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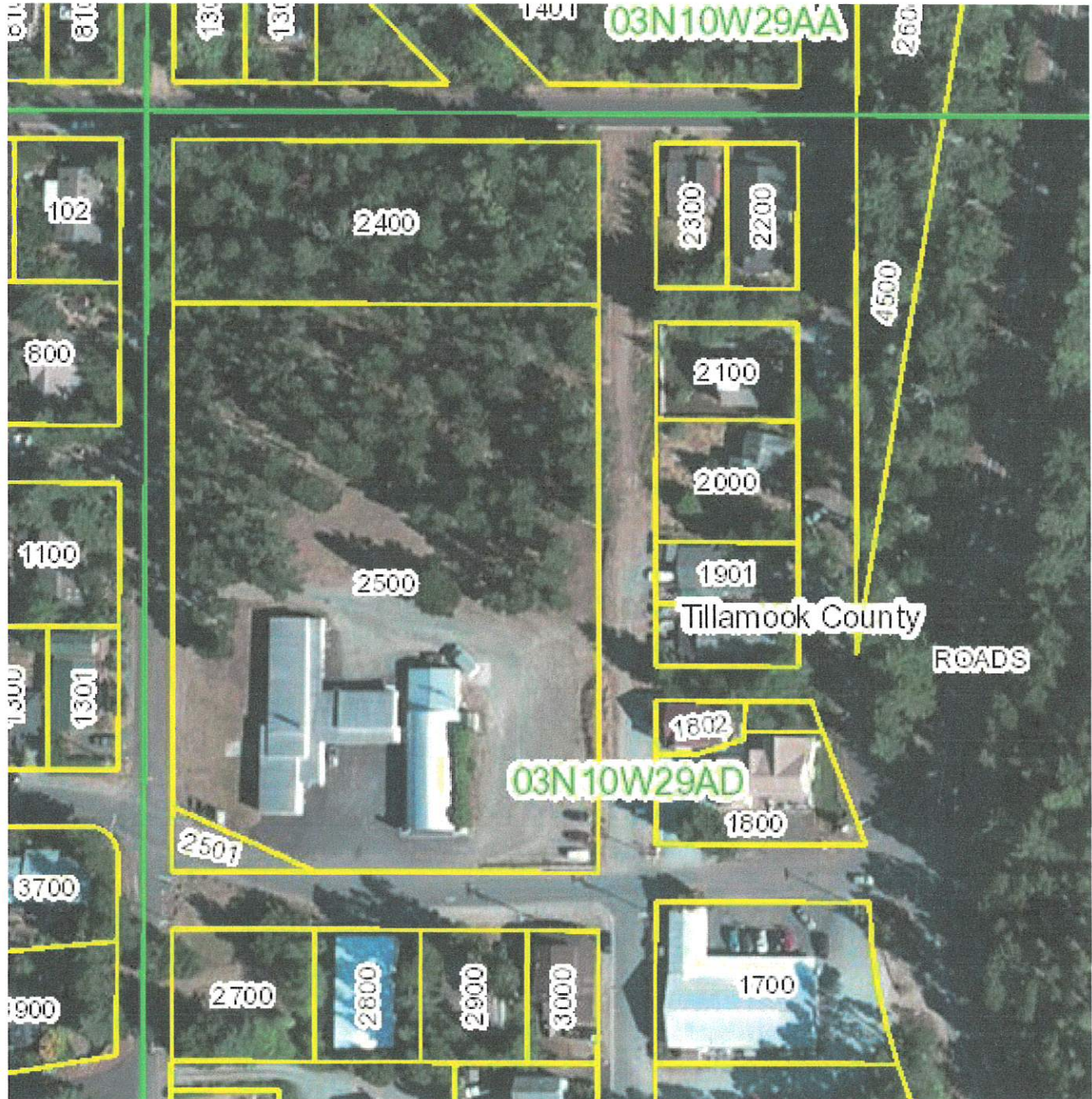
Appraisal of Manzanita Plaza Property , Manzanita, Oregon July 27th, 2015

Tillamook County listed ownership: ... Underhill Family, LLC

BENHAM APPRAISAL SERVICES
Scappoose, Oregon

AERIAL PHOTO - from the ORMAP System web site

The subject is shown below as Tax Lot 2500. *The yellow lines are the approximate lot lines.*



BENHAM APPRAISAL SERVICES

PO Box 1503, Scappoose, Oregon 97056

Email: benhamappraisal@comcast.net

Phone: 503-348-4155

Date: July 27, 2015

To: John & Velda L. Handler
Underhill Family, LLC
36000 Underhill Lane
Nehalem, Oregon 97131

Re: Appraisal of property known as
Underhill Plaza on Manzanita Avenue
Manzanita, Oregon 97130

In accordance with your request, I have appraised the above referenced property. The report of the appraised property is attached. The purpose of the assignment was to estimate the market value of the property in fee simple ownership, which I have done.

The report is based on physical inspection of the site and improvements, location analysis of the neighborhood, and economic analysis of the market for properties such as the subject. This appraisal report was developed in accordance with the Uniform Standards of Professional Appraisal Practice.

Please note that some of the estimates and assumptions made in this report are more speculative than would ideally be the case due to the necessity of estimating future income and costs. Every effort was made to be as realistic as possible, however, future market conditions cannot be predicted, therefore, actual market conditions could vary and the opinion of value affected.

The value conclusions apply on the Effective Date stated in the report and are also contingent upon the Assumptions and Limiting Conditions and Appraiser's Certification included in the report.

INSPECTION DATE: May 19, 2015

EFFECTIVE DATE OF APPRAISAL: May 19, 2015

OPINION OF MARKET VALUE: \$1,760,000

Thank you for the opportunity to be of service. Do not hesitate to contact me if you have any questions. Sincerely,

Jeffrey M. Benham
Certified General Real Estate Appraiser

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Summary of Pertinent Facts

Effective Date of Appraisal: May 19, 2015

Date of Inspection: May 19, 2015

Date of Report: July 27, 2015

Property Type / Use: Commercial and Residential / Retail and Undeveloped Land

Current Owner of Record: Underhill Family LLC

Property Interest Appraised: Fee Simple Estate

Identification and Taxes: The property is identified in the Tillamook County records as Tax Lot 2500 on County Map 3N10W29-AD, and is legally described in the deed copy included in the property identification section of this appraisal. Taxes for the 2014-15 tax year were \$5,314.35.

Zoning: C-1, Commercial Zone.

Land Size and Use: The land size is 2.67 acres per County records. The property is partially developed in multiple general retail uses.

Improvements: These include several older structures developed over many years with a total enclosed size of 9,628 square feet, connected with a covered walkway.

Highest and Best Use:

As Vacant: Any of the uses allowed in the C-1 zone that are compatible with the standards of the zone.

As Improved: The current improvements are compatible with the zone, therefore the property is developed into one of its Highest and Best Uses, however, the improvements are significantly obsolete.

Exclusions: All personal property, signs and timber value, if any.

Indicated Values:

Cost Approach: Not Developed

Sales Comparison Approach: Not Developed

Income Approach: \$1,760,000

Opinion of Market Value: \$1,760,000

General Data and Scope of Work

Identity of Client and Intended Users

The client for this report is Velda Handler, and is intended for use by Velda Handler and persons authorized by Velda Handler only, and no other users.

Intended Use

This report is intended for use in marketing and estate planning matters and is not intended for any other use.

Purpose of the Appraisal

To develop an opinion of market value.

Use of the Property as of the Date of Appraisal

The property was partially in general retail use.

Use of the Property Reflected in this Appraisal

The current use or any other use or uses consistent with the legal, economic and physical characteristics of the property.

Transfer History and Current Marketing Efforts

The subject property was acquired by the recorded deed copy included in this appraisal. The property is not being actively marketed at this time.

Type and Definition of Value

The purpose of this appraisal is to provide an opinion of Market Value for the subject property as of the Effective Date of this appraisal.

