ Address	Bldg Class	Deal Complete	Tenant	Year Built	Square Feet	Year One Rate	Escalation	Term Mo.	TIs
World Trade Center 2401 Elliott Ave	A	Q3 2010	PMI	2000	42,791*	$32.02/FS	3%/yr	132	$39.43
Dexter Building 1100 Dexter Ave N	A	Q3 2010	Regus	1997	21,487*	$27.60/FS	3%/yr	89	$10
West 8th 718 Virginia St	A	Q2 2010	Casey Family	2009	74,000	$36.00/FS	3%/yr	132	$100
645 Elliot - North Bldg 635 Elliot Ave	A	Q2 2010	Clear Channel	2009	31,943	$38.00/FS	Flat	180	Est: $70
Union Bay Building 1633 Westlake Ave N	A	Q2 2010	Angiotech	2000	19,000	$29.17/FS	NA	84	$30
Lakeview at Fremont 837 N 34th St	B	Q2 2009	Tableau	2008	31,751	$35.00/FS	$1.00/sf/yr	72	$65

** Indicates a renewal.*

Exhibit O-6

Deliveries and Construction

Since the beginning of 2010 there have been 10 buildings totaling approximately 1.3 million square feet of office space delivered in Seattle. Since 2000, annual deliveries ranged from a low of 224,561 square feet in 2003, to a high of 3 million square feet in 2009.

The most notable delivery in 2010 were the Amazon Campus buildings 1A, 1B, and II which combined total 613,349 square feet, currently 95% leased. Other notable deliveries include the 505 First Building which is 287,851 square feet and only 16% leased; and the Stadium Innovation Center which is only 9% leased as of third quarter 2010.

Under Construction

There are currently five buildings totaling 1.7 million square feet under construction on the Seattle Market.

The amount of office space under construction on an annual basis since 2000 has ranged from a low of 480,226 square feet in 2002, to high of 4.7 million square feet in 2008.

The most notable projects currently under construction are the Amazon Campus buildings III and IV which total 846,568 square feet and are approximately 90% pre-leased to Amazon; the 590,135 square foot 500 fifth Ave North Campus building which is 100% preleased to the Gates Foundation; and the 141,200 square foot Home Plate Center North building which is 0% preleased.

Proposed Projects

According to Costar there are 19 buildings totaling approximately 3 million square feet of proposed office space in the Seattle market area. If history is an indicator, less than 1 million square feet of this will likely get built in the next five years, if ever.

Sales Activity

Since 1990 Costar has tracked 495 office building sales in the City of Seattle, representing $3.7 billion dollars sales volume. Over the last decade the median price of the sales ranged from a low of $150 per square foot in 2000, to a

high of $285 in 2007.

Since January of 2010, Costar tracked 17 office sales in the City of Seattle. The sales ranged in price between $255,000 and $20.7 million, with a median price per square foot of $159. Eleven of the sales were over $1 million dollars, three of the sales were over $10 million, and none of the sales during 2010 were in excess of $25 million.

The graph (Exhibit O-7) shows the sales dollar volume by year since 1990 in the Seattle Office Market as well as the median sales price per square foot.

A survey by Price Waterhouse Coopers found that office cap rates in the Pacific Northwest ranged between 6% and 12%, and averaged 8.41% as of third quarter 2010. According to Costar.com the average cap rate in the Seattle office market is 8.02%; this is slightly below the twenty year average of 8.19%.

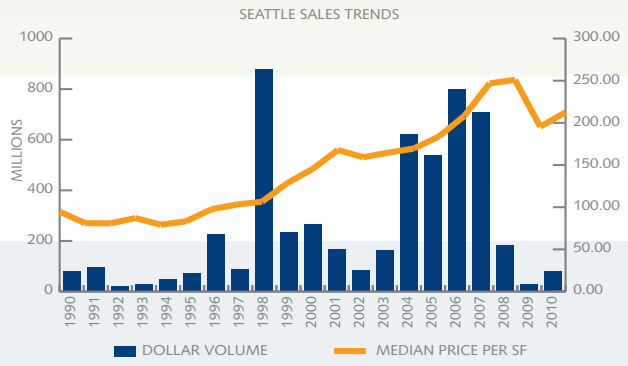


Exhibit O-7

Employment

The demand for office space is driven by employment growth. Employment growth can be a function of business activity and population growth. As shown in the table, Exhibit O-8, the Puget Sound Regional Council (PSRC) estimates the number of covered employees in Seattle to be 580,713; up by 52,144, or approximately 10% since 2000. The PSRC estimates this number to increase to 653,514 by 2020.

Seattle Covered Employment				
	2000	2010	2020	2030
FIRES	244,290	279,243	329,950	371,492
Manufacturing	42,945	34,331	31,835	29,255
Retail	82,345	86,829	97,335	105,520
WTCU	69,252	69,317	74,272	76,537
Gov/Ed	89,737	110,993	120,122	125,544
Total	528,569	580,713	653,514	708,348

Source: Puget Sound Regional Council

Exhibit O-8

Office Using Employees

Office Using Employees (OUEs) are defined as are those employees who require office space therefore are the primary drivers of office demand. As shown in the table, O-9, below the portion of OUE's to total employees varies by sector. The total number of OUE's as of 2010 is estimated to be 226,121. This calculates to approximately 283 feet of occupied office space per OUE. The number of OUEs is forecasted to grow by 34,785, to 260,907 by 2020. This represents an average annual growth rate of 3478 OUEs.

Seattle Covered Office Using Employees					
	% OUE	2000	2010	2020	2030
FIRES	60%	146,574	167,546	197,970	222,895
Manufacturing	10%	4,295	3,433	3,184	2,926
Retail	10%	8,235	8,683	9,734	10,552
WTCU	35%	24,238	24,261	25,995	26,788
Gov/Ed	20%	17,947	22,199	24,024	25,109
Total		201,289	226,121	260,907	288,269

Source: Puget Sound Regional Council; Berk and Assotiates 2005; GVA Kidder Mathews analysis, 2010

Exhibit O-9

Office Space Forecast

Exhibit O-10 shows the amount of new space delivered each quarter to the market since 2000, in grey. The blue bars represent the amount of space absorbed by the market each year. The trend line, in orange, displays the historical and projected market vacancy.

The forecast relies on the following assumptions:

1. Only known projects that are under construction or

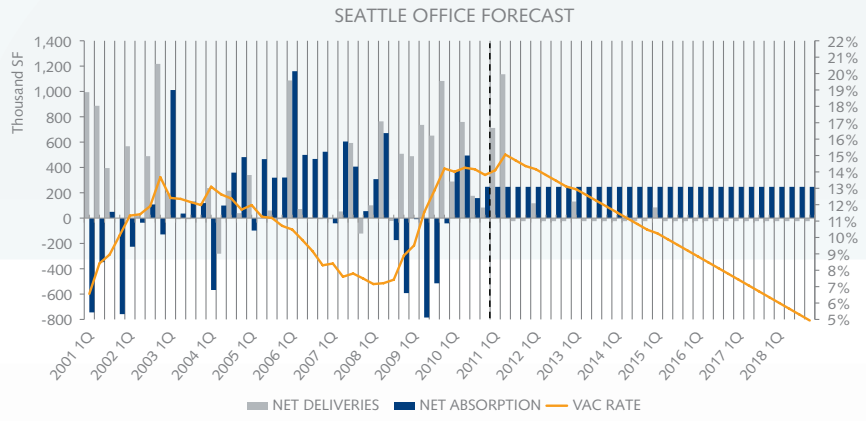


Exhibit O-10

likely to be completed over the next five years are included in future deliveries.

2. Demolitions and conversions are based the ten year historic average.
3. The amount of office space per OUE is held at 283 square feet though 2018.
4. Office using employment is grown by 870 OUEs per quarter, or 3,478 per year.

An office market is generally market is said to be in equilibrium when vacancies fall to 5%. Based on the assumptions outlined above, vacancy in the Seattle office market is forecasted to drop to 5% in 2018.

Class A Office Space Forecast

New space built on the subject property coud be in the Class A office space market. It's not possible to determine what percentage of OUEs are Class A office users; therefore a forecast based on historic Class A office absorption and known deliveries is more appropriate.

The Class A forecast relies on the following assumptions:

1. Only known projects that are under construction or likely to be completed over the next five years are included in future deliveries.
2. Demolitions and conversions are based the ten year historic average.
3. Net absorption is based on 20 year historic averages.

Based on the assumptions outlined above, vacancy in the Seattle office market is forecasted to peak at 28.8% in second quarter 2011 and drop to 5% in 2018. The vacancy rate is forecasted to drop to 5% in 2018. In second quarter 2011 over 1.15 million square feet of Class A office space that is currently under construction is forecasted to come on line. Almost all of this space is preleased to Amazon and the Gates Foundation. The blue line represents a vacancy forecast which accounts for the pre-leased status of this new space. As shown in Exhibit O-11, the forecast shows vacancy peaking at 25.3% in first quarter 2011 and dropping to 5% in 2017.

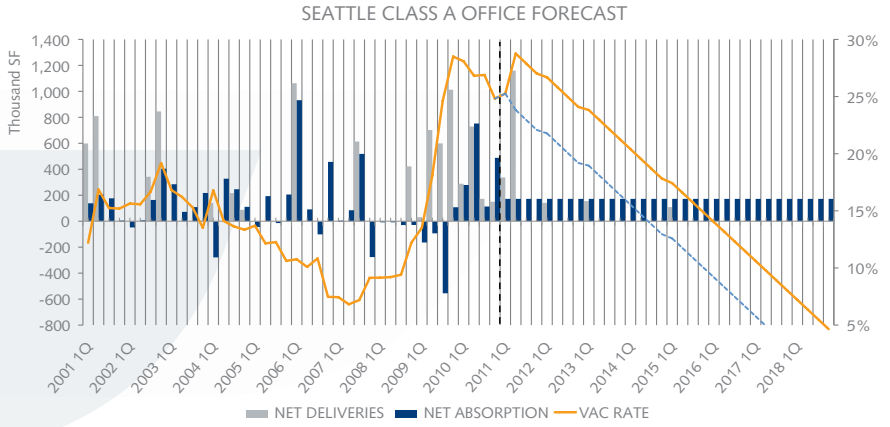


Exhibit O-11

PRIMARY OFFICE PRIMARY MARKET AREA

The Primary Market Area (PMA), shown in Exhibit O-12, is made up of six Forecast Analysis Zones (FAZs), which cover Portions of the Ballard Lake Union, Queen Ann/ Magnolia submarkets.

FAZs are the units of the geographic boundary system used by the PSRC to model and report its small area Forecasts The Primary Market Area (PMA), shown to the right, is made up of six Forecast Analysis Zones as described by the Puget Sound Regional Council. This area includes Portions of the Ballard Lake Union, Queen Ann/Magnolia submarkets.

Inventory

There are 556 office buildings containing approximately 14.3 million square feet of space in the Primary Market Area (PMA). This inventory represents approximately 19% of Seattle's total office inventory. Exhibit O-13 shows the distribution of buildings in the primary market area

Compared to Seattle as a whole, a much larger portion of the inventory in the PMA was built within the last decade. Approximately 44% of the total office space in the PMA was built since 2000; by comparison only 20% of the total office space in Seattle was built since 2000. Approximately 26% was built between 1980 and 2000; and approximately 29% was built before 1980.

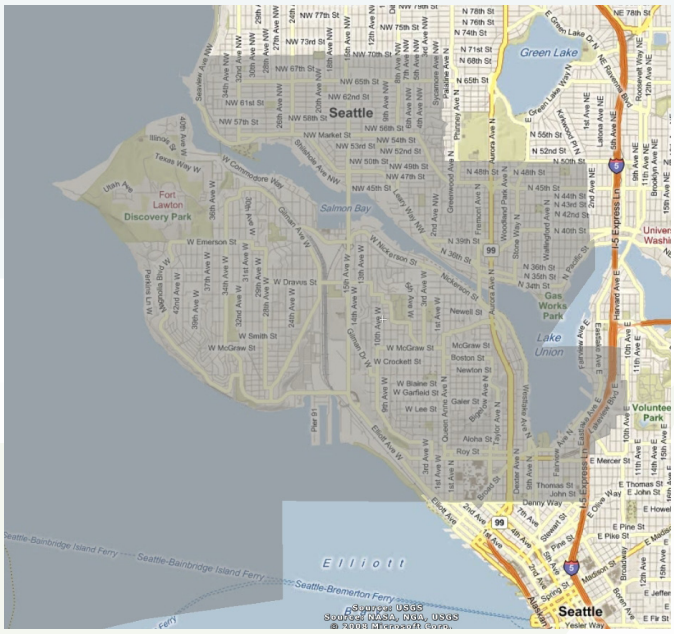


Exhibit O-12

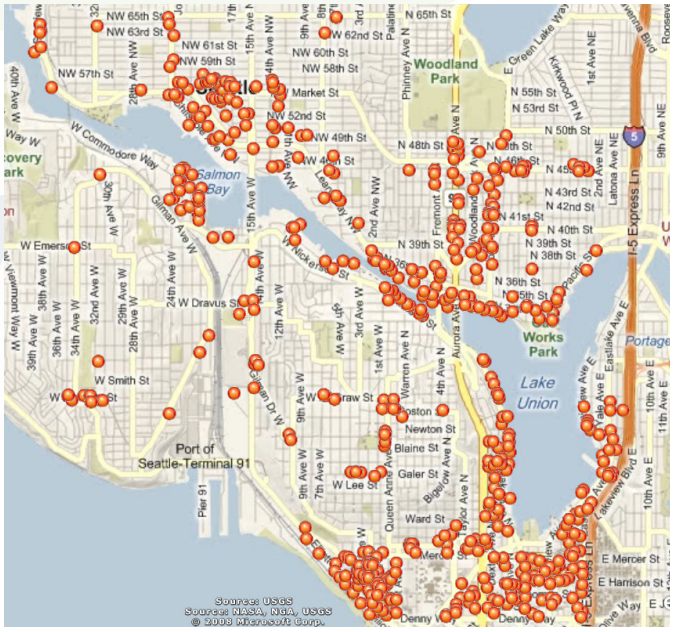


Exhibit O-13

Of the total office inventory in the PMA, approximately 24% is Class A space; approximately 59% is Class B space; and approximately 17% is Class C space. Exhibit O-14 shows the historic distribution of space by building class.

