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APPRAISAL REPORT

**EAST LAKE SAMMAMISH
RAILROAD RIGHT OF WAY**
King County, Washington
Volume II

Prepared For:

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VALUATION

The appraisal process is designed to evaluate all factors which influence value. We have discussed regional and neighborhood information to inform the reader of general outside influences which may affect value. The right of way has been described in detail, and there have been numerous photographs and graphics to further inform the reader. We have performed a highest and best use analysis to evaluate the affect of legal, physical, and market factors on the property. The next portion of the appraisal process deals directly with the valuation of the property.

Conventionally, there are three approaches used in estimating market value. Of the three approaches, the **Cost Approach** typically has application when there are significant improvements and a replacement cost can be estimated. This approach is not relevant to the appraisal of the East Lake Sammamish right of way. The **Income Approach** has application with income producing properties. While it is possible that vacant sites can be leased, such an eventuality is infrequent. The right of way, given its size and multiplicity of potential uses, is an unlikely candidate for leasing. Accordingly, no **Income Approach** has been applied.

The **Sales Comparison Approach**, which is based on the principle of substitution, is the basis for the "Across the Fence" methodology. The principle of substitution states that no one would pay more for the subject property than the value of similar property in the market. In active markets with a large number of physically similar comparables, this approach is considered to be a good indicator of value. The present market all along the right of way is active, and therefore there is sufficient comparable data to estimate each of the property types which will be encountered along the right of way. In summary, the following analysis is based on data which comes was developed using sales comparison techniques.

"Across the Fence" Methodology – "Across the Fence" methodology relies on the principle that property within a right of way is likely to be worth the same amount as similar property outside of the right of way. There are, however, some important qualifiers to this principle. One such qualifier is that zoning, terrain and topography are similar. In this analysis, zoning is similar in every important instance, but terrain and topography cause some clear differences. A second qualifier is that comparable sales data by definition is the result of market transactions. The sale of right of way property, however, may be limited in practical terms to one or no more than a few potential buyers. Thus, the logic of the analysis involves three steps:

- 1) Determining market value for a category of property;
- 2) Applying market value to the relevant portion of the right of way;
- 3) Adjusting for factors specific to the right of way, including the limited market for some parcels.

This three step process is particularly important in the case of some residential property in the right of way for which the likely buyer is clearly the adjacent owner. The fact that there is only one adjacent buyer affects necessarily affects the likely price such a party would pay, and accordingly the result of our analysis.

Throughout the following analysis, we will be estimating value based on such a two step process.

VALUATION (continued)

SALES COMPARISON APPROACH

The Sales Comparison Approach in this report is composed of four sets of comparable sales which are meant to encompass all of the basic land use types and neighborhood areas under appraisal. The four different sets of comparables include:

- 1) Commercial site sales for both Redmond and Issaquah;
- 2) Light industrial (business park) sales for both Redmond and Issaquah;
- 3) Open space property for both Redmond and Issaquah;
- 4) Residential lot sales for the length of right of way within King County, valued under 3 different premises.

Adjustments to Value – There are three important factors which permit the application of adjustments to the values suggested by the comparable data. These are:

Time: There is frequently an appreciation of values associated with active markets, particularly when the property type is scarce or highly prized. We have addressed the issue of time for each of the land uses along the right of way, attempting to reflect recent appreciation in our estimates of value.

Location and Access: Properties with strong locations and accesses will generally attract a premium over those properties which do not enjoy these same characteristics. As has been emphasized in Volume I, the location of the right of way is good and accesses are good to very good. We have attempted to reflect the strength of these accesses and locations in our choice and treatment of comparable data.

Terrain: The market will adjust pricing of properties to the extent that terrain situations affect the development cost or potential of a property. We have attempted to reflect the issues of terrain, and similarities and differences between the comparables and portions of the subject in our treatment.

Presentation of Comparable Data

The following pages contain summary sheets for all of the comparable data used in this report. Since there are 46 sales, and the data is voluminous, we have attempted to summarize all of the key data regarding these sales on the following summary sheets. Photographs and plat maps, where relevant, have been retained in file. Following each summary sheet is a map showing the location of the comparables on the previous summary table.

VALUATION (continued)

The comparables establish the following value ranges.