Market Value Defined: Market Value is defined as the most probable price, as of the effective date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self interest, and assuming that neither is under undue duress. ("The Appraisal of Real Estate", 12th Edition, The Appraisal Institute).

Title and Legal Issues

Thorough research was not done to examine the title and legal history of the subject. Only those documents typically pertinent to valuation and readily available to the appraiser were examined. Thorough title and legal examinations are most appropriately done by title companies and attorneys. It is assumed that there are no easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of a similar nature existing which have an effect on the market value of the subject property other than those identified by the appraiser.

Type of Report, Reporting Requirements and Scope of Work

This appraisal assignment involved the research and analyses necessary to produce an Appraisal Report. It is intended to comply with the reporting requirements as set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice (USPAP). As such, it includes descriptive and summary information, and

Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

discussion of the data, reasoning and analyses used in the appraisal process to develop the opinion of value. Supporting documentation is retained in the appraiser's work file.

The report includes:

- identification of the client and intended users by name or type
- stating the intended use of the appraisal
- providing sufficient information to identify the property, including the physical and economic characteristics of the property
- stating the property interest appraised
- stating the type and definition of value developed, including the source of the definition
- stating the effective date of the appraisal and the date of the report
- summarizing the scope of work used to develop the appraisal (see below)
- summaries of the information analyzed, the appraisal methods and techniques used and the reasoning that supports the analysis, opinions and conclusions, including explanation of the inclusion or exclusion of an approach to value
- identification of the use of the property on the effective date of the report and the use of the property reflected in the appraisal. If an opinion of highest and best use, appropriate market or market level is developed, a summary of the support and rationale for that opinion is provided.
- identification of all extraordinary assumptions, defined as assumptions that, if found to be false, could alter the appraiser's opinion or conclusion, i.e. – a retrospective appraisal based on the assumption that a property has not changed since a prior date; with a notation that the assignment results could be affected if the assumption is found to be incorrect.
- identification of all hypothetical conditions, defined as a condition that is known to be untrue but is assumed for purpose of analysis, i.e. – an appraisal of proposed construction; with a notation that the assignment results could be affected if the assumed condition is found to be incorrect.
- a signed certification consistent with USPAP requirements

The Scope of Work included:

- physical inspection of the subject property
- review of materials provided by the client
- information obtained from public and private sources
- inspection of the subject neighborhood
- inspection of comparable sales as appropriate for this assignment
- interviews with persons knowledgeable in the subject market and/or the subject property type as necessary and available
- The Cost, Sales Comparison and Income approaches to value were considered and conclusions made about the applicability and appropriateness of their use.

STATEMENT OF ASSUMPTIONS & LIMITING CONDITIONS

- The appraiser will not be responsible for matters of a legal nature that affect either the property being appraised or the title to it. The appraiser assumes that the title is good and marketable and, therefore, will not render any opinions about the title. The property is appraised on the basis of it being under responsible ownership.
- The appraiser may have provided a sketch in the appraisal report to show approximate dimensions of the improvements, and any such sketch is included only to assist the reader of the report in visualizing the property and understanding the appraiser's determination of its size. Unless otherwise indicated, a Land Survey was not performed.
- If so indicated, the appraiser has examined the available flood maps that are provided by the Federal Emergency Management Agency (or other data sources) and has noted in the appraisal report whether the subject site is located in an identified Special Flood Hazard Area. Because the appraiser is not a surveyor, he or she makes no guarantees, express or implied, regarding this determination.
- The appraiser will not give testimony or appear in court because he or she made an appraisal of the property in question, unless specific arrangements to do so have been made beforehand.
- If the cost approach is included in this appraisal, the appraiser has estimated the value of the land in the cost approach at its highest and best use, and the improvements at their contributory value. These separate valuations of the land and improvements must not be used in conjunction with any other appraisal and are invalid if they are so used. Unless otherwise specifically indicated, the cost approach value is not an insurance value, and should not be used as such.
- The appraiser has noted in the appraisal report any adverse conditions (including, but not limited to, needed repairs, depreciation, the presence of hazardous wastes, toxic substances, etc.) observed during the inspection of the subject property, or that he or she became aware of during the normal research involved in performing the appraisal. Unless otherwise stated in the appraisal report, the appraiser has no knowledge of any hidden or unapparent conditions of the property, or adverse environmental conditions (including, but not limited to, the presence of hazardous wastes, toxic substances, etc.) that would make the property more or less valuable, and has assumed that there are no such conditions and makes no guarantees or warranties, express or implied, regarding the condition of the property. The appraiser will not be responsible for any such conditions that do exist or for any engineering or testing that might be required to discover whether such conditions exist. Because the appraiser is not an expert in the field of environmental hazards, the appraisal report must not be considered as an environmental assessment of the property.
- The appraiser obtained the information, estimates, and opinions that were expressed in the appraisal report from sources that he or she considers to be reliable and believes them to be true and correct. The appraiser does not assume responsibility for the accuracy of such items that were furnished by other parties.
- The appraiser will not disclose the contents of the appraisal report except as provided for in the Uniform Standards of Professional Appraisal Practice, and any applicable federal, state or local laws.

Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

- If this appraisal is indicated as subject to satisfactory completion, repairs, or alterations, the appraiser has based his or her appraisal report and valuation conclusion on the assumption that completion of the improvements will be performed in a workmanlike manner.
- An appraiser's client is the party (or parties) who engage an appraiser in a specific assignment. Any other party acquiring this report from the client does not become a party to the appraiser-client relationship. Any persons receiving this appraisal report because of disclosure requirements applicable to the appraiser's client do not become intended users of this report unless specifically identified by the client at the time of the assignment.
- The appraiser's written consent and approval must be obtained before this appraisal report can be conveyed by anyone to the public, through advertising, public relations, news, sales, or by means of any other media, or by its inclusion in a private or public database.
- Physical inspection of the subject property by the appraiser is not the same as an inspection by a qualified engineer and should not be construed as such. As part of the valuation process, the appraiser performs a non-invasive visual inventory that is not intended to reveal defects or detrimental conditions that are not readily apparent. The presence of such conditions or defects could adversely affect the appraiser's opinion of value. Clients with concerns about such potential negative factors are encouraged to engage the appropriate type of expert to investigate.
- This appraisal is based on data readily available at the time the assignment was in process. Modifications may be made based on information obtained after the assignment was completed for an additional fee.

Location, Local Economy and Infrastructure

The subject is located in the City of Manzanita in Tillamook County, Oregon. Manzanita is located approximately twenty-two miles south of the city of Seaside and approximately twenty-six miles north of the city of Tillamook, the county seat. Manzanita is small rural residential coastal community, with approximately 1,285 housing units, approximately 70% of which are occupied on a seasonal or occasional basis, and approximately 615 permanent residents. Local services are more than adequate to serve the basic needs of permanent residents and seasonal and short stay visitors, however, additional goods and services are available in the relatively nearby cities mentioned above. The city is bordered by Neahkanie Beach to the north, Coast Range slopes and the Nehalem Bay area to the east and south, and the Pacific Ocean to the west. Due to its location, city limits and surrounding topographical conditions, there is limited availability of undeveloped land. Historically, Manzanita has grown relatively slowly since first platted as a beach resort in 1912.

The subject is located on Manzanita Avenue, one block off Oregon Coast Highway 101. This location is close to Laneda Avenue, the primary vehicle access to the center of Manzanita from Highway 101. The immediate subject neighborhood is a mix of commercial and residential development, and is approximately one half mile from the Pacific Ocean. Street development in the vicinity of the subject is adequate and is consistent with much of the street development in the city, including paved streets and lighting. Most common public and private services, such as public water and sewer, power and communication services are available.

Conclusion: the infrastructure and conditions for continued economic activity and growth in the city of Manzanita are well established and stable. Population growth is likely to continue at the established pace of an additional two to four permanent residents per year, however, recent residential development trends tend to indicate larger annual increases are possible in the future.