Since 2000 the PMA's office market has grown by about 5.5 million square feet. Almost half of the new office space delivered to the PMA in the last decade has been added since 2007.

Absorption

At 531,675 square feet, annual Net absorption in 2010 is currently at its ten year peak. Much of this is due to the Amazon moving into its new South Lake Union campus.

Vacancy

As of November 2010 vacancy in the PMA is 12.1% this equals approximately 1.7 million square feet of space. Similar to Seattle as a whole, Class A office vacancy is high relative compared to Class B and C office space, the graph, Exhibit O-15, illuminates this point. When the Class A space, which currently has a vacancy rate of 27.5%, is removed from the inventory, vacancy in the remaining office space is only 7.2%. Exhibit O-16 shows historic vacancy levels by building class.

The total amount of vacant sublease space in the PMA currently totals 252,101 square feet, or approximately 15% of the total vacant space.

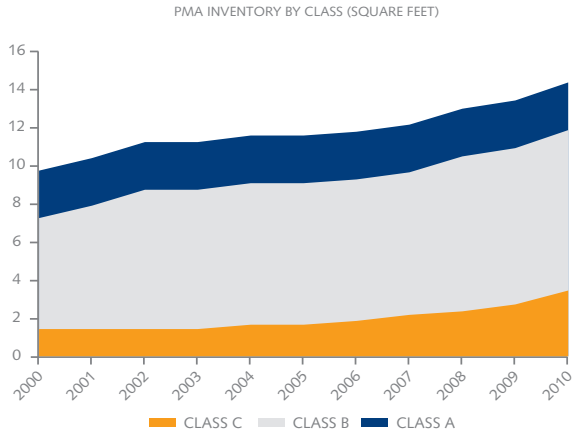


Exhibit O-14

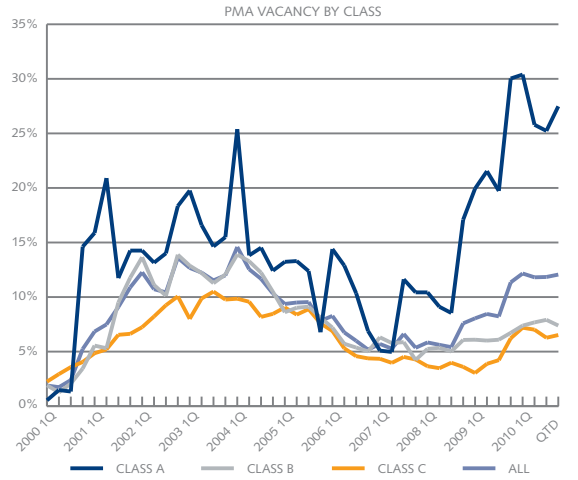


Exhibit O-15

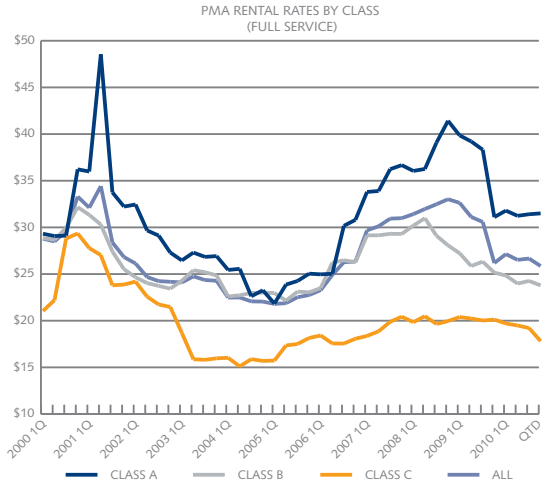


Exhibit O-16

GVA Kidder Mathews

Largest Lease Signings

As of third quarter 2010 significant lease transactions include a 90,458 square foot lease by the Institute for Systems Biology located at the 6 Rosetta Inpharmatics Building; the Isilon Systems renewal of 87,538 square feet of space located at the 73101 Western Building; and the F5 Networks renewal of 84,765 square feet located at the 8 Elliot West building.

The table (Exhibit O-17) lists the largest lease signings in the PMA as of third quarter 2010.

Building	Submarket	Size/ SF	Qtr	Tenant Name
6 Rosetta Inpharmatics	Lake Union	90,458	3rd	Institute for Systems Biology
73101 Western Bldg*	Queen Anne/ Magnolia	87,538	2nd	Isilon Systems, Inc.
8 Elliott West-Bldg 2 F5 Networks*	Queen Anne/ Magnolia	84,765	2nd	F5 Networks, Inc.
103131 Elliott Ave*	Queen Anne/ Magnolia	76,690	2nd	Emeritus
11 West 8th	Lake Union	72,888	1st	Casey Family Programs
14 West 8th	Lake Union	61,500	1st	Seattle Children's Hospital

*Source: Costar *Indicates a renewal*

Exhibit O-17

Rental Rates

According to CoStar, average quoted rental rates in the PMA are $25.86 per square foot, per year, full service. This is down almost 25% from a ten year peak $34.42, in second quarter 2001. Class A space is currently $31.50 per square foot, per year; Class B space is currently $23.78; and Class C space is currently $17.81 per square foot, per year, full service.

Asking rates for buildings built since 2000 are currently $29.53 per square foot. This is down 27% from its ten year peak of $40.34 in fourth quarter 2008.

As of November 2010, the average direct rental rate was $26.73 per square foot, full service. By comparison the average sublease rental rate is $19.13 per square foot; this represents a discount of approximately 28%, as shown in Exhibit O-18.

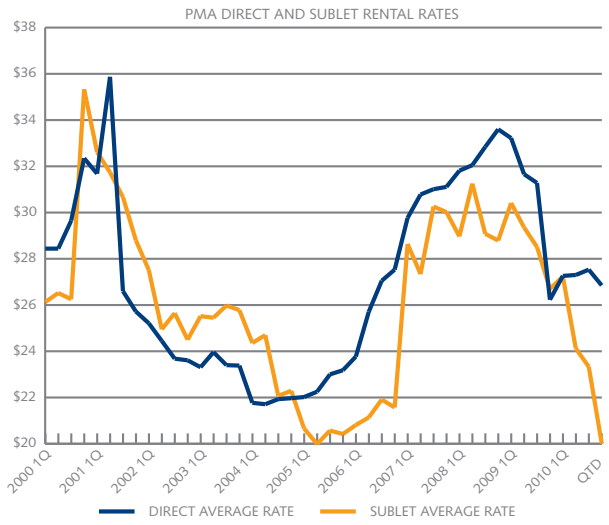


Exhibit O-18

Deliveries and Construction

Since the start of 2010 there have been five office buildings totaling approximately 732,345 square feet of office space delivered in the PMA. There are currently four buildings totaling 1.5 million square feet under construction in the PMA.

Annual deliveries have ranged from a low of zero square feet in 2003 and 2005, to a high of 1.1 million square feet in 2000. The amount of office space under construction on an annual basis since 2000 has ranged from a low of 87,527 square feet in 2004 to high of 2.6 million square feet in 2009.

The most notable 2010 delivery is Amazon Campus buildings 1A, 1B, and II which combined total 613,349 square feet and are about 95% leased as of third quarter 2010. Other notable deliveries include the 505 first building which is 287,851 square feet and only 16% leased as of third quarter 2010; and the Stadium Innovation Center which is only 9% leased as of third quarter 2010.

The most notable projects currently under construction are the Amazon Campus buildings III and IV which total 846,568 square feet and are over 90% pre-leased; the 590,135 square foot 500 fifth Ave North Campus building which is 100% preleased to the Gates Foundation; and the 141,200 square foot Home Plate Center North building which is 0% preleased.

Proposed Projects

According to Costar, there are 9 buildings totaling approximately 1.5 million square feet of proposed office space in the Seattle market area. It is anticipated that less than 400,000 square feet of this will get built in the next five years, if ever.

Sales Activity

Since 1990 Costar has tracked 150 office building sales in the PMA. The annual median price of the sales ranged from a low of $153 per square foot in 2000 to a high of $331 in 2007.

Since January of 2010, Costar has tracked 6 office sales in the PMA. The sales ranged in price between $255,000 and $4.07 million. The median price was $262 per square foot of building area. Four of the sales were over $1 million dollars and none were over $5 million.

Exhibit O-19 shows the sales dollar volume by year since 1990 in the PMA as well as the median sales price per square foot.

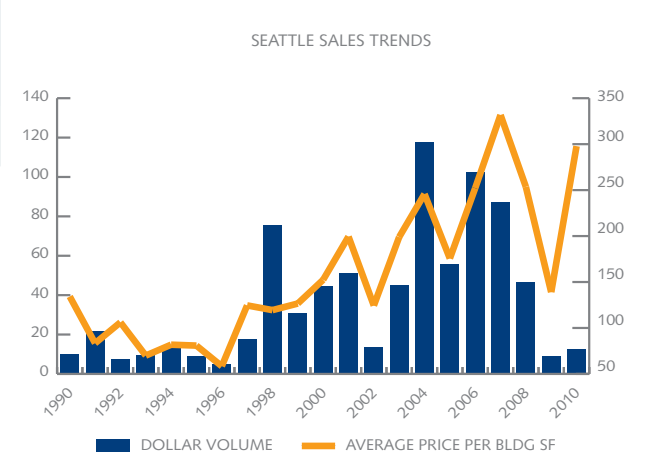


Exhibit O-19

Employment

To understand the dynamics of the Primary Market Area, it is instructive to forecast future market conditions. Demand for office space is driven primary by employment. As shown in the table, Exhibit O-20, the Puget Sound Regional Council (PSRC) estimates the number of covered employees in the PMA to be 98,683; this is up by 8,926 covered employees since 2000. The PSRC estimates this number to increase to 119,369 by 2020.

PMA Covered Employment				
	2000	2010	2020	2030
FIRES	39,448	45,304	60,907	70,361
Manufacturing	14,126	10,421	9,547	8,288
Retail	14,945	16,417	19,348	21,953
WTCU	14,428	15,245	17,084	18,147
Gov/Ed	6,766	11,251	12,483	13,348
Total	89,712	98,638	119,369	132,097

Source: Puget Sound Regional council

Exhibit O-20

As shown in Exhibit O-21 Office Using Employees (OUEs), defined as those employees who require office space, vary significantly by sector. The number of OUEs as of 2010 is estimated to be 37,452. This calculates to approximately 337 square feet of occupied office space per OUE. The number of OUEs is forecasted to grow by 10,458, to 47,910 by 2020. This represents an average growth rate of

PMA Covered Office Using Employees					
	% OUE	2000	2010	2020	2030
FIRES	60%	23,669	27,182	36,544	42,217
Manufacturing	10%	1,413	1,042	955	829
Retail	10%	1,495	1,642	1,935	2,195
WTCU	35%	5,050	5,336	5,979	6,351
Gov/Ed	20%	1,353	2,250	2,497	2,670
Total		32,979	37,452	47,910	54,262

Source: Puget Sound Regional Council; Berk and Assotiates 2005; GVA Kidder Mathews analysis, 2010

Exhibit O-21

1,046 OUEs per year.

Forecast

The graph, Exhibit O-22, shows the amount of new space delivered to the market since 2000, in grey. The blue bars represent the amount of space absorbed by the market each year. The trend line, in red, displays the historical and projected market vacancy. The forecast relies on the following assumptions:

Only known projects that are under construction or likely to be completed over the next five years are included in future deliveries.

1. Demolitions and conversions are based on ten the ten year historic average.
2. The amount of office space per office using employee is assumed to remain at 337 square feet though 2018.
3. Office using employment grown by 261 OUE's per quarter. This matches the growth rate outlined in the previous section.

Based on these assumptions, the analysis suggests that vacancy rates will decrease to around 5.2% by second quarter 2018. It is generally accepted that a 5% vacancy rate represents a market in equilibrium; it is also at this point where it once again makes sense to build additional office product.