Land Use	# of Comparables	Value Range
Commercial sites	8	\$13.00/SF to \$28.00/SF
Light industrial sites	10	\$4.00/SF to \$15.00/SF
Open space property	4	\$2.00/SF to \$4.00/SF
Residential property		
– Lake view lots	2	\$6.00/SF +/-
– Lakefront lots	15	\$20.00/SF to \$70.00/SF
– Lake oriented lots	3	\$5.00/ to \$11.00/SF
– Lakefront recreational lots	4	\$28,000 to \$75,000/Lot

Valuation of Fee and Non-Fee Portions of the Property

As indicated in Volume I, we have valued the property as if the entire land area were owned in fee simple interest. From this result, we have deducted those areas of the property which were acquired as part of a federal land grant, held as easements, or occupied under adverse possession. Deducting these areas of the property from the computations reduces the value conclusion by approximately 31%.

The identity of these portions of the property, and the details of this deduction of property from the overall computation are taken up following the conclusion of value as if the entire property were held in fee simple.

Net Liquidation Value

As discussed in Volume I, the values computed for the property under the "Across the Fence" methodology represent the sum of all of the values of the components of the property. Such a summing of values, however, does not represent what an investor or buyer would be likely to pay for the property. What an investor or buyer would pay for the property would necessarily involve such a party's calculation of the time, cost, and risk involved in disposing of the property. In this report, such a value is referred to as Net Liquidation Value, or the amount which a buyer intent on disposing of the property under the most profitable terms could pay for the entire right of way.

The computation of Net Liquidation Value is the last step in the analysis.

Analysis of Value Conclusions

Following the estimate of Net Liquidation Value, we have considered the results of the analysis in terms of its strengths and weaknesses, overall reasonability. This discussion is relatively extended, and attempts to move beyond the details of the analysis to place the overall result in the broader context of real estate values and trends in the community.

ANALYSIS OF VALUE CONCLUSIONS

Value Indications: Based on the analysis completed above, we have come to the following value indications for the subject property.

"Across the Fence" Value—

Fee Simple	\$31,500,000
Less Than Fee Simple	\$25,800,000

Net Liquidation Value—

Fee Simple	\$18,100,000
Less Than Fee Simple	\$14,600,000

The Analysis of Value Conclusions is the final step in the appraisal process and involves the weighing of the results in light of reasonability. There were four major steps in the performance of this analysis, all of which bear comment.

- 1) **The accurate description of the right of way and the proper categorization of its various components.** We have commented previously on the description of the right of way in terms of length, width and overall area. Our descriptive work is reasonably confirmed by the work of others, although there remain minor discrepancies which are unlikely to be resolved without very careful survey and map work. In any event, it appears that there is little potential for significant error in the area of description of the property.

The issue of categorization of the property is two-fold: what are the likely land uses for each of the lengths of the right of way and what is the quality of the title. The categorization of properties, with the exception of the open space and wetland areas was relatively simple because it was based on zoning and established land use patterns. For the open space and wetland areas, zoning differed from likely use, but there was a strong enough case for the Marymoor Park area to defend a highest and best use of open space. In any event, the finding of open space as a highest and best use represents the more conservative treatment in value, therefore preventing the analysis from veering to the more aggressive side.

The issue of quality of title is one for which we relied on mapping and title analysis performed at the King County Office of Open Space. We have made a Special Assumption that this work, which lies at the core of this appraisal, is valid. The appraisal issue is one of measurement of the areas which are neither held in fee simple nor right of way deeds. We have approached this matter with the same care as employed in the measurement of the right of way overall, but recognize that the issues of mapping and measurement already discussed may provide some basis for differences among analysts.

- 2) **The development of a sufficient number of sales comparisons to support findings in each land use category.** The analyst is favored in this area by the fact that there has been a very active real estate market and so there are sufficient sales to establish value. It may be arguable that the data in some cases (for example commercial property in Issaquah, or wetland area) was weak. We acknowledge that the quality of the data

ANALYSIS OF VALUE CONCLUSIONS (continued)

differed somewhat from property type to property type, but would argue strongly that overall, the data was wholly adequate to the requirements of estimating and reporting broad value trends.

- 3) **The interpretation of sales comparisons:** Particularly in the residential land use category, it was necessary to develop estimates for which there was no directly applicable data. Two examples are:
- ◆ Lack of data for the situation of developing a building lot from a recreation lot and "backyard" or right of way area. In this instance we applied various elements of the data to arrive at results which we considered reasonable.
 - ◆ In the case of the creation of new interior lots, we employed residual techniques along with comparable data to produce a realistic result.