SUBJECT PROPERTY IDENTIFICATION



- Property Type / Use:** Commercial and Residential / Retail and Undeveloped Land
- Public Records / Taxes:** The property is identified in the Tillamook County records as Tax Lot 2500 on County Map 3N1W29-AD, and is legally described in the deed copy included in the property identification section of this appraisal. Taxes for the 2014-15 tax year were \$5,314.35.
- Zoning:** C-1, Commercial. This zone allows a wide variety of uses including both commercial and residential.
- Land Size and Use:** The total land size is 2.67 acres, with approximately half of the property in commercial use and the remaining half in undeveloped wooded land.
- Shape and Topography:** The land is rectangular in shape. The commercial portion is nearly level and the remaining land gently slopes south toward Manzanita Avenue.
- Exposure and Access:** The subject has no exposure to vehicular traffic on Highway 101 or Laneda Avenue, the primary access to the beach in Manzanita, however, the site has excellent access from three platted streets, Manzanita Avenue to the south, Division Street to the west and Classic Street to the east, two of which are paved.
- Environmental:** No study was done or provided. No problems were apparent at the time of inspection, however, the client indicated that there is likely some level of asbestos contamination in an old school building on the property.

Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

Improvements:

The primary structures are a mix of older styles, including a former school building, a quonset structure, and other older styles, constructed in stages over many years. The total size of all enclosed areas, divided into multiple uses, is approximately 9,628 square feet. Information provided by the client, Tillamook County records and the appraiser's exterior inspection indicate the improvements are generally obsolete structures that are likely to have some interim use value only until redevelopment is supported.

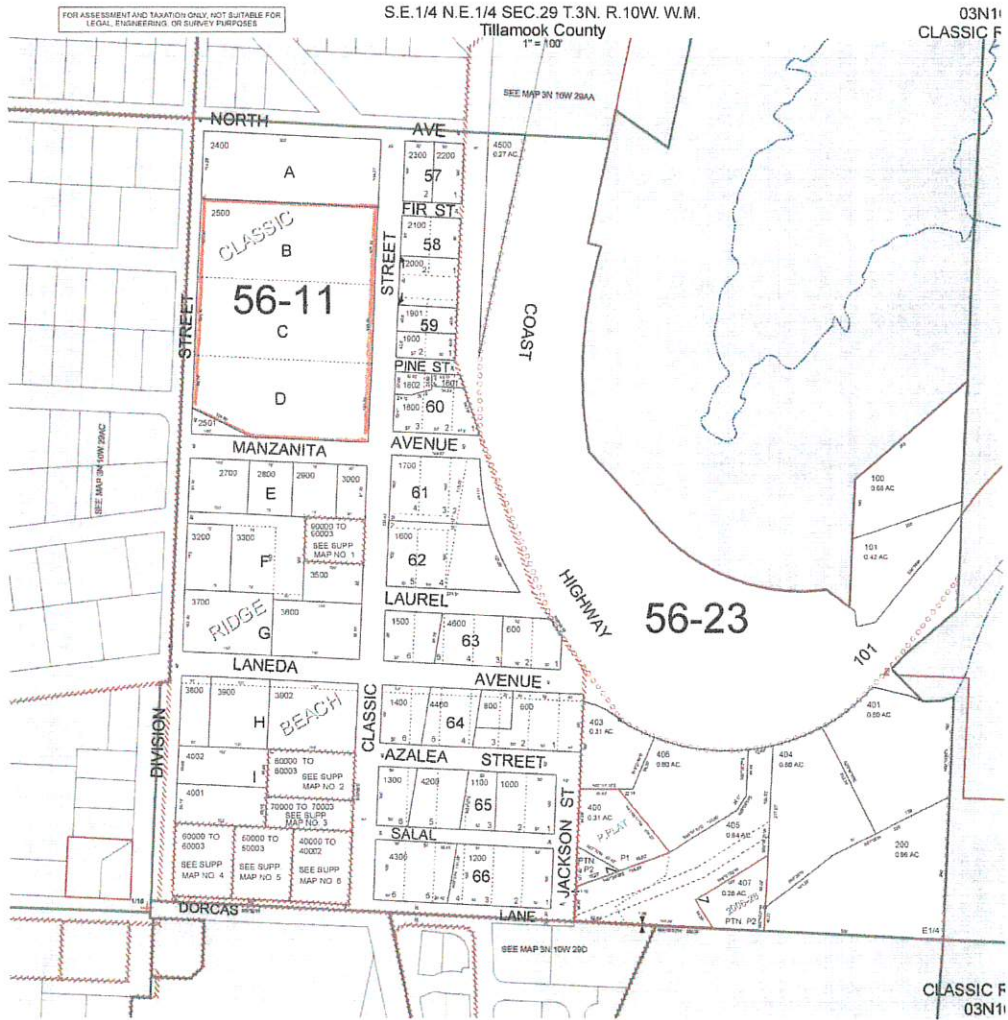
**Site Improvements
and Infrastructure:**

The property is connected or has access to most common public and private services, such as public water and sewer systems, electric power and communication systems.

See the following pages for exhibits and photos

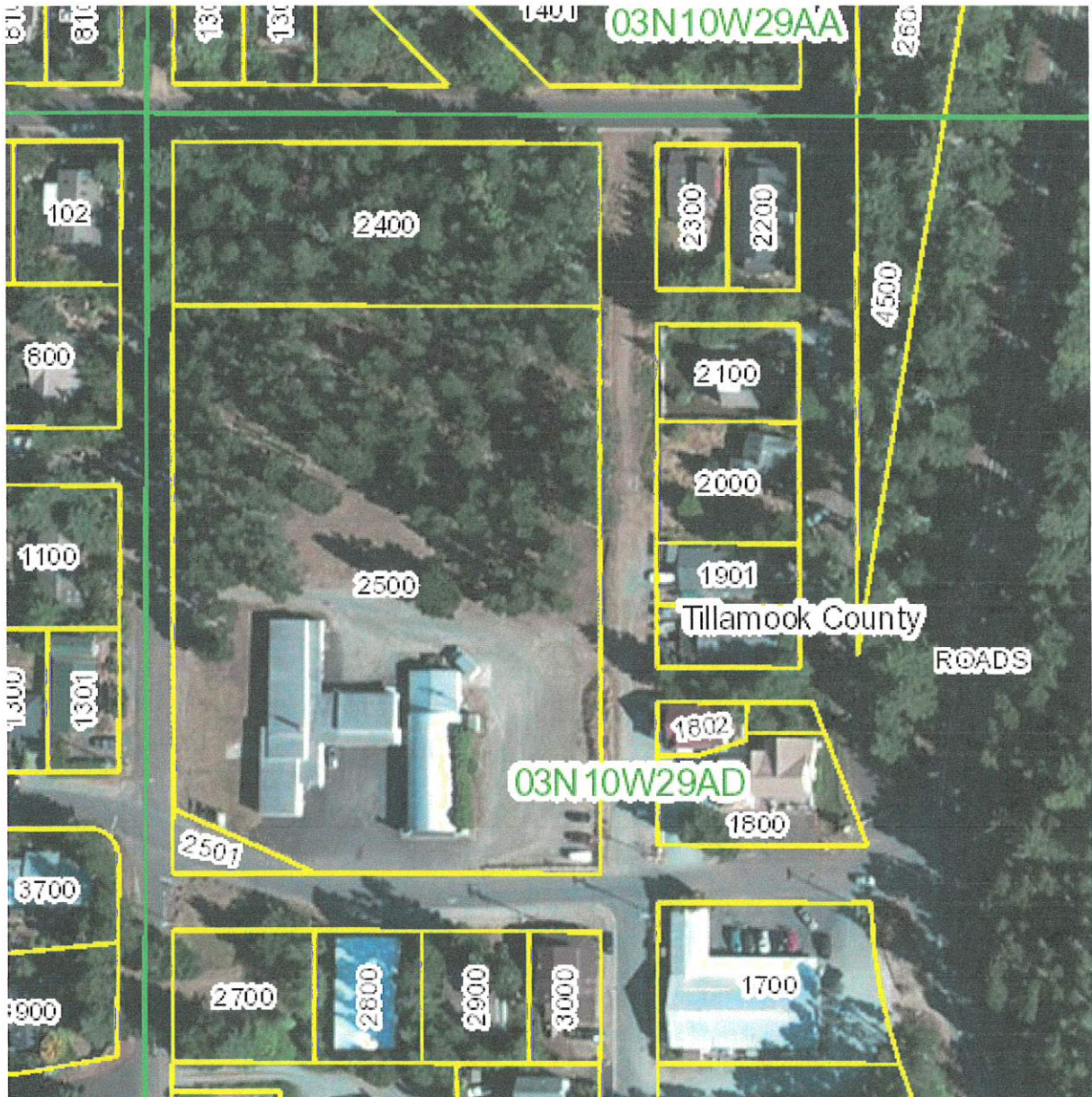
PLAT MAP

Tax Lot 2500 on County Map 4N10W29-AD (Outlined in red below)




AERIAL PHOTO - from the ORMAP System web site

The subject is shown below as Tax Lot 2500. The yellow lines are the approximate lot lines.