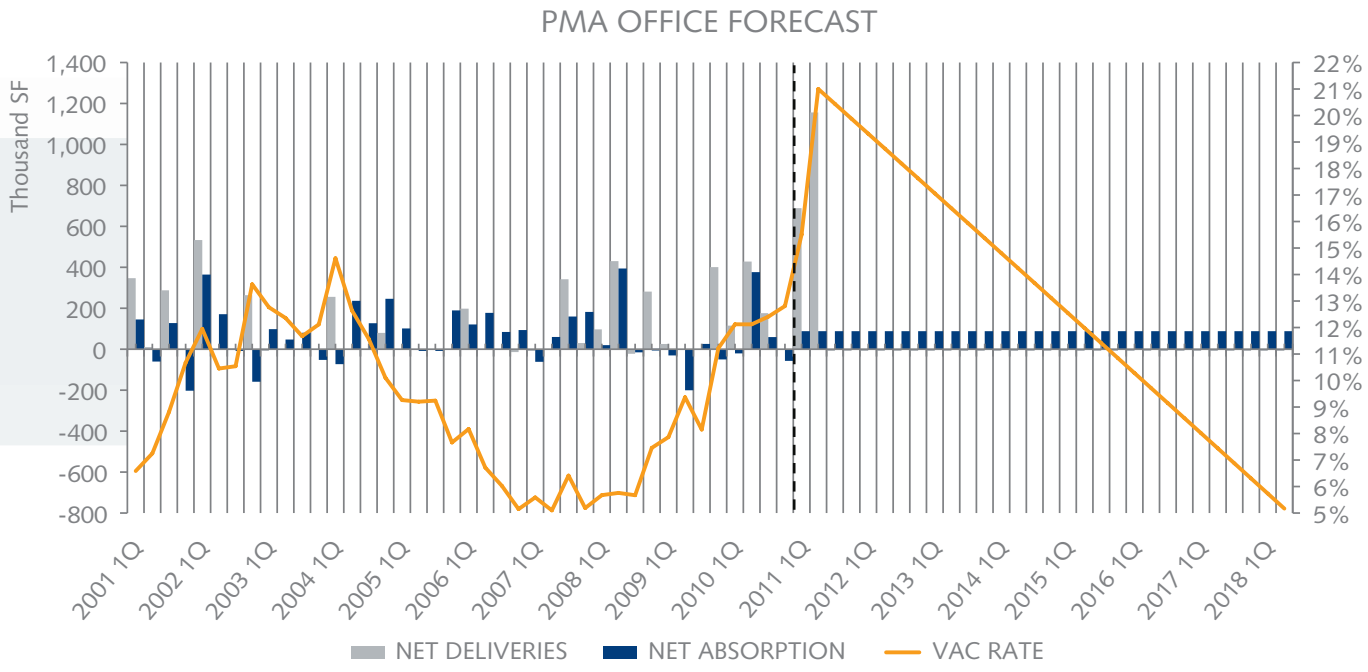


Exhibit O-22

LOCATION ANALYSIS

Geographic Barriers

The subject is situated adjacent to three Seattle neighborhoods; Queen Anne, Magnolia and Ballard. It is also located a short distance from Downtown. However, because of several factors, from an office location perspective, the subject is isolated and lacks connectivity to the CBD.

A number of geographic barriers make access to the site challenging. They include the BNSF Rail Yard to the east, Elliot Bay to the south, and steep topography abutting the subject on the west, as shown in Exhibit O-23.

Most office users value easy access to office support facilities, and to complementary retail offerings, and other amenities.

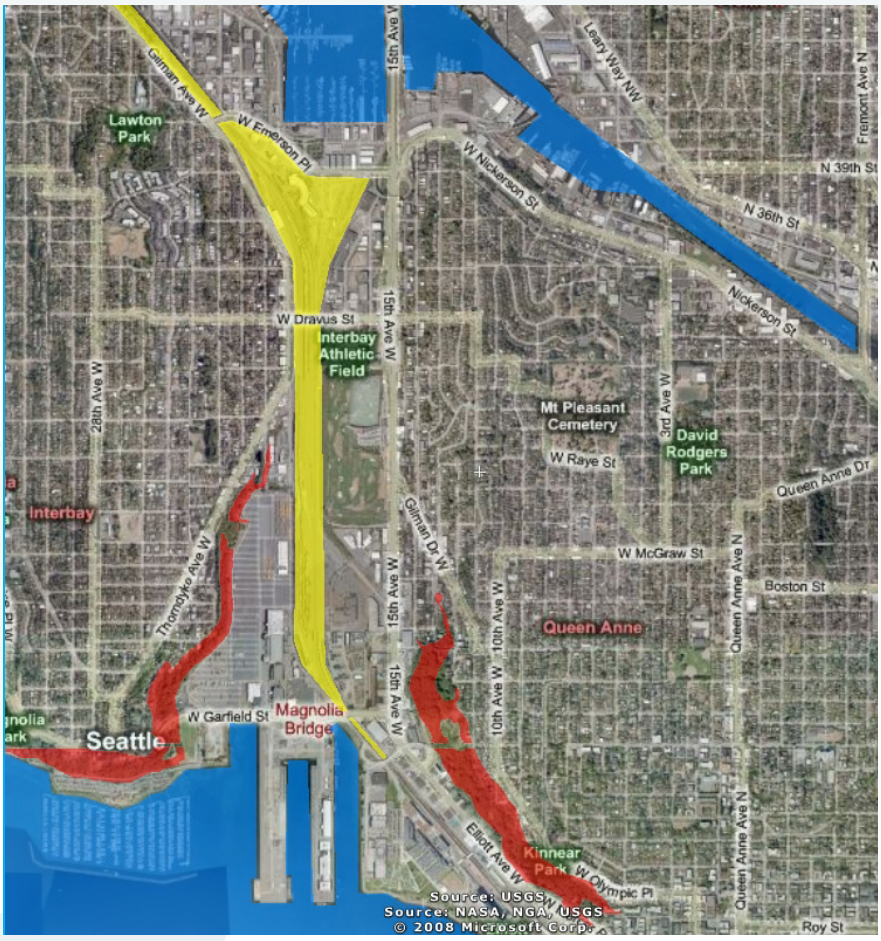


Exhibit O-23

Location Analysis

The attributes of the Terminal 91 properties North Bay Site can be evaluated to determine its strengths and weaknesses in the market. The analysis contrasts the subject to the Seattle CBD, Bellevue CBD, Lake Union, and SODO office markets. Each of the characteristics listed are considered important to the success of office development .

Travel Time to Executive Housing: The subject is well located in relation to executive housing. The large stock of executive housing in the immediate area makes the location attractive for executives who are often key site selection decision makers.

Travel Time to Employee Housing: Housing costs in the neighborhoods immediately surrounding the subject are high. The high cost of housing extends travel time for lower cost labor such as support staff, and the lack of easy freeway access makes it a tough commute relative to other urban submarkets.

Land Cost: Like most urban locations in the region, land is expensive relative to suburban locations. Terminal 91 is less expensive than the Seattle CBD, Bellevue CBD and much of Lake Union.

Land Development Cost: The subject is located in a liquefaction zone which drives the cost of development up relative to all other submarkets except SODO which is also located on poor soils. A high water table makes it expensive to build underground.

Direction of Growth: Office building growth is moving north along Elliot by towards the site; however the majority of office space currently under construction is in the South

Lake Union market.

Linkages to Other Offices and Support Facilities: Geographic barriers isolate the subject from office support facilities located in the Seattle CBD. Each of the other markets have superior access to other offices and support facilities.

Proximity to Complementary Retail Uses: The proximity of complimentary retail uses is efficient for business operations and helps to attract and retain employees. The site is isolated from complimentary retail uses when compared to the other markets.

Public Planning and Zoning: The subject zoning is not fully supportive of pure office development. cThe subject zoning is more restrictive of office uses than any of the other markets.

Views: The West Yard property offers views of both the Seattle skyline and Elliot Bay. The North Bay property has only territorial views. The West Yard views are superior to the other markets, unless high-rise buildings are constructed that capture significant views. Views from the North Bay property are inferior to the other markets.

Public Transportation: The subject is not well served by public transit relative to other competitive submarkets. The other markets have superior public transit service.

The table (Exhibit O-24) contrasts the Terminal 91 location to other competing markets. . The overall score can be used to evaluate a site to the other markets. The score itself is not as important as the thought process used to evaluate the characteristics.

Comparative Location Analysis					
	Subject	**Seattle CBD**	**Bellevue CBD**	**Lake Union**	**SODO**
Travel Time to Emlpoyee Housing	3	4	4	4	4
Travel Time to Executive housing	4	5	5	5	3
Land Cost	3	2	2	3	4
Land Development Cost	2	4	4	3	2
Public Planning and Zoning	1	3	3	3	2
Direction of Multistory office Growth	3	4	5	4	2
Linkages to other offices and support Facilities	2	5	5	4	2
Proximity to complementary retail uses	2	5	4	4	1
Views	5	4	4	4	2
Public Transportation	2	5	3	4	2
Total	**27**	**41**	**39**	**38**	**24**

Exhibit O-24

The West Yard would make a good location for a modest amount of office space. There is available land, great views, good proximity to executive housing and reasonable proximity to employee housing. The North Bay property is a challenging location for office buildings. Among its biggest challenge is the sites proximity to adjoining industrial uses that would be incompatible with people intensive office uses.

CONCLUSION

Buildings in the 74 million square foot Seattle office market are currently 13% vacant, representing almost 10 million square feet of space. Asking rental rates are down more than 15% from the peak of the market in 2007. Vacancy in the submarket market area, made up of the Magnolia, Queen Anne, Interbay, Ballard, Freemont, and Lake Union, is currently 12%. The Class A vacancy in the submarket is 27%, attributable mostly to a few empty buildings. Recent demand for office space in the submarket has been for waterfront or water-proximate property, a trend that is likely to continue given its scarcity. Projections, based on historical events, suggest that it may be five to seven years until the development of new speculative office space is feasible in Seattle or in the submarket.

Subject to demand and zoning, the West Yard is the best location for office development at on the Terminal 91 properties. Its location is unique, it offers great views, is somewhat removed from the industrial impact in the neighborhood, and has good proximity to executive and employee housing. The North Bay property is less people friendly with the adjoining industrial uses generating vehicular, noise, and visual impacts.

BIOTECH Market

A Biotech/Lab Space building is built-out for extensive laboratory use. Such space may have, but is not limited to, extensive steel frame with concrete floors to handle additional floor loading, extremely high floor separations allowing extensive mechanical equipment "runs" above the suspended ceiling and below the floor structure above, high speed data access, heavy duty HVAC, higher roof loading capacity to support heavy air handling equipment, and enhanced environmental control technology. This space may also be designated a "clean room" for handling materials with high tolerances and contamination requirements.

MARKET OVERVIEW

Although smaller than other leading biotechnology cluster cities, the Seattle metro area remains a fast growing and vibrant cluster known for its research and entrepreneurial spirit. The market is anchored by the University of Washington (UW) and the Fred Hutchinson Cancer Research Center (FHCRC) both of which are major recipients of National Institutes of Health (NIH) research funding. The NIH is the major federal government source of medical research funding in the U.S. According to the Washington Biotechnology and Biomedical Association, more than one-third of the biotechnology and medical device firms in the state are founded on technologies developed at these institutions. The area has an abundance of startup and early stage firms but is somewhat lacking in larger, established firms as several companies have been acquired.

Manufacturing

The Biotech section of this report focuses on lab and medical technology space. Related manufacturing plants do not necessarily need to be co-located with a company's headquarters or research facilities. In deciding where to locate a manufacturing plant, different site selection factors come into play. The cost of land, utilities, and labor are the primary driving factors. These are the same market forces that are at work in all industrial manufacturing markets; addressed in the Industrial Market section of this report.

Inventory

The total inventory of lab and medical technology space in the region is about 5.8 million square feet. Inventory is up by about 1.8 million square feet from 2005 when inventory was estimated to be approximately 4 million square feet. Since 1990 when total inventory in the region was estimated to be approximately 2.1 million square feet, the amount of space has more than doubled.

The majority of lab and medical technology space in the region is located in Seattle. Of the total 5.8 million square feet of regional inventory, 4.8 million is located in Seattle. The remaining 1 million square feet is mostly located on the eastside which includes Bothell.

New Construction, Proposed and Under Construction

There are several life science developers including Alexandria Real Estate Equities, Touchstone, BioMed Realty Trust, Martin Selig Real Estate and others who have shell properties that can be renovated into lab space or who have sites designed to accommodate lab and medical technology development. Many of these projects are already entitled with Seattle's Department of Planning and Development and can be brought to market in 12 months (entitled, shell ready and renovation properties) to 24 months (new construction).

The present financial crisis however, which began in fall 2008 has taken its toll on both users and developers of lab and medical technology space. Financing for existing and new life science companies has become difficult to secure; the same is true for developers of lab and medical technology space as their traditional sources of development capital have dried-up and investors and lenders have dramatically changed their underwriting criteria. It is uncertain how long this situation will impact tenant demand or new development.

As highlighted below, Alexandria Real Estate Equities and Biomed Realty Trust have recently completed and have permitted new Biotech projects in Seattle.

- Alexandria Real Estate Equities' 115,000 sq ft 199 Blaine St. Development was recently delivered in January of 2010.
- Alexandria's five-story, 110,000 sq ft 1165 Eastlake addition/renovation project is currently in permitting process.
- Biomed Realty Trust's six story 93,000 sq ft Fairview Research Center was recently completed. They have also acquired adjacent land and will increase the size the project by up 100,000 sq ft in a second phase as dictated by demand.

Vacancy and Absorption

The vacancy rate for lab and medical technology space in Seattle is estimated to be below 3%. There are several medium-to-large size transactions currently in the works that will effectively eliminate any existing second generation space in Seattle. By comparison, vacancy in the Eastside market is currently pushing 40%.

Largest Lease Signings

Gilead moved into its new home at Alexandria's 199 Blaine building, Dendreon inked a deal at Selig's new 635/645 Elliott Avenue project, Acucela leased administrative space in Russell Investments Center, and Seattle Children's Hospital leased office space in Touchstone's West Eight building.