In such instances, we attempted to lean, where data was not directly applicable to the conservative side of the analysis in the interests of proceeding cautiously in areas where values are not well-established.

- 4) **The development of a model for Net Liquidation Value:** The model used is conventional, and should occasion no controversy. If there are issues, they will lie with the assumptions in the model, particularly in the estimate of absorption (admittedly subjective), and the manner of discounting by deducting profit at sale.

In the end, it will be possible to take issue with measurements, particular assumptions, various treatments of comparable sales data, or with the conduct of the Net Liquidation Value. Such differences are to be expected in an analysis with the level of complexity in this appraisal. We note, however, that we have inclined toward a cautious treatment wherever the data did not strongly support a result. As a result, we believe it fair to say that the report leans toward the low side of the range of value suggested by the data. We believe such a treatment is appropriate in a report where there is the potential for areas of disagreement among analysts.

The question of the reasonableness of the result is difficult to answer directly. In the most simplistic terms, the appraisal has concluded rounded values of \$15,000,000 to \$18,000,000 for the entire acreage. This result is the equivalent of \$110,000 to \$130,000 per acre (\$2.50/SF to \$3.00/SF for a strip of acreage which can only be considered among the most prime in the County. For an area which has seen commercial, industrial and residential lot sales far in excess of these estimates (\$/SF), it is possible to view the value as low. If one considers the difficult issues of highest and best use, including terrain and access, this seemingly low value would appear to have a much stronger rationale.

Conventional analytical technique would require a discussion of the likely buyer of such a property, and such a buyer's probable intentions and investment parameters. There are few such buyers of rights of way who have the intention of disposing of them for a profit. One such case of which we are aware involves the sales of Burlington Northern property in the early 1990's to the Trillium Corporation. The properties in that instance were widely scattered, and did not constitute a coherent right of way. In any event, the buyer paid a deeply discounted price for a portfolio of

ANALYSIS OF VALUE CONCLUSIONS (continued)

properties which represented a wide mix of characteristics and issues. Such a sale does not lend itself to a comparison with the case of the subject.

There are large, well-funded, capable real estate investors and developers in the region who would be equipped to deal with the multiplicity of issues that a transaction such as the subject would represent. Thus, the fact that no such transaction has occurred is no indication that one would not be possible or likely if the property were made available. For the purposes of this analysis, however, it would be speculation to suggest the names of potential investors or their specific motivations.

In the end, when all such considerations have been dealt with, the question revolves on the fact that there is an extended right of way, the many parts of which would be highly desirable to a wide variety of investors, developers, or abutting owners. The bedrock of the value, a vibrant regional and area economy buttressed by Boeing and Microsoft, is sound for the foreseeable future. The specific value results of the analysis have been developed and computed with conventional techniques recognized as appropriate to the appraisal problem. For all of these reasons, we believe that the conclusions presented above are reasonable.

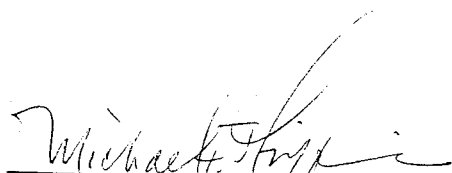
CERTIFICATION OF APPRAISAL

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective personal interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- My compensation is not contingent upon the reporting of a predetermined value or direction in value that favor the cause of the client, the amount of the value estimate, the attainment of a stipulated result, or the occurrence of a subsequent event.
- The appraisal assignment was not based upon a requested minimum valuation, or specific valuation, or approval of a loan. Employment of the appraiser was not contingent upon the appraisal producing a specific value, or a value within a given range.
- My analyses, opinions, and conclusions were developed, and this report has been prepared in conformance with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practices of the Appraisal Institute, and the *Uniform Standards of Professional Appraisal Practices* as set forth by the Appraisal Standards Board of the Appraisal Foundation.
- I, Michael F. Griffin, MAI, have made a personal inspection of the property that is the subject of this report.
- Steven Tate has provided significant professional assistance to the person signing this report. Tate's contribution involved the identification, analysis, and confirmation of the comparable sales used in this report. Valeri Pate contributed to the analysis of the physical characteristics of the right of way, and in particular with the measurements of various areas of the property.

The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

As of the date of this report, I, Michael F. Griffin, MAI, am currently certified under the continuing education program of the Appraisal Institute.



Michael F. Griffin, MAI
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