DEED - Page 1 of 2

BETHEL M. UNDERHILL, Trustee 635 Manzanita Avenue Manzanita, OR 97131 <small>Grantor's Name and Address</small> UNDERHILL FAMILY, LLC 36115 Underhill Lane Nehalem, OR 97131 <small>Grantee's Name and Address</small> <small>After recording, return to:</small> LAW OFFICES OF RICHARD D. SCHNIEDER, LLC 2455 NW Marshall St. Ste. 11 Portland, OR 97210 <small>Until requested otherwise, send all tax statements to:</small> UNDERHILL FAMILY, LLC 36115 Underhill Lane Nehalem, OR 97131	Tillamook County, Oregon 11/06/2012 02:18:15 PM DEED-DWARR \$10.00 \$11.00 \$10.00 \$10.00 - Total = \$41.00 2012-006276  00120863201200062760020225 I heroby certify that the within instrument was received for record and recorded in the County of Tillamook, State of Oregon. Tassi O'Neil, Tillamook County Clerk
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STATUTORY WARRANTY DEED

BETHEL M. UNDERHILL, Trustee, of the BETHEL M. UNDERHILL REVOCABLE LIVING TRUST, dated May 18, 1995 and any amendments thereto, Grantor, conveys all its interest, an undivided one-half (1/2) interest to UNDERHILL FAMILY, LLC, an Oregon limited liability company, Grantee, the following real property free of liens and encumbrances, except as specifically set forth herein:

See Exhibit 'A' for Legal Description attached hereto

SUBJECT TO: Easements, conditions and restrictions of record on file with the County of Tillamook.
 The true consideration for this conveyance is \$ NONE (Here, comply with the requirements of ORS 93.030.)

DATED October 30, 2012.

BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010. THIS INSTRUMENT DOES NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL, AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.920, AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 3 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010.

BETHEL M. UNDERHILL REVOCABLE LIVING TRUST dated May 18, 1995.

By *Bethel M. Underhill*
 BETHEL M. UNDERHILL, Trustee *Trustee*



STATE OF OREGON, County of Multnomah) ss.

This instrument was acknowledged before me on October 30, 2012 by Bethel M. Underhill, Trustee.

Notary Public for Oregon
 My commission expires *Aug. 22, 2015*

DEED - Page 2 of 2

Legal Description

Exhibit 'A'

TRACTS B, C, D, CLASSIC RIDGE BEACH, Tillamook County, Oregon.

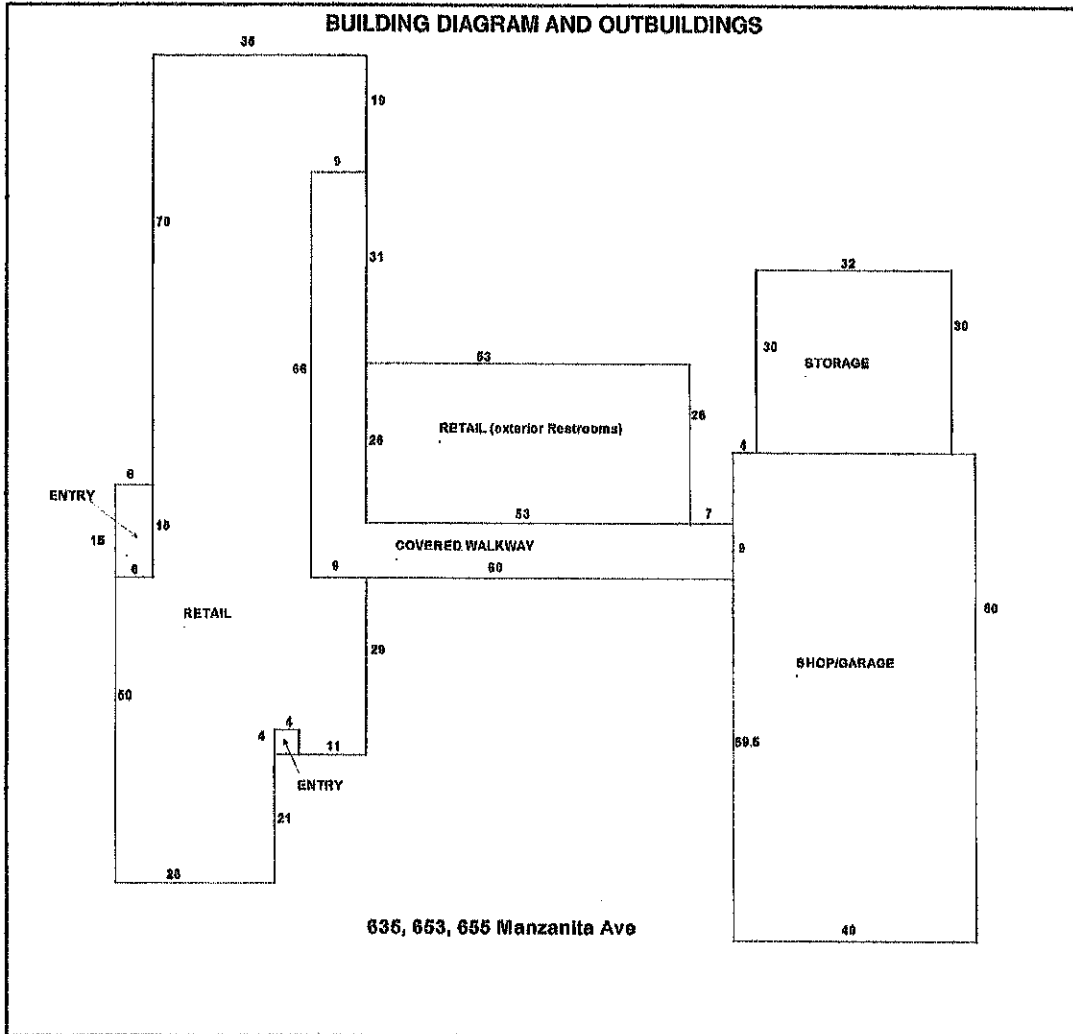
Less the following:

Beginning at a point on the South line of Tract "D", CLASSIC RIDGE BEACH, located in the Southeast one-quarter of the Northeast one-quarter of Section 29, Township 3 North, Range 10 West of the Willamette Meridian, Tillamook County, Oregon, which point located South 89° 55' 00" East 100.00 feet from the Southwest corner of said Tract "D"; thence North 89° 55' 00" West along the South line of said Tract "D" 100.00 feet to the Southwest corner thereof; thence North 00° 05' 00" East along the West line of said Tract "D" 45.00 feet; thence South 65° 41' 20" East 109.66 feet to the point of beginning.