Rental Rates

Asking rental rates for second generation Class A lab and medical technology space are currently between $30.00 and $40.00, per rentable square foot, per year, triple net. When available, first generation space in Seattle will run between $50.00 and $60.00 per rentable square foot, per year, triple net. Concessions offered by landlords, (e.g., abated base rent, rent phase-ins, pocket space, tenant improvement allowances, etc.) may lower the "effective" rate paid over the term from the $50.00 to $60.00 "face rate" contained in the lease.

Exhibit B-1 lists rent comparisons for recently completed transactions. Each transaction involves rental rate escalations, concessions, and tenant improvement contributions that impact the effective rental rate the tenant will actually pay.

Building Name/ Type & Location	Building Age, Size, % of total	Current Occ. Office/Admin. Lab/Product.		Begin Expire	Term Mo.	Rent $/sf/yr		Escalations	Tis
Nanostring Fairview Research Center New Construction Lake Union	2008 95,849 18%	17,639 7,056 10,583	100% 40% 60%	Dec-08 Nov-13	60	$56	NNN	3.5%/yr	$2,204,875 $125
Kineta 307 Westlake (sublease from SBRI)	2004 115,060 4%	5,010 1,503 3,507	100% 30% 70%	Feb-08 Jan-10	24	$48	NNN	3%/yr	$0
Allozyne 1600 Fairview New Construction/Renovation	2008 27,991 46%	12,796 1,503 3,507	100% 12% 27%	Apr-08 Mar-18	120	$49	NNN	3%-5% CPI	$1,599,500 $125
Novo Nordisk Fairview Research Center New Construction Lake Union	2008 95,849 41%	38,900 13,615 25,285	100% 35% 65%	Apr-09 Mar-19	120	$51	NNN	3%/yr	$6,029,500 $155
Gilead 199 Blaine New Construction Lake Union	2009 95,849 115%	109,760 43,904 65,856	100% 40% 60%	Dec-08 Nov-14	72	$56	NNN	3%/yr	$13,720,000 $125

Exhibit B-1

Forecast

The Puget Sound life sciences industry has reached a "critical mass" and should experience strong growth even if punctuated by the occasional downturn that reflects the risky nature of the business and the overall economic conditions of the current (ending) recession. The sheer number of firms in the region has achieved a level that establishes Seattle as one of the major life science research markets in the nation. A number of companies are maturing with at least one product that has demonstrated significant effectiveness in Phase II or Phase III trials. Also, it has prominent research institutions and an entrepreneurial culture that has led to the creation and development of successful firms including Immunex (acquired by Amgen), one of the most successful early biotechnology firms. Finally, the high-quality of life helps recruit and retain scientists and employees. The Seattle biotechnology market will continue to thrive in the long run. The demand for biotechnology laboratory and office space will continue to grow in the local real estate market even if relatively small compared with other real estate categories.

LOCATION ANALYSIS

The attributes of the Terminal 91 properties can be evaluated to determine its strengths and weaknesses in the market. The analysis contrasts the subject to the entire Eastside, Bothell, and the Lake Union/Denny Triangle biotech markets. Each of the characteristics listed are considered important to the success of the development of biotech space.

Travel Time to Executive Housing: The subject is well located in relation to executive housing. The large stock of executive housing in the immediate area makes the location attractive to executives who are often key site selection decision makers. The subject could be considered equal to the competing markets.

Travel Time to Employee Housing: Housing costs in the neighborhoods immediately surrounding the subject are high. The high cost of housing extends travel time for lower cost labor such as support staff.

Land Cost: The Eastside has a slight advantage over the subject in terms of access to lower cost labor.

Development Cost: The subject is located in a liquefaction zone which increases the cost of development. A high water table in the area also drives up the cost of development. The competing markets are at an advantage, with better soil conditions.

Direction of Growth: Although a few projects have begun to locate closer to the subject the majority of growth continues to cluster around in the Lake Union/Denny Triangle submarket. The Lake Union/Denny Triangle is "the" location when it comes to biotech.

Linkages to Other Offices and Support Facilities: The subject is at a competitive disadvantage when compared to the competing markets. While the subject is with reasonable proximity of the Amgen's Helix Campus, the location is considered a fringe location and lacks support facilities.

Proximity to Complementary Retail Uses: Employees and employers value proximity to shopping and dining offerings. Close proximity to retail amenities saves travel time and increases employee satisfaction. The subject is at a disadvantage compared to the competing markets.

Public Planning and Zoning: The zoning code allows medical technology, research, and development space at Terminal 91. However, freestanding office space is limited to 10,000 square feet unless it is an accessory use.

Views: The West Yard property offers views of both the Seattle skyline and Elliot Bay. The North Bay property has only territorial views. The West Yard views are superior to the other markets, unless high-rise buildings are constructed that capture significant views. Views from the North Bay property are inferior to the other markets.

Public Transportation: The subject is not currently well served by public transit. Bothell's transit service is similar to the subject's and the other markets have superior transit service.

Parking Cost: Parking In certain Eastside locations and in Bothell parking is free. In other Eastside locations parking is

more expensive. In the Lake Union/Denny Triangle market the cost of parking is likely greater than is would be at the subject. The subject may be in a position to create a competitive advantage by providing more parking at a more competitive rate than available in other markets.

Access to Major Airport: In terms of access to SeaTac International Airport, the subject is at a competitive advantage compared to most of the Eastside, but at a disadvantage when compared to the Lake Union/Denny Triangle market.

Proximity to Educational Institutions: AThe subject is compares well when contrasted to Eastside locations and proximity to major educational institutions. Seattle's biotech space market, centered in the market, evolved, in part, due to its proximity to the UW and Fred Hutch. While there are exceptions, biotech workers like to be within close proximity of their collegues and the UW and Fred Hutch.

Noise/Vibration: The North Bay property, with its proximity to the rail yard and other industrial activity put it at a competitive disadvantage. An disadvantage that can be overcome through technology, just as Immunex/Amgen did at the their Helix Campus. The West Yard is subject to noise stemming from the adjoining seaport terminal, however, it is less prone to noise and vibration than is the North Bay property. The competing markets do not have significant noise and vibration issues.

Quantitative Analysis: The attributes of the Terminal 91 properties can be evaluated to determine its strengths and weaknesses of the location in the market. Exhibit B-2 compares the subject to competing markets from a location perspective. Each of the characteristics listed are considered important to the success of a development.

Given each firm has it's own site selection preferences, the score itself is not as important as the thought process used to evaluate the characteristics.

Location Summary

The heart of region's biotech hub is located in the Lake Union/Denny Triangle market. The subject is located on the periphery of this market and other users have chosen the neighborhood. The Terminal 91 properties are at a competitive when compared to the all of the Eastside and the Bothell submarket. The subject lacks proximity to major education institutions, a significant grouping of other biotech firms, support amenities, an good pedestrian and vehicular access.

Comparative Location Analysis

	Subject	Eastside	Bothell	Lake Union/ Denny Triangle
Travel Time to Employee Housing	3	3	3	3
Travel Time to Executive housing	5	5	3	5
Land Cost	3	3	5	2
Development Cost	2	3	4	3
Public Planning and Zoning	4	3	5	5
Direction Life Sciences Growth	3	2	3	5
Linkages to Other Offices and Support Facilities	3	2	3	5
Proximity to Complementary Retail Uses	3	3	3	4
Views	5	3	3	4
Public Transportation	3	3	2	4
Parking Cost	3	3	5	3
Access To Major Airport	3	2	2	4
Proximity to Educational Institution	4	4	3	5
Noise/Vibration	2	4	4	4

Exhibit B-2

CONCLUSION

In the Seattle lab and medical technology space market there is approximately 4.8 million square feet of inventory; the majority of this inventory is in the Lake Union/Denny Triangle submarket.

The vacancy rate for lab and medical technology space in Seattle is estimated to be below 3%. By comparison, vacancy in the Eastside market is currently pushing 40%.

If Biotech continues to grow in the region, demand will likely spur a new round of development in Seattle. The subject is unlikely to benefit from any short term demand however, as there are several life science developers with property located in more desirable areas. They include Alexandria Real Estate Equities, Touchstone, BioMed Realty Trust, and Martin Selig Real Estate, each with shell properties that can be transformed into first class lab product, or with sites that can accommodate lab and medical technology development. One such example is the Troy Laundry Block, located in the heart of Lake Union where up to 800,000 square feet of space could be developed. These development opportunities likely have the capacity to meet the demand for biotech space for the next ten years.

Although rare, large users similar to Amgen require large amounts of contiguous space. For these users the subject is one of the largest contiguous development parcels located in the city of Seattle.

Retail Market

A Retail property's primary intended use is to promote, distribute or sell products and services to the general public. It will often be in high traffic or easily accessible areas. Retail buildings are configured for the display of merchandise or the interaction of company sales personnel with others.

Retail buildings can be used for various sales opportunities, including, but not limited to, stand-alone (convenience stores to department stores), store fronts, strip centers (no anchors), neighborhood, community, regional, and super-regional malls, power centers, factory outlet centers, and fashion or specialty centers.

A Big Box Store is a large stand-alone store that specializes in a single line of products, such as home improvements, toys, or office supplies; no-frills discount stores that sell in volume and category killers are often big box stores.

SEATTLE RETAIL MARKET

For the purposes of this study, the City of Seattle represents an appropriate Secondary Market Area (SMA).

In the SMA there are there are 3,690 buildings measuring 40.3 million square feet of retail space, representing approximately 40% of the existing retail space in the King County as a whole.

As of third quarter 2010 vacancy in the SMA stands at 4%, representing 1.6 million square feet of vacant space. By comparison, retail vacancy currently is 6% in the County as a whole. Asking rental rates in the SMA average $20.42 per square foot, per year, triple net; by comparison rental rates are currently $19.53 in the County. For buildings built in the SMA since 2000, the average rental rate is currently $26.36 per square foot, triple net.

Demographics

In 2000 the population in the City of Seattle was 563,374, in 2010 the total is estimated to be 614,161; it is projected to increase by 32,159, to 646,320 in 2015. The average annual rate of growth between 2000 and 2010 was .86%,

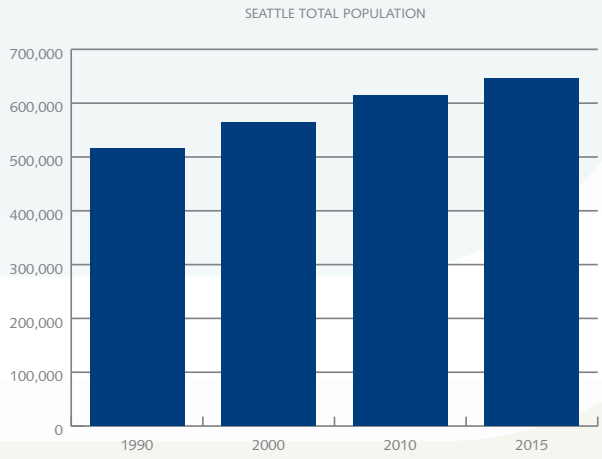


Exhibit R-1

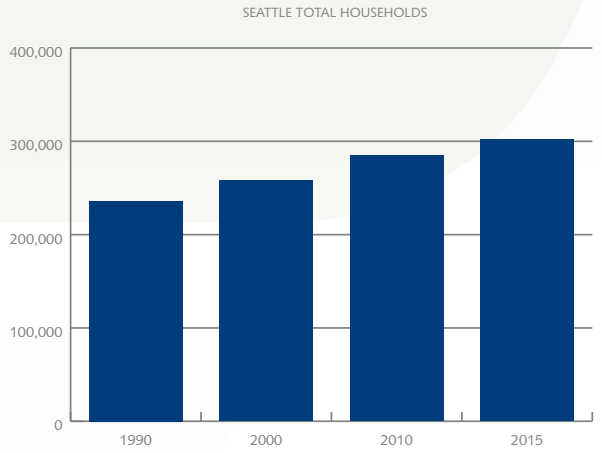


Exhibit R-2

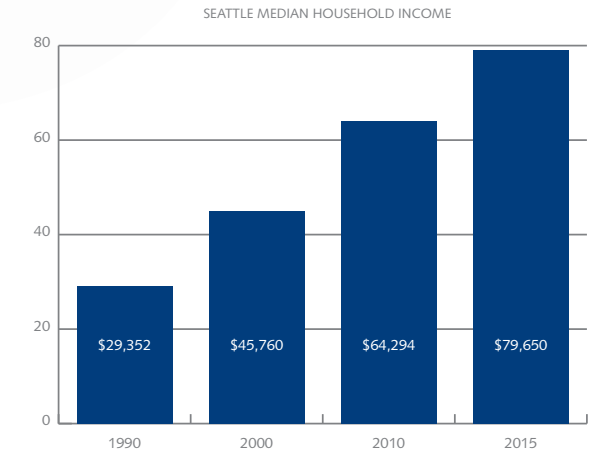


Exhibit R-3

and between 2010 and 2015 it is expected to be 1.03%. Exhibit R-1 shows historical and projected population for the SMA.

The total employee population (daytime population), which represents all of those employed in businesses located within the City of Seattle, is currently estimated to be 420,630.

By sex the population is balanced, 50% males and 50% females. By race, the population is 64% White, and 16% Asian, with the balance made up other races. The median age is 37.7 years old and approximately 48% of the housing in the City is owner occupied.

In 2000 there were 258,499 households in the SMA. In 2010 the number has increased to 285,718, and is expected to grow to 302,470 by 2015. The average annual growth rate between 2000 and 2010 was 1.0% per year, and is projected to grow by 1.15% per year through 2015. Exhibit R-2 shows the historical and projected household population in the SMA.