BUILDING DIAGRAM - From the Tillamook County Records

Map#: 3N1029AD02500-5611

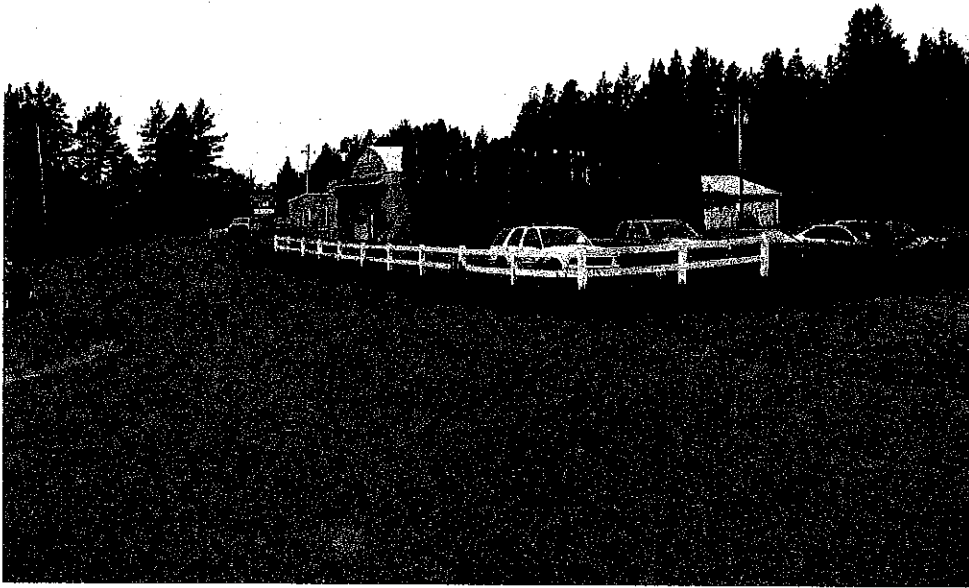
Acct#: 101204



Appraiser	Date	Bldg	Description	SqFt	Dimension
KF	7/27/2007	1	SHOP/GARAGE	3200	
		1	STORAGE	960	
		1	RETAIL (exterior Restrooms)	4100	
		1	RETAIL	1134	
		1	COVERED WALKWAY	16	
		1	ENTRY	90	
		1	ENTRY		

PHOTOS OF SUBJECT PROPERTY

View of Subject from corner of Manzanita Avenue and Classic Street



View of Subject from Manzanita Avenue



Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

View of Subject center building from Parking Lot on Manzanita Avenue

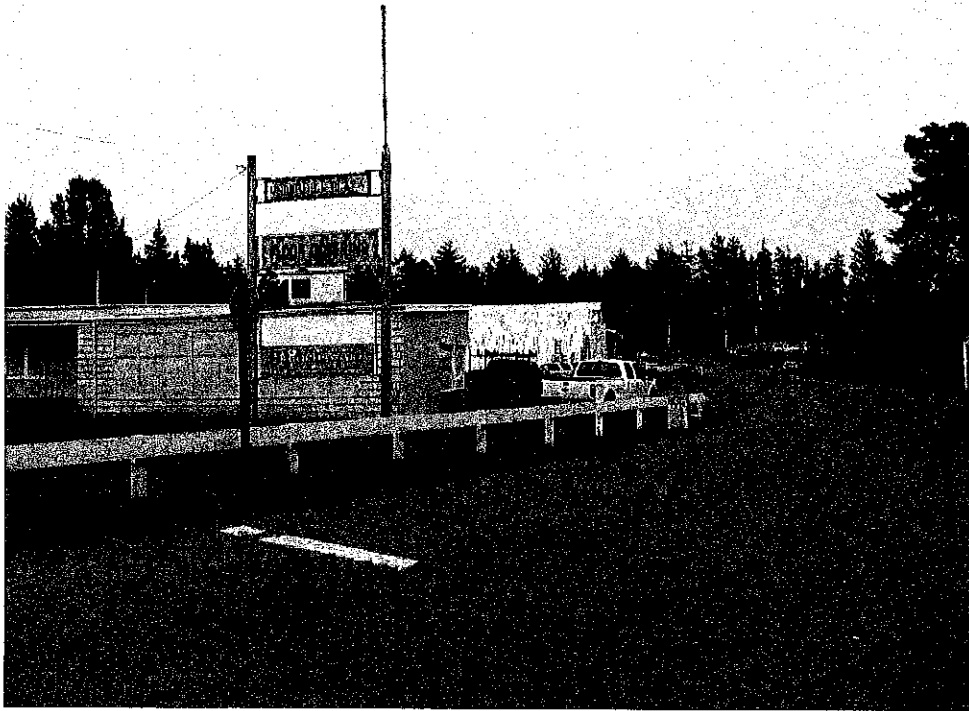


View of Subject building near Division Street corner from Parking Lot

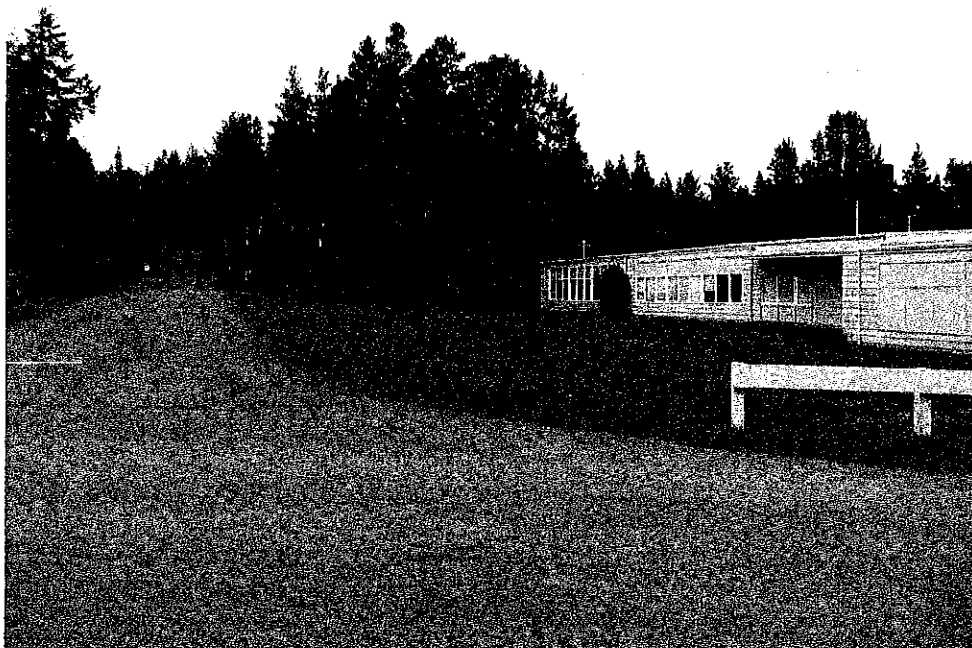


Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

View of Subject corner at Manzanita Avenue/Division Street corner



View of Subject frontage along Division Street from Manzanita Avenue



Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

View of Subject frontage on Classic Street (Gravel surface) from Manzanita Avenue



View of Classic Street frontage from back of Subject



Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

Wooded portion of Subject that fronts on Division Street and Classic Street



Wooded portion of Subject that fronts on Division Street and Classic Street



Highest and Best Use Analysis

Highest and Best Use Defined

Those reasonably probable uses that are physically possible, legally permissible, financially feasible and maximally productive that result in the highest present value. The analysis involves consideration of the property as vacant and as improved on the Effective Date of appraisal. This is done to evaluate whether or not the existing improvements meet the above tests for Highest and Best Use. For example, if the value of the land only "As Vacant" exceeds the value of the land and existing improvements "As Improved" in their current use, the existing improvements may be considered to have no value. Depending on the outcome of the analysis, the existing improvements may not be "maximally productive", and may be removed so the property can be redeveloped into a more productive use.

Highest and Best Use analysis does not involve detailed feasibility analysis of all possible uses, just those that are likely to meet the above criteria.

Subject As Vacant

Legally Permissible: subject property uses are limited to those allowed in the C-1 zone, however, this zone allows for a broad range of uses including residential, and would not prevent full development of the property.