As of 2010 the median household income in the SMA is estimated to be $64,294, this figure is projected to grow to $79,650 by 2015. The average annual rate of change between 2000 and 2010 was 3.46% and through 2015 it is expected to increase by 4.38% per year. The median disposable household income is estimated to be $52,747 in 2010. Exhibit R-3 shows the changes, historical and projected, in household income.

Retail Potential

According to CCIM's Site to do Business, there is a total of $9.0 billion in retail expenditures made annually in the SMA. Of this figure $7.3 billion is in retail trade and $1.7 billion is in food and drink. The data suggests that there is $203 million in retail expenditures that are being made outside the trade area by the population that lives in the trade area, commonly known as retail leakage. If food and drink, which is experiencing an annual spending gap of $309 million was not included retail trade surplus would be almost $513 million in the SMA.

Exhibit R-4 shows the retail sales in the area (supply) and retail potential (demand) for goods and services.

Industry Summary	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	$9,199,496,093	$8,996,400,133	$203,095,960
Total Retail Trade (NAICS 44-45)	$7,846,966,329	$7,334,157,741	$512,808,588
Total Food & Drink (NAICS 722)	$1,352,529,764	$1,662,242,392	-$309,712,628

Exhibit R-4

PRIMARY MARKET AREA

The Primary Market Area (PMA) is composed of zip codes 98119 and 98199. As shown in the map (Exhibit R-5) this area covers the neighborhoods of Magnolia, Interbay, West Queen Ann and a portion of both North and Lower Queen Ann. The size and shape of the PMA was influenced by geographic barriers to access, physical site constraints (e.g., site size, shape, and contour), and the location of competing retail.

In the PMA there are 212 buildings measuring 1.47 million square feet, this represents approximately 3.6% of the

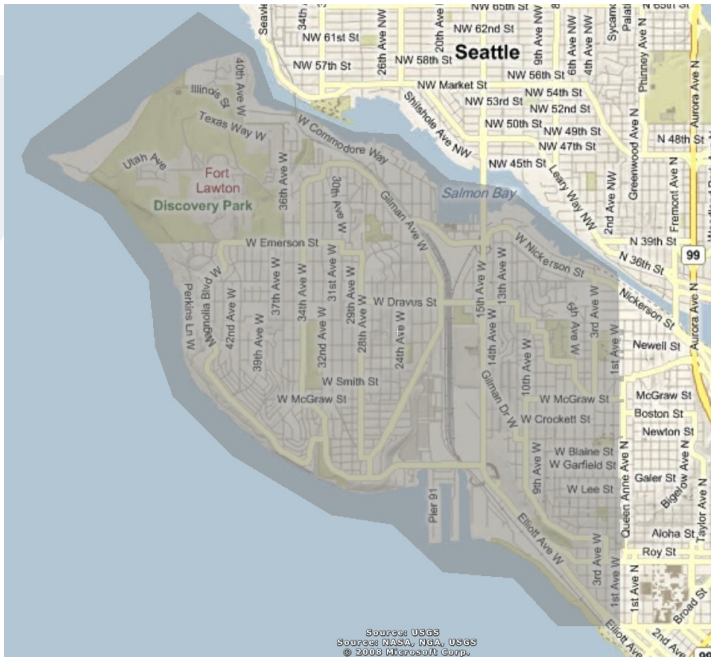


Exhibit R-5

Seattle's total retail inventory. As shown on Exhibit R-6, the majority of this space is concentrated in Lower Queen Ann, Magnolia Center, along Elliot Ave W, and along 15th Ave W. About 22% of the PMA's total inventory, or 324,000 square feet, has been built since 2000.

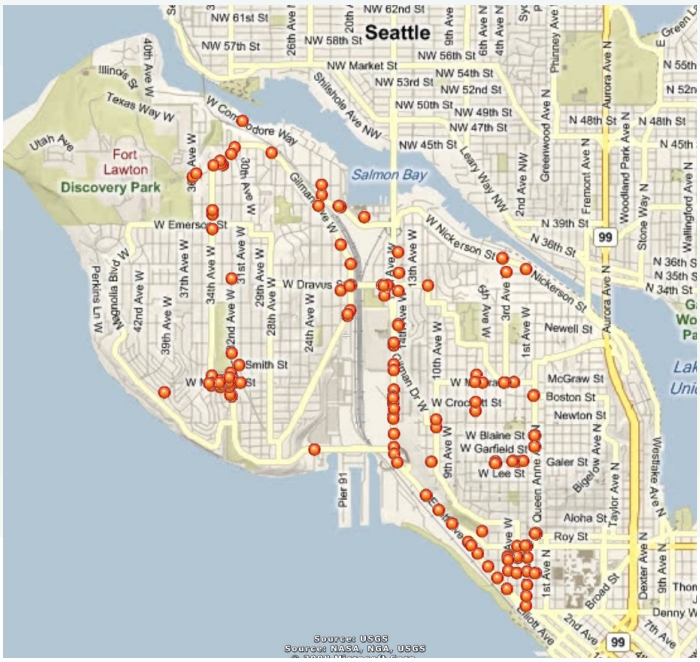


Exhibit R-6

As of third quarter 2010 vacancy in the PMA was 2%, representing 23,000 square feet of vacant space. By comparison, vacancy currently stands at 4% in the Seattle as a whole. According to Costar, asking rental rates in the PMA average $20.31 per square foot, triple net; by comparison rental rates are currently $20.42 in Seattle. For buildings built in the PMA since 2000, the average rental rate is currently $30.65 per square foot, triple net; this compares to $26.36 in the Seattle as a whole.

Demographics

In 2000, the population in the PMA was 39,957, and in 2010 the total is estimated to be 41,995. By 2014 the population is projected to increase by 1,546 people, to 43,541. The annual rate of growth from 2000 to 2010 was .50%, and from 2010 to 2015 it is forecasted to be .72%. Exhibit R-7 shows the PMA historical and projected changes in population in the past.

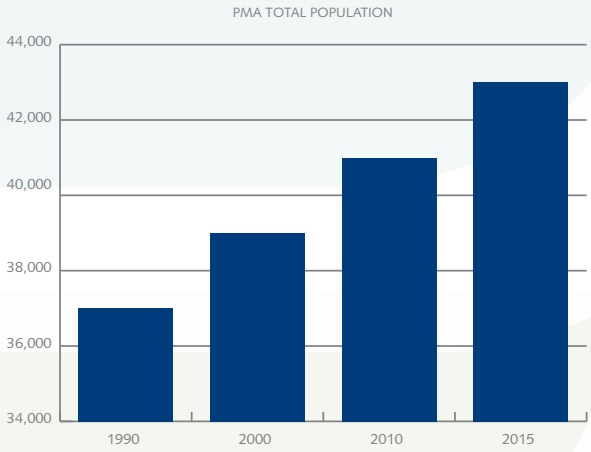


Exhibit R-7

The total employee population (also referred to as the daytime population), which represents all of those employed in businesses located within the PMA, is currently 21,692.

Similar to the City as a whole, by sex the population is balanced, with 48% males and 52% females. By race, the population is 83% White, and 7% Asian, with the balance made up other races. The median age is slightly higher than the City as a whole at 38.7 years old. Approximately 50% of the housing in the PMA is owner occupied.

In 2000, there were 19,999 households in the PMA. In 2010 the number has increased to 21,340 and is

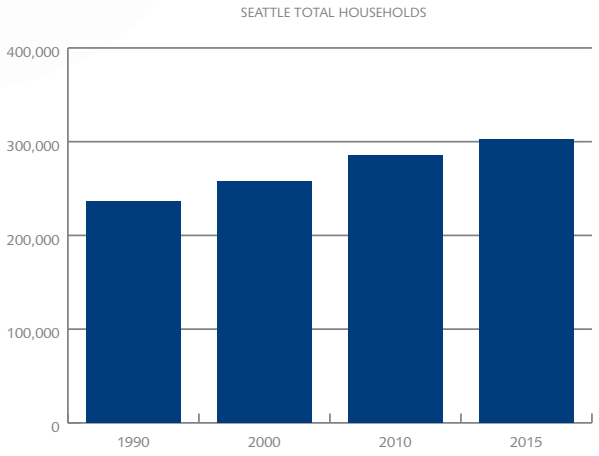


Exhibit R-8

expected to grow to 22,232 by 2015. The annual growth rate between 2000 and 2010 was .65% per year, and is projected to grow by 0.6% per year through 2015. Exhibit R-8 shows changes in the total household income.

As of 2010 the estimated median household income in the PMA is $76,408. This figure is projected to grow by $19,773 to $96,181, by 2015. The annual rate of change between 2000 and 2010 was 3.5%, and through 2015 it is expected to increase by 4.7% per year. By comparison the Median household income in the City, as of 2010 is only $64,294. The median disposable household income in the PMA is estimated to be $60,076 in 2010. Exhibit R-9 presents the historical and projected changes in median household income.

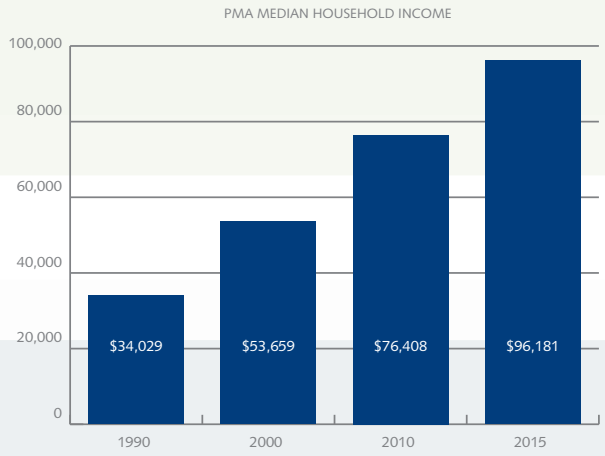


Exhibit R-9

Primary Market Area Psychographics

ESRI's market segmentation system called Community Tapestry, classifies U.S. neighborhoods into 65 segments based on their socioeconomic and demographic composition. Segmentation explains customer diversity, describes lifestyles and life stages, and incorporates a wide range of data such as demographic, business, and market potential data.

The top three tapestry segments in the PMA are the Metro Renters which makes up 35% of the total population, Laptops and Lattes which make up 15% of the population, and Exurbanites which make up 13%of the total population. Together these three tapestry groups represent 63% of the total households in the PMA. The following describes these three market segments and the characteristics of the segments on a national basis.

Metro Renters. Young, educated singles, residents of Metro Renters neighborhoods are just beginning their professional careers in some of the largest U.S. cities. The median age of 33.5 years is younger than the U.S. median of 36.9 years. Approximately 30 percent are in their 20s; 14 percent are in their early 30s. This younger population is also more diverse than the U.S. population.

The median household income is $59,197 and rising. Approximately 60 percent of employed residents work in professional and management occupations, most in the service industry sector. More than one in four Metro Renters residents aged 25 years or older holds a graduate degree; one in three has earned a bachelor's degree. Approximately 90 percent of this group are housed apartments.

Because they rent, "home and hearth" products are low priority, although they will buy new furniture from stores such as Crate & Barrel or Pier One Imports. Most of them have renter's insurance. They buy clothes and other merchandise from traditional stores or online from favorites such as Banana Republic, Gap, Nordstrom, Amazon.com, and Barnesandnoble.com. They take their clothes to dry

cleaners. Active Metro Renters residents work out regularly at clubs, play tennis and volleyball, practice yoga, ski, and jog. They take advantage of their urban milieu; they go dancing, visit museums, attend classical or rock concerts, go to karaoke nights and the movies, and eat out. Painting and drawing are favorite hobbies. Residents enjoy traveling domestically and overseas and drinking domestic and imported beer and wine.

They read two or more daily newspapers; history books; and airline, fashion, epicurean, travel, and business/finance magazines. They listen to alternative, jazz, classical music, all-news, and public radio. They seldom watch TV; most households own only one set so they can watch movies and news programs. They rent foreign and classic films on DVD.

They go online frequently to look for jobs, make travel arrangements, download music, research real estate, watch videos, and shop. Many buy their PCs online; they prefer laptops, although many also own PDAs. Politically, these neighborhoods are liberal.

Trendsetters. On the cutting edge of urban style, Trendsetters residents are young, diverse, and mobile. More than half the households are singles who live alone or share the rent with a roommate. Families comprise the remainder. With a median age of 35.3 years, this segment is slightly younger than the U.S. median. Ethnically diverse, more than 10 percent of the residents are Asian, and 25 percent are Hispanic; both percentages are well above those of the U.S.

These residents are educated professionals who work in substantive jobs. Eighteen percent of the residents who are aged 25 years and older hold a graduate degree, 46 percent have earned a bachelor's degree, and 70 percent have attended college. The median household income is $63,412; the median net worth is $44,554. Wages account for most of the earned income; however, other sources include interest, dividends, rental properties, and self-employment business ventures.

Seventy-five percent of these neighborhoods are located on the West Coast; the other 25 percent are in the Northeast. Not ready for homeowner responsibilities, sixty-eight percent rent apartments in upscale, multiunit settlements in older urban districts. The average gross rent is one-third higher than the U.S. average. Single-family homes and townhouses comprise the remainder of the housing types. Most of the housing was built before 1960. The median home value is $431,472. Because public transportation is so readily available, 18 percent of the households don't own a vehicle.

Laptops and Lattes. With no homeownership or child-rearing responsibilities, residents of Laptops and Lattes neighborhoods enjoy single life in the big city. Most households are singles who live alone or with a roommate. The average household size remains constant at 1.8. With a median age of 38.6 years; these residents are slightly older than the U.S. median of 36.9 years.

This segment is affluent; the median household income of $98,606 supports these residents. Laptops and Lattes residents are highly educated. More than 70 percent of residents aged 25 years and older hold a bachelor's or graduate degree.

Laptops and Lattes residents love city life and prefer to live in major metropolitan areas. Because of their lifestyle or locale, they are more likely to rent than own their homes. The average gross rent is 85 percent higher than the U.S. level, third highest of the Tapestry segments. The median home value is $639,896. Typical of city dwellers, 30 percent do not own a vehicle (three times the national level).

Cosmopolitan, connected, and politically liberal, Laptops and Lattes residents rely on their Web-enabled cell phones instead of laptops to communicate when they're on the go. They go online to check e-mail, trade and track investments, review the latest news, arrange travel plans, and shop on sites such as amazon.com, ebay.com, and barnesandnoble.com. They also order items by phone. These residents travel, especially abroad, and enjoy a variety of vacations, such as backpacking, hiking, and beach trips. They stay at upscale hotels and rent cars when on vacation. A typical resident owns renter's insurance policies and uses dry cleaning services frequently.

Laptops and Lattes residents go to the movies, the theater,

dance performances, rock concerts, museums, bars, nightclubs, baseball and football games, and professional basketball games. They watch foreign films or movie classics on DVD and news and music channels on cable TV. Saturday Night Live is a favorite program. They eat out frequently and take adult education classes. They shop at Target for essentials and luxuries at high-end department and home stores.

Residents exercise regularly at a health club and practice yoga, go downhill skiing, play tennis, jog, and bike. When they listen to the radio, they have a strong preference for classical music and all-news programs. They also listen to public radio and contribute to PBS. They read two or more daily newspapers; a variety of books such as history, biographies, and self-help; and travel, epicurean, airline, fashion, finance, and business magazines. They tend to buy organic and low fat/high fiber food. They eat nutrition/ energy bars and take vitamins regularly. They get involved in community activities, write to elected officials, write articles that are published, and participate in environmental groups.

Retail Potential

There is a total of $836 million in retail expenditures made annually in the PMA. Of this figure $713 million is in retail trade and $123 million is in food and drink. The data suggests there is $600 million in retail leakage in the PMA representing a leakage factor of over 76%.

Exhibit R-10 shows the retail sales in the area (supply) and retail potential (demand) for goods and services.

Industry Summary	Demand (Retail Potential)	Supply (Retail Sales)	Retail Gap (Demand - Supply)
Total Retail Trade and Food & Drink (NAICS 44-45, 722)	$836,153,849	$236,123,051	$600,030,798
Total Retail Trade (NAICS 44-45)	$712,871,903	$180,568,817	$532,303,086
Total Food & Drink (NAICS 722)	$123,281,946	$55,554,234	$67,727,712

Exhibit R-10

RETAIL LOCATION ANALYSIS

The subject is situated between two of Seattle's most affluent neighborhoods; Queen Anne and Magnolia. It is also located a short distance from Downtown and Ballard. However, because of several factors, from a retail location perspective, the subject is isolated and lacks arterial street frontage.

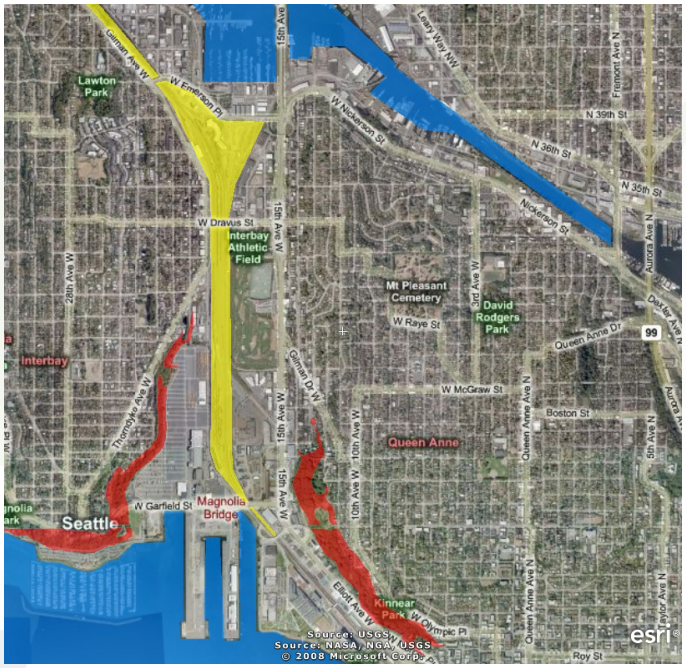


Exhibit R-11

As depicted on Exhibit R-11, a number of geographic barriers make access and visibility to the site challenging. They include the BNSF Rail Yard to the east, Elliot Bay to the south, and steep topography abutting the subject on the west. The barriers stand in the way of easy access from the key consumer bases located in the Magnolia and Queen Anne Neighborhoods.

Vehicular Access and Visibility

Most retailers dearly value visibility and traffic, be it pedestrian or vehicular. The subject has very little pedestrian traffic and the geographic barriers substantially limit visibility from main arterials.

The site is visible, but not obviously accessible from the Magnolia Bridge which sees daily traffic counts of approximately 17,000 cars per day. Visibility from 15th Avenue West, which has a daily traffic volume of almost 40,000 cars per day, is not easy and access is circuitous. Retail signage located on the site would need to be very large to alert and attract potential customers.

There are two categories of retail tenants that may not be as impacted by the access issues associated with the North Bay property. The first is local retail, such as a deli or convenience store , that serve the daytime working population in the immediate area. The second is destination retailer, like Costco or Walmart, that can draw customers from long distances to locations where access and visibility are not ideal. It should be noted, a large format retailers typically need 10 to 15 acres of land on which to locate a store. While there may only be a select property or combination of properties can meet such a requirement in the area, none are currently available. If for example, a property or properties were available along 15th Avenue NW, the location would have superior vehicular access and visibility.

CONCLUSION

Despite the current economic downturn, the subject's Primary Market Area (PMA) remains healthy. Only 2% of the PMA's 1.5 million square feet of retail office inventory is vacant. To put this in perspective, vacancy is currently 4% in Seattle, and market participants generally view 5% vacancy as an indicator that a market is in equilibrium. Asking rental rates PMA are $20.31 per square foot, triple net, by comparison rental rates are currently $20.42 in Seattle. In space built in the PMA since 2000, rental rates are currently $30.65 per square foot, triple net.

The population living within the PMA is currently 41,995 and is expected to grow by 1,546, to 43,541 people by 2015. This population has a median household income of $76,408, more than $12,000 higher than Seattle as a whole, which has a median household income of $64,294. Median household income in the PMA is expected to grow by almost $20,000, to $96,181 by the end of 2015. Of the total $836 million in annual retail expenditures made annually in the PMA, $600 million is spent outside the PMA, representing a leakage factor of more than 76%.

Significant physical barriers including steep topography, a rail yard, and Elliot Bay isolate the subject from the surrounding neighborhoods, which limits its ability capture the retail potential described in the preceding paragraphs. To mitigate this effective improved signage and increased ease of access must be incorporated into the site design.

There is significant demand for retail in the immediate area surrounding the subject, Given the access and visibility issues associated with the Terminal 91 property the likely retail users are from two market segments. First, it is reasonable to suggest that a modest amount of service retail that caters to the businesses in the immediate area would be successful; 2,500 to 10,000 square feet of building area. Secondly, there is substantial demand for destination retail, in the form of big box stores. There are multiple operators that would locate in the area if appropriately zoned land was available.

With the typical store measuring 150,000 square feet located on 15 acres of land, North Bay has the capacity to accommodate two or more operators.

Land

The subject property is zoned IG1 U/45 which is the most restrictive industrial zoning in the City of Seattle. In 2008 a zoning change was enacted that reduced the amount of office space allowed on IG zoned properties.

LAND VALUE

The King County Assessor suggests that land values for IG1U/45' zoned properties have increased from a few dollars in 1982 to almost $60 per square foot today. Exhibit L-1 trends the average assessed values based on a small sampling of IGU/45 zoned properties. Beginning in 2000, the rate of increase in assessed values changed dramatically.

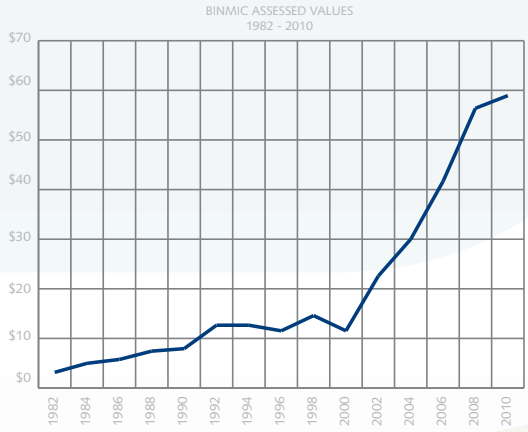


Exhibit L-1

Exhibit L-2 is a list of IG sales transactions that are currently used by market participants to estimate value of similarly zoned property. As shown, values range from $37 to $71 per square foot.

All of the sales listed above took place prior to the 2008 zoning change which restricted the amount of office space allowed in IG zones.

It should also be noted that transactions 1,2,3,4 and 6 took place at the height of the market, mid 2006 through mid 2008. Sale number 1, 5, and 6 are more easily accessible than the subject due to their proximity to 15th Avenue; and sites 1, 2, 4, 5, and 6 are have superior zoning to the subject.

Comparable number two, at $37 per square foot, is closest in terms of both size and location to the subject, though it took place before the down zone and market correction. The most recent sale at Salmon Bay Marine Center is expected to close in the next few weeks. The site was permitted and approved for a 30,000 square foot office building, that the developer decided not to build. The buyer does not intend to build the building, but apparently hopes to recover some of the density previously permitted on the site.

Sale	Name/ Location	Sale Date	Adj. Sale Price	Site (sf)	$/SF Land	Zoning	Use
1	Development Site 1501-1515 NW Leary Way	Listing 05/17/06	$2,200,000 $1,550,000	30,614 prior sale	$71.86 $50.63	IG2 U/65	Vacant
2	Armory Site 1600 W. Armory Way	Listing 08/21/06	N/A $12,500,000	333,670 prior sale	N/A $37.46	IG2 U/45	Proposed mixed use
3	Salmon Bay Marine Center 2330 W Commodore Way	Pending 07/18/07 05/15/06	$1,600,000 $2,130,000 $1,600,000 $3,730,000	30,633 45,181 35,165 80,346	$52.23 $47.14 $45.50 $46.42	IG1 U/45	Verticle World Demolish; Lot
4	Ballard Blocks 5th Avenue W./ NW 46th Street	01/31/06	$5,100,000	83,452	$61.11	IG1 U/65	Demolish; redevelop
5	Tsubota Site 1805-1819 15th Avenue W	04/29/05	$5,500,000	131,834	$41.72	IG2 U/45	Assemblage
6	Nitty Gritty 1616 West Bertona Street	3/5/2007	$3,600,000	51,000	$70.59	IG2 U/45	Vacant

Exhibit L-2

GROUND LEASES

Ground leases come in all shapes and sizes. Most long-term ground leases in North America have the following structure. Land is leased by the owner to a tenant usually for a period of 50 years or longer. That 50 year term is sometimes comprised of an initial ten or twenty year term with options for two or three ten year renewals. The lease, including options to renew, may be as long as 99 years. Longer leases (over 99 years) are viewed as sales from a tax perspective in the US and are seldom used as a point of comparison.

The terms and conditions can vary significantly from one transaction to another, making comparisons difficult. The structure of lease terms impact the financial outcome for each of the parties to the lease; landlord, tenant, and lenders. The variables include, length of the lease, mechanisms for adjusting rent, property physical characteristics, credit risk, subordination, and location.

Land or ground leases lease transactions occur infrequently and generally are found in four areas;

- Hawaii,
- Densely urbanized downtown areas,
- Suburban strip commercial sites,
- Silicone Valley.

Ground Lease Returns and Alternative Investments

Ground leases are based on the expectation that a return on the landlord's investment in its land is appropriate. The rate of return becomes a matter of agreement between landlord and tenant. Establishing the market rate of return by comparing one ground lease to another is difficult at best.

During the last thirty years of the last century it was not uncommon to find rates of return for large scale long-term ground leases in the 8% to 12% range. During the last decade, interest rates dipped to 40 year lows and returns on alternative investments dropped. Some argue that the return a landlord can expect to receive from a ground lease is lower now than in the past. Others argue that returns for long-term leases, forty to fifty years in length, need to reflect returns that are more in line with history. Otherwise the land owner may come up short as economic times change. Mechanisms for adjusting the rate of return as times change may provide a means for creating fairness for both the landlord and tenant.

Rates of return for alternative investments can provide some perspective in understanding the current ground lease market. Investments like government and high quality corporate bonds offer investors low risk investment opportunities. Returns for institutional real estate investments such as office, industrial, apartments, and regional malls have a higher risk profile and returns, and represent a reference point at the higher end of the spectrum. Lending rates for commercial real estate also provide perspective on the risk return spectrum.

In general, larger credit tenant long-term ground leases carry a moderate risk profile and the rates of return fall somewhere between the returns for bonds and institutional real estate.