Physically Possible: the size, shape and topography of the subject are not limiting factors for many of the uses allowed in the zone. The property has good paved pedestrian and vehicle access on Manzanita Avenue and Division Street, and partially developed access on Classic Street that could be further improved.

Financially Feasible: commercial and residential development slowed somewhat in the 2008 through 2012 period, however, residential demand in particular has increased significantly in the prior two years and some new development has occurred, providing support for the financial feasibility of new residential development at this time. Based on this conclusion, the property could be developed into residential use at this time or held for future development. Market research indicated that most demand for commercial goods and services is already being met by the existing providers within Manzanita and nearby communities. Also, demand for commercial use in the location of the subject is likely limited because it is somewhat removed from most primary commercial locations. Based on this research, commercial development is not likely to be economic at this time.

Maximally Productive: it is likely that several uses allowed in the C-1 zone would be economic for the subject property. It is assumed that an investor would analyze the available alternatives and develop the property using common return on investment techniques.

Subject As Improved

Legally Permissible: the existing improvements are assumed to be legal and mostly conforming to zoning and building codes.

Physically Possible: the current improvements are somewhat useful, but their mixed age, design and configuration on the property is inefficient and limit full physical utility of the property, i.e. the improvements use more land than necessary to provide the same amount of building space currently available, and the street frontage could be better utilized. The property is partially developed, with space for additional improvements.

Financially Feasible: the current improvements have limited market appeal based on field review of other commercial properties in Manzanita, and would likely be very costly to significantly renovate or reconfigure, therefore, such an investment is not likely to be

economic. Commercial and residential development slowed somewhat in the 2008 through 2012 period, however, residential demand in particular has increased significantly in the prior two years and some new development has occurred, providing support for the financial feasibility of new residential development at this time. Market research indicated that most demand for commercial goods and services is already being met by the existing providers within Manzanita and nearby communities. Based on this research, the existing commercial portion of the property has very limited economic utility and the undeveloped portion of the property could be developed into residential use at this time or held for future development.

Maximally Productive: the existing improvements have a well established history of use, thereby supporting the current uses as productive, however, due to their age, design and configuration on the property, it is likely that an investor would replace the current improvements with more economic structures when supported by market conditions, and develop the undeveloped portion of the property into residential use.

Highest and Best Use Summary

The current uses of the subject property meet the requirements of Highest and Best Uses, including holding the undeveloped portion for future development, however, the current improvements are substantially outdated. Market conditions are improving in the subject market, therefore, prospects for development of the undeveloped land and redevelopment of the improved portion of the property are improving. Based on discussions with local Realtors and statistical data collected, most demand for commercial uses is currently being met either within Manzanita itself or by nearby communities, however, residential demand is quite strong and increasing substantially.

Conclusion: based on the research summarized above, the unimproved subject land could be residentially developed at this time or held for future development, and the improved portion of the property held in its current use as an "interim" use or redeveloped into an alternative use if economically supported..

Valuation Methods, Subject Valuation and Market Conditions

The real estate appraisal industry currently recognizes three valuation methods referred to as "approaches" to value. These include the Cost, Sales Comparison and Income Approaches. Each approach involves techniques developed and tested over many years in the appraisal industry. Which approach, or approaches, apply to a particular appraisal problem is based on assignment specific factors such as the purpose of the assignment, the type of property and the available data. The following are general descriptions of the approaches.

Cost Approach

The Cost approach is commonly used to develop an indication of value by combining the market value of the land, as if vacant and capable of being put to its Highest and Best Use, and the depreciated replacement value of the improvements. It is usually an estimate of the cost to *replace the utility* of the improvements, not an estimate of the cost to *reproduce* the improvements as originally constructed. The cost new of existing improvements can often be readily established. The limitation of this approach is that the estimate of accrued depreciation is best determined by extraction from market sales and adequate data may not be available. In these cases, the appraiser relies on industry published depreciation information, experience and judgment. This approach is often the only reliable approach to the valuation of special purpose properties.

Sales Comparison Approach

This approach relies on the availability of an adequate number of reasonably recent sold properties, similar enough in design, utility, age and condition to the subject property, that a reliable unit of comparison can be developed. Comparable features are examined and adjustments for differences are made to develop an indication of value taken directly from market sale data. The reliability of this approach is directly related to the sale of sufficiently comparable properties within a reasonably recent time frame.

Income Approach

This approach is used to develop an indication of value for income producing properties by converting anticipated future income to a present value. Market income (usually rent or lease payments) is estimated and market extracted conversion factors are applied to produce the indication of value. The income history of the subject property (if available) is analyzed and the market is researched for an estimate of income that can be reasonably anticipated. The income is then converted to a present value using industry established techniques such as rent multipliers and capitalization rates.

Summary of Subject Valuation

Due to the age and design of the subject improvements, and limited market data, only the Income approach could be reliably developed.

Cost Approach: due to the age, design and configuration of the existing structures on the property, the structures were found to be too far out of conformity with current design and costs provided by standard industry cost services to reliably develop this approach. For similar reasons, a reliable estimate of depreciation could not be reliably developed, therefore, this approach was not developed.

Sales Comparison Approach: the local market was searched for sales of properties adequately similar in location, age, design and use to develop this approach, however, inadequate data was found, therefore, this approach could not be reliably developed.

Income Approach: adequate market based income and expense data was available to develop this approach.

Market Conditions

Subject market data supports substantially increased residential demand in the prior two years. The data shows increasing sales volume of existing properties and some new residential development, indications of an active market with increasing residential price levels. Regional MLS data indicates the "Estimated Median Home Value" in the subject market has increased 8.2% in the prior year.

Marketing Time

Per RMLS (Regional Multiple Listing Service) statistics, average marketing times in the subject market are about one year for unimproved residential lots and about three to six months for improved residential properties *when priced appropriately for current market conditions*. The market value developed in this report is intended to enable sale of the subject property consistent with these times, however, future market conditions cannot be reliably predicted therefore actual marketing time may vary.

Cost Approach

Due to the age, design and configuration of the existing structures on the property, the structures were found to be too far out of conformity with current design and cost estimates provided by industry standard cost services to reliably develop this approach. For the same reasons, a reliable estimate of depreciation from all sources could not be developed, therefore, this approach was not developed.

Value Indicated By the Cost Approach: Not developed

Sales Comparison Approach

The local market was researched for sales of properties adequately similar in location, age, design and use to develop this approach, however, inadequate data was found, therefore, this approach could not be reliably developed.

Value Indicated By the Sales Comparison Approach: Not developed.

Income Approach

Adequate data was found to develop this approach. The subject was valued as a single property, however, the final opinion of value required comparison of the property under two separate scenarios. The first, in its "as is" condition as a combination of commercial use and undeveloped land, and the second as land only, with the higher value of the two selected as the current market value.

Under the "as is" scenario, the developed portion was valued using its actual use and income history, and the undeveloped land as residential using an estimate of anticipated income converted to a present value. The undeveloped land was valued as residential based on the market data collected and discussions with city officials and local Realtors. Under the land only scenario, the land was valued as residential, again based on the market data collected and discussions with city officials and local Realtors.

Please note that some of the estimates and assumptions made in this approach are more speculative than would ideally be the case due to the necessity of estimating future income and costs. Every effort was made to be as realistic as possible, however, future market conditions cannot be predicted, therefore, actual market conditions could vary and the opinion of value affected.

Scenario One - "As is" value

Developed Portion Valuation

Net Income Estimate: based on site inspection and aerial photos, and estimated 1.15 acres was assigned to this portion of the property. The value developed is based on the actual use and net income history of the property as provided by the client. These figures were considered the best available market evidence of value based on income because the property has been actively managed by the client for many years. Also, due to the relatively unusual age, design and configuration of the structures on the property, highly reliable comparable rent and expense analysis could not be developed.

The estimate of net income is the average actual gross income from the prior four years less the average actual expense percentage from the same period, adjusted by an estimate of income for the space used by the client (Quonset spaces "C" & "D"). This equates to a rounded annual gross income of \$28,000 less expenses at 40% of gross, producing an estimate of net income at \$16,800.