The corporate and government bond average yield rates as of December 8, 2010 are:

30-Year US Treasury Bond	4.40%.
20-Year AA Corporate Bond	4.46%
20-Year A Corporate Bond	5.51%

The overall capitalization rates indicated in the Korpacz Real Estate Investor Survey, completed in the third quarter of 2010, of institutional real estate products located in the United States are presented in the table below:

	Overall Capitalization Rates Average	Range
CBD Office	8.01%	6.00% to 10.50%
Warehouse	8.38%	6.50% to 12.00%
Apartment	7.12%	4.50% to 11.00%
Regional Mall	7.81%	5.00% to 10.50%

Most investors purchase commercial real estate knowing that they will receive all of the benefits of owning, including

cash flow, interest and depreciation tax deductions, and appreciation. The after tax returns for the institutional real estate investments are higher than the rates shown in the table above, depending on the owners tax structure and loan terms.

Some developer's who lease land for the purpose of developing new buildings suggest that if the ground lease payments are more than the cost to borrow money, they might as well borrow the money and purchase land for the development. Landlords would argue that the land they are leasing is rate and accordingly justifies a premium. Either way, the lending rate for commercial real estate if a reference point that can be used to determine the appropriate rate of return to the land for a ground lease. Today the cost to borrow money for commercial real estate investments is in the neighborhood of 6.0%.

Using bonds and institutional real estate investments to bracket the appropriate rate of return to the land in a ground lease situation suggest that long-term lease rates today are negotiated in 6% to 8% range. Where negotiations will fall within the range depends on the participant's long-term perspective of the future; continued low interest rates or a return to historical norms.

Comparable Ground Lease Data

Comparable ground lease transactions can provide perspective on establishing market lease terms and conditions. The tables contained in the addendum to this report present a broad range of comparable ground lease data. The data represents groups of different types of ground leases; Off-Airport, Industrial, Large Retail, Urban Mixed Use, Office, Retail Pads, and Yard Storage. The data suggests that rental rates generally fall into the 5% to 10% range. It is instructive to look at failed leases and some of the most common deal breakers. Subordination, lease escalations, and special lender requirements are the most common source of issues.

Ground Lease Perspective

Ground leases appeal to a select group of real estate practitioners. Owner/users, most investors, and developers prefer to own rather than lease. Ground leases are usually most effective when the landlords property is in a unique high demand area, such as on an airfield or adjacent to marine transport facilities. In addition, ground leases are most often an alternative when real estate markets have reached their peak. The limited number of market participants and the retention of the reversionary interest in the property by the landlord, contribute to diminished returns for ground leases when compared to a fee simple disposition.

Ground leases can be attractive when a land owner's investment goals seek to maximize long-term cash flow with the opportunity to regain control of the land in the future. From the tenants perspective the opportunity exists to control land, deduct lease payment for income tax purposes, and possibly partner with the landlord in improvements to the land.

Highest and Best Use

The Highest and best use of land or a site as though vacant is defined as, 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.

The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity. It is understood that this study is taking place while one of the largest recessions in recent history is underway. The work is completed with the understanding that the recession is currently having a fundamental effect on the real estate industry that is likely to last for many years to come. The work is also done with the understanding that real estate markets are cyclical by nature and that recovery will occur.

LEGALLY PERMISSIBLE

Agricultural Uses	Aquaculture.
Commercial Uses	Animal shelters and kennels, eating establishments, entertainment uses, food processing, craft work, laboratories, research, development, medical services, offices, sales, and services.
Institutions	Advanced study, religious, vocational, and fine arts.
Manufacturing	Light and general.
Parks and Open Space	
Residential Uses	Caretakers quarters.
Storage Uses	Mini-warehouses, storage, outdoor, warehouses.
Transportation Facilities	Cargo terminals, parking, moorage, passenger terminals, rail, transit facilities, vehicle storage and maintenance.
Utility Uses	Communication, power plants, recycling, salvage yards, and solid waste.

Exhibit H-1

The uses that are legally permissible are those uses permitted outright by the current zoning code. The permitted uses, as shown in Exhibit H-1, are consistent with the intent of the zoning code to allow industrial uses.

PHYSICALLY POSSIBLE

It is physically possible to develop a wide range of uses on the property, with a few limitations. The West Yard property is not large enough to accommodate large format buildings, such as modern distribution/warehouse buildings and big box retail stores. The high water table makes constructing below grade spaces expensive. Soil bearing capacity over the entire site is an issue requiring foundation upgrades.

FINANCIALLY FEASIBLE

In general it is financially feasible to develop a wide range of owner user buildings on the property, however, the soils conditions and low water table put the property at a competitive disadvantage, when compared to other sites that do not have these conditions. It would be reasonable to discount land value expectations by the extraordinary cost to develop given the soils issues.

The financial feasibility of speculative development hinges on cost to develop versus the achievable income potential of a particular use. A test of financial feasibility for a range of building types can provide perspective about which land use(s) are maximally productive.

Land Residual Technique

The Land Residual Technique is a technique for estimating property value. The technique is used to determine the land value that a proposed development could support and remain profitable. Estimates are made of the projects expected income and the resulting value, the cost to develop, and a given profit margin. When all of these variables are held constant, the maximum land value that maintains the profit margin is the achievable land value or that value a developer can afford to pay for the land. The results of the land residual technique can be misleading due to the great number of assumptions that go into the analysis. The resulting land values can vary significantly with small changes in the input assumptions.

Office

As discussed earlier, the West Yard property is not subject to the externalities that influence the North Bay property. It is a people oriented location and, while success is not a given, it is a logical location for an office uses. A scenario is analyzed where an office building, similar to that shown in Exhibit H-2 is developed on the West Yard.

Exhibit H-2

Office Building Land Residual Analysis			
Income	**RSF/Stalls**	**Rate**	**Income**
Office	150,000	$26.00/sf/yr	3,900,000
Parking	105,000	$0.00/sf/yr	-
Gross Effective Income			3,900,000
Vacancy & Credit Loss		5.0%	(195,000)
Operating Expenses		$0.00, nnn	-
Net Operating Income			3,705,000
Capitalized Value	7.00%	$352.87/sf	52,930,000
Cost	**GSF/Stalls**	**Cost/sf**	**Total**
Hard Costs			
Office	150,000	$153.00	22,950,000
Parking Stalls	300	$20,000 /stall	6,000,000
Subtotal			28,950,000
Soft Costs		30.00%	8,685,000
Total Project Cost (Exclusive of Developer's Profit & Land)			37,635,000
Land			
Land Area	139,392 SF		

The analysis in Exhibit H-3 shows the expected incomes and costs to build a 4-story, 150,000 square foot office building and parking for 300 cars. The project utilizes the entire 3.2 acres site and includes some structured parking.

The analysis suggests that an office building could support land value in the range of $56 to $83 per square foot. If compared to other office building sites that have sold recently for approximately $100 per square foot, the analysis appears reasonable. It is prudent to recognize that there are a number of new empty speculative office buildings in Seattle that are now valued at half what they cost to construct.

Sensitivity Analysis		
Developer's Profit	Land Residual	$/sf
0.0%	$15,295,000	$109.73
5.0%	$13,413,250	$96.23
10.0%	$11,531,500	$82.73
15.0%	$9,649,750	$69.23
20.0%	$7,768,000	$55.73
25.0%	$5,886,250	$42.23

Exhibit H-3

Flex

The supply and demand data indicates that there is demand for competitively priced, low intensity, flex space in the BINMIC market. The North Bay property is best suited for lower intensity flex uses, given the characteristics of the adjoining uses.

The flex scenario, represented by the image of the building in Exhibit H-4 is developed on the North Bay property.

Exhibit H-4

Exhibit H-5 presents a scenario where a 100,000 square foot flex building that contains 50,000 square feet of office space is developed on the site. It is occupied by light distribution, light manufacturing, and showroom uses, and is leased at rates that compete with the Duwamish market. The results indicate that the project would support land values of between $8 and $13 per square foot.

Flex Building

Land Residual Analysis

Income	RSF/Stall	Rate	Income
Shell	100,000	$0.70/sf/mos	$840,000
Office	50,000	$0.85/sf/mos	510,000
Gross Effective Income		$1.13 blended	1,350,000
Vacancy & Credit Loss	5.0%		(67,500)
Operating Expenses		$0.00, nnn	-
Net Operating Income			1,282,500
Capitalized Value	7.50%	$171.00/sf	$17,100,000
Cost	**GSF/Stall**	**Cost/SF**	**Total**
Hard Costs			
Shell	100,000	$75.00	$7,500,000
Office	50,000	$50.00	$2,500,000
Subtotal			$10,000,000
Soft Costs		25.00%	$2,500,000
Total Project Cost (Exclusive of Developer's Profit & Land)			$12,500,000
Land			
Site Coverage	40.0%	Land Area	250,000 sf

Sensitivity Analysis

Developer's Profit	Land Residual	$/sf
0.0%	$4,600,000	$18.40
5.0%	$3,975,000	$15.90
10.0%	$3,350,000	$13.40
15.0%	$2,725,000	$10.90
20.0%	$2,100,000	$8.40
25.0%	$1,475,000	$5.90

Exhibit H-5

Small Industrial Building

The demand for small industrial spaces has been strong in the BINMIC market for many years, only lessened only by the sites proximity to work force housing, constraints on land supply, and difficult access to I-5.

Industrial demand in BINMIC is strongest from small users. This development scenario offers a product that caters to this market segment by offering modern facilities with rental rates that are competitive with the out-of-market alternatives.

The small industrial building development scenario assumes a building similar to the one represented in Exhibit H-6 is constructed on the North Bay property.

Exhibit H-6

The building measures 100,000 square feet, with 10% or 10,000 square feet of office space. It is a versatile building that can be divided into spaces that are less than 10,000 square feet. As shown in Exhibit H-7, the building is feasible if the land is priced between $8 and $12 per square foot.

Small Industrial Building

Land Residual Analysis

Income	Rentable Area	Rate	Income
Shell	100,000	$0.70/sf/mos	$840,000
Office	10,000	$0.85/sf/mos	102,000
Gross Effective Income		$0.79 blended	942,000
Vacancy & Credit Loss	5.0%		(47,100)
Operating Expenses		$0.00, nnn	-
Net Operating Income			894,900
Capitalized Value	7.00%	$127.80/sf	$12,780,000
Cost	**Gross SF**	**Cost/SF**	**Total**
Hard Costs			
Shell	100,000	$75.00	$7,500,000
Office	0	$50.00 Incl.	$0
Subtotal			$7,500,000
Soft Costs		20.00%	$1,500,000
Total Project Cost (Exclusive of Developer's Profit & Land)			$9,000,000
Land			
Site Coverage	40.0%	Land Area	250,000 sf

Sensitivity Analysis

Developer's Profit	Land Residual	$/sf
0.0%	$3,780,000	$15.12
5.0%	$3,330,000	$13.32
10.0%	$2,880,000	$11.52
15.0%	$2,430,000	$9.72
20.0%	$1,980,000	$7.92
25.0%	$1,530,000	$6.12

Exhibit H-7

Industrial Incubator

Demand exists for appropriately priced industrial incubator space in BINMIC. The North Bay property is well suited for the use.

This scenario, presented in Exhibit H-8, represents a 50,000 square foot building with 7,500 square feet of

Exhibit H-8

office space. The building creates the opportunity to have as many as twenty-five spaces, each measuring 2,500 square feet. The spaces each have a small office area, warehouse/shop space with a roll-up truck door. The analysis shown in Exhibit H-9 suggests that the project would support land values in the $8 to $13 range.

Industrial Incubator Building			
Land Residual Analysis			
Income	**Rentable Area**	**Rate**	**Income**
Shell	50,000	$0.75/sf/mos	$450,000
Office	7,500	$1.00/sf/mos	90,000
Gross Effective Income		$0.90 blended	540,000
Vacancy & Credit Loss	5.0%		(27,000)
Operating Expenses		$0.00, nnn	-
Net Operating Income			513,000
Capitalized Value	7.50%	$136.80/sf	$6,840,000
Cost	**Gross SF**	**Cost/SF**	**Total**
Hard Costs			
Shell	50,000	$80.00	$4,000,000
Office	7,500	$20.00	$150,000
Subtotal			$4,150,000
Soft Costs		20.00%	$830,000
Total Project Cost (Exclusive of Developer's Profit & Land)			$4,980,000
Land			
Site Coverage	45.0%	Land Area	111,111 sf

Sensitivity Analysis		
Developer's Profit	**Land Residual**	**$/sf**
0.0%	$1,860,000	$16.74
5.0%	$1,611,000	$14.50
10.0%	$1,362,000	$12.26
15.0%	$1,113,000	$10.02
20.0%	$864,000	$7.78

Exhibit H-9

Big Box Retail

Principle use retail is not permitted under the current zoning code, however, it is instructive to understand the nature of demand for big box retail. The BINMIC market is surrounded by two of Seattle's high income neighborhoods, Queen Anne and Magnolia. Demand for big box retail is strong in BINMIC and a number of big box retailers have expressed interest strong interest in the area. The North Bay property is one of a very few parcels of land that are large enough to support 150,000 to 180,000 square foot big box stores.

Historical data suggests that the use would support land values of between $20 and $25 per square foot.

Yard Storage

The data presented in Exhibit H-10 suggests that yard storage uses can generate between $.10 and $.20 per square per month or $1.20 to $2.40 per square foot per year. Unimproved properties are at the low end of the

Yard Storage				
Land Area: 435,600 sf (10.00 acres)				
Mos	**Annual**	**6.00%**	**7.00%**	**8.00%**
$0.10	$1.20	$20.00	$17.14	$15.00
$0.11	$1.32	$22.00	$18.86	$16.50
$0.12	$1.44	$24.00	$20.57	$18.00
$0.13	$1.56	$26.00	$22.29	$19.50
$0.14	$1.68	$28.00	$24.00	$21.00
$0.15	$1.80	$30.00	$25.71	$22.50
$0.16	$1.92	$32.00	$27.43	$24.00
$0.17	$2.04	$34.00	$29.14	$25.50
$0.18	$2.16	$36.00	$30.86	$27.00

Exhibit H-10

spectrum and improved properties with gravel, paving, fencing and lighting are represented by the higher rental rates. On a short term basis, a yard storage lease that provides the landlord a 7% return on its investment translates to a land value of approximately $25 per square foot.

MAXIMUM PRODUCTIVITY

The real estate industry defines maximum productivity as that use(s) that result in the highest land value. The table below summarizes the range of land values that could result from each of the uses that have been analyzed, based on the land residual analysis, and other recent activity in the market.

Land Use	Land Value/sf
Office	$56 to $83
Flex	$8 to $13
Small Industrial	$8 to $12
Industrial Incubator	$8 to $12
Big Box Retail	$20 to $25
Yard Storage	$22 to $30

The analysis suggests that office development represents the most productive use of the land, a reasonable conclusion, with two exceptions. The North Bay property is not a desirable location for pure office development, given the nature of the adjoining uses. The West Yard is a desirable location for office development; though it may take a number of years for the market for speculative office development to recover and begin to expand as a result of job growth.

Big box retail is not permitted by the current zoning code, but is one of the higher uses of the land. Big box retail creates jobs and generates tax revenue. Average wages paid by big box retailers range from $10 to $15 per hour for Home Depot workers to an average wage of over $16.00 per hour for Costco.

While the demand may not be adequate to absorb all of the property, yard storage represents one of the highest uses of the North Bay property.

Thinking about maximum productivity from a different perspective may lead to a different outcome. If maximum productivity is measured in the number of jobs created, then it is possible that those uses that result in a lower land value are more productive. The nature of the occupancy is a determining factor. If the industrial uses are dominated by warehouses that are sparsely populated, job creation may be minimal. If on the other hand, the business activity is oriented toward manufacturing or service, the job creation could be more robust.

Addendum

SUMMARY OF GROUND LEASE COMPARISONS

OFF-AIRPORT LEASES

No.	Building/Address	Land Area Acres/Sf	Land Value Total/SF	Tenant	Start Date Term Yrs	Years	Rent $/Year	Escalation	Annual Rate of Return	Renewal Options	Comments/Confirmation
1	International Commerce Park Dallas/Ft Worth Texas	15.6 679,536	$2,378,376 $3.50	NA	2007 40	1-5 6-10 11-15 16-20	$237,838 $267,686 $301,281 $339,092	12.55% 12.55% 12.55%	10%	None	Mark Witte - DFW Airport (972) 973-4657 Reappraisal at 20 years to reestablish land value and resulting rent. Duke Realty did similar deal with the Port and tried to repackage and sell, but could not and holds in a fund with CBRE. Very desirable location w/ a raft of high profile tenants. Enter into the lease and rent starts 275 days later. Foreign trade zone and triple free zone. Major national tenants is the draw.
2	O'Hare Express North Chicago, Il	40.0 1,742,400	$2,378,376 $6.00	NA	2007	1-40	$237,838	CPI	10%	2 - 10 Yr	Kurt Little. (312) 228-2381. Jones Lange LaSalle. Two leases done recently and one under negotiation. Tug & cart access to airfield. Participation = 3% to 5% of gross income.
3	Colorado Springs Colorado Springs, CO	50 2,178,000	$326,700 $0.15	NA	Pending 60	Jan-60	$32,670	CPI	10%	None	John Faulkner. Rent adjustments each 5 years, based on cumulative CPI. No land reappraisal. After tenant gets a 12% return on equity, airport receives 20% of net profit. Initial land area 50 acres - land take-down option payments equal to 1% of land value per year.
4	Port of Olympia Olympia, WA	92 4,007,520	FMV	Prologis	Pending 40	1-40		1.25% / yr	7.12%/ 5.70%	25 years	Detailed take down schedule - first phase is 32 acres. Additional phases under option agreement. Retail portion is 7.12% and industrial is 5.7%. Port's hurdle rate is 9.5%. Usable land an issue.
5	Port of Bellingham Bellingham, WA	3.14 136,950	$1,027,125 $7.50	Wood Stone	2006 40	1-5		Land marked to FMV each 5 years	9%	5 @ 7 yrs	Option to renew at 40 yrs for 7 consecutive 5 yr terms. This was a major economic development undertaking by the local jurisdictions. Land value adjusted to FMV every 5 yrs for first 40 yrs
6	DMCBP Rejected Offer Port of Seattle Des Moines, WA	89.00 3,876,840	$29,076,300 $7.50	Confidential	2009 75	1-10 11-20 21-30	$569,780 $930,935 $865,524	7.50% each 5 yrs	1.96% 3.20% 2.98%		When buildings are transferred into a fund and after tenant receives 15% on its invested capital, landlord will receive 25% of the after tax value. Stated rents are 10 averages. NPV of 1st 30 years $9.108 million. Maximum rentable area 67 acres.
7	Pending Offer Port of Seattle Des Moines, WA	89.00 3,876,840	$29,076,300 $7.50	Confidential	2009 75	1-10 11-20 21-30	$721,439 $1,349,317 $1,559,304	7.50% each 5 yrs	2.48% 4.64% 5.36%		Option payments of $20,000 per year, years 1 thru 3. NPV of 1st 30 years $10.499 million. Proposal assumes maximum rentable area is 88 acres.

INDUSTRIAL LEASES

No.	Building/ Address	Land Area Acres/Sf	Land Value Total/SF	Tenant	Start Date Term Yrs	Years	Rent $/Year	Escalation	Annual Rate of Return	Renewal Options	Comments/ Confirmation
1	Kalama River Industrial Park Port of Kalama Kalama, WA	12.5 544,500	$1,250,000 $2.30	Cameron	2007 50	1-10	$125,000	CPI Land marked to FMV each 10 years	10%	3 @ 10 yrs	Mark Wilson, (360) 673-2325. Established land value - appraisal 2 years ago $100,000 per acre. Return set by Commission. Land value lower than market. Rail served. Heavy Industrial. Thinks land is undervalued.
2	Schuman Industrial Park Port of Woodland Woodland, WA	2.0 87,120	$160,000 $1.84	Custom Manuf.	2008 20	1-20	$16,000	3.00% Land value addressed each 3 yrs.	10%	5 @ 3 yrs	Erica Rainford (360) 225-6555. Land value is established by Port staff. Infrastructure in place. No rail access. Lease hold tax is also accessed. Believes land may be undervalued.
3	Grain Elevator Port of Longview Longview, WA	100 4,356,000	$18,000,000 $4.13	Bunge & Itochu	Pending	15	$1,080,000	CPI Land marked to FMV each 5 years	6%	Renewals to bring term to 50 Yrs.	George Cress (360) 425-3305, Property is rail and water served. The majority of the revenue from the project comes from other fees. Deal pending rail pending rail line land acquisitions.

LARGE RETAIL LEASES

No.	Building/Address	Land Area Acres/Sf	Land Value Total/SF	Tenant	Start Date Term Yrs	Years	Rent $/Year	Escalation	Annual Rate of Return	Renewal Options	Comments/ Confirmation
1	Portland Retail Portland, OR	8 348,480	FMV	Confidential	2007 20	NA	NA	None	6%	10 years	Renewal option for 10 years at 10% rate of return at FMV. 100,000 sf credit anchor tenant.
2	Home Depot 18000 Kent Kangley Rd Covington, WA	9.05 394,387	$4,833,333 $12.26	Home Depot	2008 20	1-20	$580,000	None	12%	NA	Flat for 20 years, with relatively small increases in option periods.
3	Auto Dealer Site 900 Maynard Ave S Seattle	3.0 131,609	$9,919,055 $75.37		2006 60	NA	NA	CPI 4%	5.4%	NA	Lessee may purchase in year 3 or year 10. Annual CPI increases, not to exceed 4%.

URBAN - MIXED USE LEASES

No.	Building/Address	Land Area Acres/Sf	Land Value Total/SF	Tenant	Start Date Term Yrs	Years	Rent $/Year	Escalation	Annual Rate of Return	Renewal Options	Comments/Confirmation
1	Central Business District Bellevue, WA	1.15 50,000	FMV	Confidential	Failed Proposal 60	NA	NA	capped at 3% per yr	6.5%	40 years	Apartments and Condos. Lender wants fixed rate - no CPI adjustments. Option to renew additional 40 yrs. Lender OK with nonsubordination. Revaluation - in-use value at 25-30 yrs.
2	Edmonds School District Edmonds, WA	40 1,742,400	See Note	Cyprus	99	1-10	NA	NA	8%		Marla Miller, Edmonds School District (425) 431-7036. Each 10 years rent increases by the greater of 10% or the cumulative participation rent. Participation rent = 10% of NOI. Hotel, office, retail, and residential. Landlord has administrative approval of all subleases. FMV established at the commencement of construction.
3	Suburban Seattle Seattle, WA	Bid	$50,000,000	Confidential	Failed Proposal 99	1-5 6-10 11-15	$2,500,000 $2,813,750 $3,166,876	12.55% 12.55%	5%		CPI increases not to exceed 3% per year. Revaluation at 25 years.
		Ask	$50,000,000		99	1-5 6-10 11-15	$3,250,000 $3,657,875 $4,116,938	12.55% 12.55%	6.5%		Landlord sought revaluation every 15 years. The offer failed because the owner and the bidder could not reach an agreement and because of uncertainties about obtaining a zone reclassification.
OFFICE DEVELOPMENT LEASE											
1	South Seattle Seattle, WA	2.15 93,680	$16,862,400	Confidential	Failed 2008 80		$1,011,744		6%/8%	Asking	The parties involved could not agree on rate of return and escalation schedule -the deal failed. Offer at 6% ask 8%.

RETAIL - PAD LEASES

No.	Building/Address	Land Area Acres/Sf	Land Value Total/SF	Tenant	Start Date Term Yrs	Years	Rent $/Year	Escalation	Annual Rate of Return	Renewal Options	Comments/Confirmation
1	Burger King SWC of Hwy 99 E & Berg Parkway Canby, OR	0.39 17,069	$745,000 $43.65	Burger King	2007	1-5 6-10 11-15 16-20	$67,000 $73,700 $81,070 $89,177	10% 10% 10%	9%	4 - 5 Yr	Zoning C-M, Semi-Rectangular all utilities available. Shadow anchors - Safeway, Rite Aid, Walgreens.
2	Arby's Crossroads at Orenco Station 7370 NE Butler St. Hillsboro, OR	0.65 28,314	$800,000 $28.25	Arby's	2007	1-5 6-10 11-15 16-20	$80,000 $88,000 $96,800 $106,480	10% 10% 10%	10%	4 - 5 Yr	Zoning SCC-MM, Semi-Rectangular, Level, all utilities available. Anchors - Kohl's, Winco Foods, OfficeMax, Gig Joes, Joanne's Fabrics, Walgreens.
3	KFC/A&W Canby Place SWC of Hwy 99 E & Berg Parkway Canby, OR	0.57 24,880	$700,000 $28.14	KFC/A&W	2007	1-5 6-10 11-15 16-20	$63,250 $69,575 $76,533 $84,186	10% 10% 10%	9%	4 - 5 Yr	Zoning C-M, Semi-Rectangular all utilities available. Shadow anchors - Safeway, Rite Aid, Walgreens.
4	Burger King Argyle Square 8699 SW Burns Drive Wilsonsville, OR	0.57 25,000	$750,000 $30.00	Burger King	2005	1-5 6-10 11-15 16-20 21-25	$75,000 $82,500 $90,750 $99,825 $109,808	10% 10% 10% 10%	10%	Several 5 Yr	Zoning PDC, Rectangular, level, all utilities available. Anchors - Target, Costco, Pier 1, Petsmart, Office Depot.

YARD STORAGE LAND LEASES

No.	Name/Location	Lease Date	Term Mos.	Site (sf)	Acres	$/sf/mo	Escalations	Comments
1	VW Car storage Terminal 91 201 W. Garfield Seattle, WA	NA	Month To Month	21,780	0.50	$0.15	Annual CPI	Short term lease available only due to redevelopment Adjacent to subject in Terminal 91 area Auto storage areas with asphalt paving and fencing
2	1st Student Transportation	NA	Month To Month	129,808	2.98	$0.12	Annual CPI	Rebecca Schwan, Port of Seattle, (206) 787-3005
3	516 S Monroe St Yard 516 S Monroe St Seattle,WA	Jul-10	360	15,000	0.34	$0.15		GVAKM Internal Files
4	Desimone Oxbow 2600 S. 106th St Tukwila, WA	Apr-09	13	108,900	2.50	$0.10	None	Leased to Knight & Nuprecon gravel, fenced Ted McCaffray, GVAKM, 206.248.7336
5	McKinstry Parking Site 5001 1st Ave S. Seattle, WA	Sep-08	24	62,500	1.43	$0.20	None	Leased to McKinstry for parking purposes They have a construction site nearby gravel, partially fencing Ted McCaffray, GVAKM, 206.248.7336
6	SeeFreeze Building Site 206 SW Michigan Street Seattle, WA	Sep-08	372	834,684	19.16	$0.10	Annual CPI	Long term land lease. Site improved with the SeaFreeze building, a freezer storage facility GVAKM Internal Files