Cap Rate Discussion and Value Analysis: the most commonly used method of converting estimated income to a present value is the Capitalization Rate ("Cap Rate"), a rate reflecting the relationship of income to value. Cap Rates reflect all elements of investment risk, therefore, higher rates indicate higher risk (and lower value) and lower rates, lower risk (and higher value). In calculations, it is expressed as a decimal percentage and is applied to the annual net income to produce the indication of market value based on income. As a common industry standard, this method was considered appropriate for use in this appraisal.

The ideal method of deriving a Cap Rate is from the sale of similar properties with current market rent levels in the subject market, however, adequate data is often not available, as was the case here. A common alternative, that was utilized here, is the "Band of Investment" mortgage and equity method. This method assumes an investment "profile" with common financing and return on investment elements. The analysis

Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

develops a Cap Rate (income measure) that reflects adequate income to service typical debt requirements and provide commonly acceptable equity return to the investor. The debt element reflects commonly available financing and the equity element reflects commonly expected cash flow, equity build-up and appreciation. Commercial property financing is commonly available at 5%-7% interest and 67% to 80% of property value. Equity yield is commonly acceptable in the 5% to 15% range, depending on the type of investment. These factors translate to an extreme range of Cap Rates at about 6% (.0600) to about 10% (.1000), although more extreme rates may apply during unusual market conditions or to special purpose properties. Notably, commercial loan rates and capitalization rates have generally remained stable since 2012.

Although unusual in general physical characteristics, the subject has a well established use history and is likely to be a relatively low risk investment, therefore, using a loan rate of 6.0% and a 75% loan-to-value ratio, and an equity return rate of 8%, the estimated Cap Rate for the subject was calculated as follows:

Mortgage:	.75 x .060 = .04500
Equity:	.25 x .080 = <u>.02000</u>
Cap Rate:	.06500, or 6.5%

Using the above Net Income and applying the estimated Cap Rate, the indication of value for the developed portion of the subject property in its current use is as follows. \$16,800 (Net Income) / .06500 (Cap Rate) = \$260,000 (rounded).

Undeveloped Portion Valuation

Based on site inspection and aerial photos, and estimated 1.52 acres was assigned to this portion of the property. This land is mostly sparsely wooded and somewhat brushy. The land slopes gently down toward Manzanita Avenue with the upper portion having somewhat of a "territorial" view of the immediate neighborhood. There does not appear to be any significant impediments to full development of the property since adequate infrastructure (such as public streets, public water, public sewer, power, etc.) adjoin the property and are available for connection without highly unusual costs.

Market Demand: based on the information collected, there is currently substantial demand for existing and new residential property in Manzanita, but limited demand for new commercial development in the location of the subject, especially the undeveloped area, therefore, despite the C-1 zoning of the subject, this portion was valued at its estimated residential value, as land that is ready for development. As noted elsewhere in this report, the C-1 zone allows for a wide range of residential development. It is beyond the scope of work for this appraisal to develop a specific development plan for the subject, therefore, the value developed is essentially a "generic" residential value.

Improved Residential Sales: a search of residential listings and sales in the prior year returned fifty-three active listings ranging in price from \$79,000 to \$1,299,000, twenty pending sales listed at \$259,000 to \$800,900 and eighty-four sold properties ranging in price from \$95,000 to \$1,310,000. Significantly, the median selling price of a home was about 98% of the list price, indicating strong demand, with the typical sale price very near the list price. Based on the number of housing units in Manzanita, this indicates a sales "turnover" rate of about eight percent in the prior year, relatively high given the size of the city, however, since many residents are retired persons, a turnover rate of this size is understandable. The improved sales information provides support of the need for additional housing units in Manzanita to meet current demand.

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Residential Land Sales and Valuation: a search of all land sales in the RMLS data base for the prior ten years returned no sales of land similar in location, size and zoning to the subject, therefore, listings and sales of individual lots similar to the subject were researched. The estimated value of a single lot in the subject location was then used to estimate the value of the undeveloped subject land. Subject zoning, and current typical development in Manzanita, allows and supports development of about six lots per acre, with individual lot sizes of about 5,000 to 6,000 square feet, therefore, a lot size of 5,500 was selected for purposes of analysis.

The property adjoining the subject to the north (on North Avenue) is listed at \$799,000, and is also zoned commercial. It is being marketed with multiple use potential, one of which is division into six residential lots at an average of \$133,333 each. This property fronts developed North Avenue, with established street frontage and services access to each potential lot, therefore, somewhat less development costs than are likely for the subject property. Additionally, nine lot sales were collected from the prior three years in the subject neighborhood. These lots averaged about 6,000 square feet in size and are all located closer to the beach. These sales average about \$175,000, however, after adjusting for their superior location and lot size, a value of \$135,000 for a "finished" lot (a lot ready to build a home on) in the location of the subject was selected as well supported by the available data.

To estimate an absorption rate (the annual rate at which newly built homes are likely to be purchased), sales of new homes was researched. The improved sales data above data indicated that home sales in the \$300,000 to \$400,000 are well supported in this market, therefore, this price range was selected for analysis of the subject property. The best information available was found at the "Classic Cottages" development located relatively close to the subject on Classic Street. The first phase of development included five homes which sold quickly at about \$300,000. Phase two is now under way with fifteen more homes planned, with listed prices in the range of \$320,000 to \$380,000. The development will include thirty-two homes when complete. Discussion with the developer, Jim Pentz, indicated that he is interested in acquiring additional land, indicating some support for ongoing residential demand in Manzanita. Based on the sales information found, an absorption rate of three to five homes per year for developments in the price range of \$300,000 to \$400,000 appears supported by current demand, and was therefore assumed for the subject property.

The subject undeveloped portion is 1.52 acres in size, thereby implying adequate size for development of nine residential lots at six lots per acre, as allowed by zoning and consistent with much of the lot development in Manzanita. Based on the estimated absorption rate above, it is further estimated that the nine lots, once improved with a home, could be sold within a two year period, however, the "lead" time for residential development is often one year or more for purchase, financing, permits, installation of infrastructure, etc., therefore, a three year time frame was assumed, with four lots developed and sold in year two and five lots developed and sold in year three.

Estimated lot values for the current and subsequent years using RMLS data, are as follows.

Current Year: \$135,000

Year Two: \$145,000

Year Three: \$155,000

As noted, it is likely no income will be obtained until year two due the lead time involved, therefore, the estimated gross income is as follows.

Year Two: \$580,000 (4 lots @ \$145,000 each)

Year Three: \$775,000 (5 lots @ \$155,000 each)

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To develop an estimate of present value, the estimated future income is "discounted" by a factor that recognizes the time involved. The rate selected reflects the risk involved for this type of investment, which is somewhat greater than investments with a short term return, therefore, a rate of 9% was selected. The factors and discounted income are as follows.

$\$580,000 \times .841680$ (9%, 2 year factor) = \$488,200

$\$775,000 \times .772183$ (9%, 3 year factor) = \$598,400

This equates to a total present value of \$1,086,600, however, this amount must be further adjusted for the costs to create the finished lots that are ready for development with a home. Project design and permit fees for even relatively small residential projects often cost in the range of \$10,000 to \$30,000, therefore, an estimated cost of \$20,000 was selected. Infrastructure with the characteristics required by the city of Manzanita (paved streets, no curbs, no sidewalks, sewer and water lines, buried utilities, etc.) typically cost in the range of \$150 to \$200 per lineal foot, however, due to the coastal location of the city, the higher end of the range was selected. It is further estimated that each of the nine lots assumed under this analysis will have fifty to sixty feet of shared street frontage, with homes on both sides of the street, or an estimated total of 250 lineal feet of street, since it is not known if any of the lots will front on a currently developed street, such as Division Street. Although the costs discussed here can change significantly, usually due to short term factors, they are generally fairly stable, therefore, the total estimated costs are as follows.

Design and Permit Fees	\$20,000
Infrastructure Costs	\$50,000
Site Prep & Incidentals	<u>\$10,000</u>
Total Estimated Costs	\$80,000

Based on the above estimates, the following adjusted present value for the undeveloped land is nine lots at \$1,086,600 less estimated project costs of \$80,000 equates to a net present value of \$1,006,600, rounded to \$1,000,000.

Summary of "As is" value

Commercial portion of the property	\$ 260,000
Undeveloped Land portion	<u>\$1,000,000</u>
Total Value	\$1,260,000

Scenario Two - Land Only value

As in Scenario One, residential development is assumed based on market research, however, an estimated sixteen lots are assumed possible after removal of the current commercial structures. Due to the larger number of lots, a four year time frame was applied to allow sale of approximately five lots (with homes) per year after the one year lead time. Estimated lot values for the current and subsequent years using RMLS data, are as follows.

Current Year:	\$135,000
Year Two:	\$145,000
Year Three:	\$155,000
Year Four:	\$165,000

As noted under Scenario One, it is likely no income will be obtained until year two due the lead time involved, therefore, the estimated gross income is as follows.

Year Two:	\$725,000 (5 lots @ \$145,000 each)
Year Three:	\$775,000 (5 lots @ \$155,000 each)

Appraisal of Property on Manzanita Avenue, Manzanita, Oregon

Year Four: \$990,000 (6 lots @ \$165,000 each)

To develop an estimate of present value, the estimated future income is "discounted" by a factor that recognizes the time involved. The rate selected reflects the risk involved for this type of investment, which is greater than investments with a short term return, therefore, a rate of 9% was selected. The factors and discounted income are as follows.

\$725,000 x .841680 (9%, 2 year factor) = \$610,200

\$775,000 x .772183 (9%, 3 year factor) = \$598,400

\$990,000 x .708425 (9%, 4 year factor) = \$701,300

This equates to a total present value of \$1,909,900, however, as in Scenario One, this amount must be further adjusted for the costs to develop the property (create the finished lots that are ready for development with a home). Project design and permit fees are likely to be somewhat higher than in Scenario One, therefore, an estimated cost of \$25,000 was selected. Infrastructure costs of \$200 per lineal foot were applied, however, due to the larger number of lots, 450 lineal feet of street was estimated, since it is not known whether any of the lots would front on a currently developed street. Under this scenario, the existing commercial structures would need to be removed, including the old school building which is known to have some level of asbestos contamination. Removal of the existing structures, including foundations and in-ground lines, etc., would likely cost in the range of \$5,000 to \$10,000, however, the cost to remove asbestos, if present, is unknown at this time, therefore, a higher end cost estimate of \$20,000 for removal of the structures was applied. Based on the above, the total estimated project costs are as follows.

Design and Permit Fees	\$ 25,000
Infrastructure Costs	\$ 90,000
Removal of Structures	\$ 20,000
Site Prep & Incidentals	<u>\$ 15,000</u>
Total Estimated Costs	\$150,000

Based on the above estimates, the following adjusted present value under this scenario is \$1,909,900 less estimated project costs of \$150,000 equates to a net present value of \$1,759,900, rounded to \$1,760,000.

Summary and Opinion of Value

Based on the above analysis under each scenario, Scenario Two was selected as the best estimate of market value, therefore, a value of \$1,760,000 was selected as the best supported value under this approach.

Value Indicated By the Income Approach: \$1,760,000

Reconciliation Of Value

Ideally, all three approaches to value can be reliably developed, primarily as a check on each other, however, in this case, only one approach could be reliably developed due to the factors discussed in the Cost and Sales Comparison approach sections above. Although only one approach was developed, the market data available reliably supports the opinion of value.

Cost Approach	Not Developed
Sales Comparison Approach	Not Developed
Income Approach	\$1,760,000

Opinion of market value.

One Million Seven Hundred Sixty Thousand Dollars

\$1,760,000

APPRAISER'S CERTIFICATION

- I certify that, to the best of my knowledge and belief:
- The statements of fact contained in this report are true and correct.
- The credibility of this report, for the stated use by the stated user(s), of the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice that were in effect at the time this report was prepared.
- I did not base, either partially or completely, my analysis and/or the opinion of value in the appraisal report on the race, color, religion, sex, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property, or of the present owners or occupants of the properties in the vicinity of the subject property.
- Unless otherwise indicated, I have made a personal inspection of the property that is the subject of this report.
- Unless otherwise indicated, no one provided significant real property appraisal assistance to the person(s) signing this certification.

Appraiser: Jeffrey M. Benham

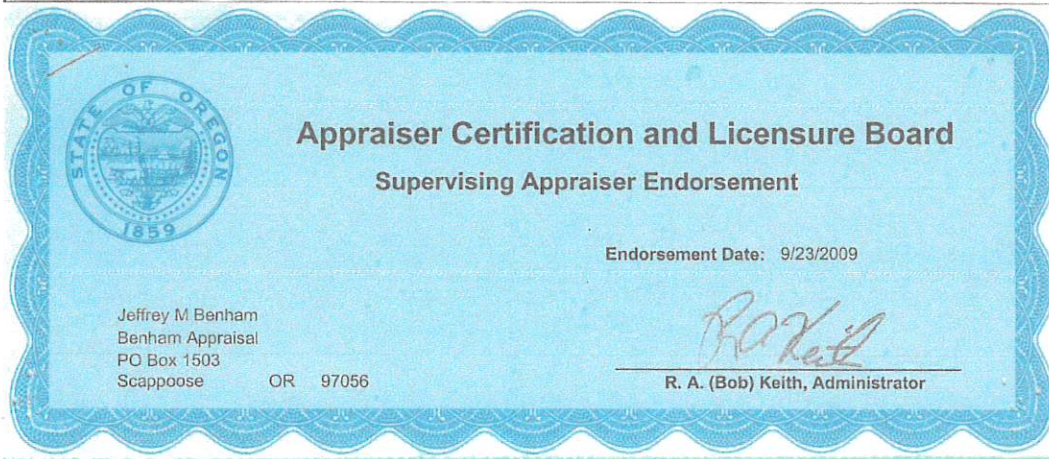
State Certified General Appraiser License#: C000892

Date of Report: July 27, 2015 Signature _____

Electronic Signature:



LICENSE INFORMATION



Summary of Qualifications and Experience

Jeffrey M. Benham
Certified General Real Estate Appraiser

Education

Graduate of the University of Oregon with a business degree in Real Estate and Marketing. Since that time I have completed hundreds of hours in continuing education and advanced course work in real estate.

Experience

- Independent appraisal experience with Carl Trowbridge and Associates based in Raleigh Hills, Oregon.
- Public appraisal experience with Columbia County in St. Helens, Oregon as a Field Staff Appraiser and Sales Data Analyst completing field inspections, collecting and confirming sales data, analyzing markets to develop the materials used by the appraisal staff, and completing Sales Ratio Studies to audit field appraisals and adjust values for changing market conditions. This work involved appraisal of all types of real property and some personal property.
- Independent appraisal experience as the owner of my own appraisal business since January 2007.

Licensing and Certifications

- Certified by the State of Oregon to perform appraisals for assessment purposes for both Urban and Rural property in 1974.
- Licensed in Oregon as a Certified Residential Appraiser in January 2007.
- Licensed in Oregon as a Certified General Appraiser in May 2007.

Professional Organizations

- Practicing Affiliate of the Appraisal Institute
- Candidate Member of the National Association of Independent Fee Appraisers

Clients Served

- As an independent appraiser: lenders, individuals, investors, public institutions, attorneys and trusts including US Bank, St. Helens FCU, Wauna FCU, First Tech FCU, Met Life Home Loans, Umpqua Bank, JP Morgan/Chase, City of St. Helens, Port of St. Helens, Portland Community College, Port of Portland and other individuals and institutions.
- As a public appraiser: the people of Columbia County, Oregon.

Benham Appraisal Services

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