Reliant

Appraisal Assignment
Presented in a Self-Contained Report

Legislative Affairs Building

712/716 West 4th Avenue
Anchorage, Alaska 99501

Latitude: *61°13'5.85'N*, Longitude: *149°53'47.36'W*

Reliant Reference Number: 13-0870

as of October 28, 2013

Prepared For:
Ms. Deatrice Swazer
Northrim Bank

RELIANT LLC ADVISORY SERVICES

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Letter of Transmittal

November 1, 2013

Ms. Deatrice Swazer
Appraisal Management Officer
Northrim Bank
3111 C Street, Suite 400
Anchorage, Alaska 99524

RE: **Legislative Affairs Building**
712/716 West 4th Avenue
Anchorage, Alaska 99501
Reliant Reference Number: 13-0870

Dear Ms. Swazer:

At your request, an appraisal of the above referenced property has been prepared. The appraisal is presented in a *self-contained* report. The purpose of the assignment is to estimate the market value of the *Leased Fee* interest in the subject real estate in its current *As Is* condition, and its prospective market value *At Completion and At Stabilized Occupancy* of the proposed improvements described in this report.

The report will be used by Northrim Bank (the Client) for prospective financing decisions and it may not be suitable for other uses. Although other parties may in some cases obtain a copy of this report, it should not be relied upon by anyone outside of the intended user(s).

This assignment has been prepared and presented in conformance with the client's instructions, the current Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation, as well as the bylaws of the Appraisal Institute. Furthermore, this appraisal conforms with Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), as revised June, 1994 and codified under 12 CFR 323.

The subject is currently comprised of an older 6-story office building, a two-story restaurant/pub, and a 2-level parking garage. The smaller building is to be demolished to make way for an addition, while the larger building is to be completely gutted to the skeleton. At completion, this will essentially be a unified, new construction, 6-story office tower with auditorium and multiple conference rooms, along with numerous offices for State Legislators and their staff. The entire property has been leased to Alaska Legislative Affairs Agency for an initial 10-year term, and there is a 10-year renewal option. An interior and exterior walk-through of the subject has been made, and photographs taken. The roof was not observed. Market information and data regarding other similar real estate has been obtained. This data has been analyzed using appropriate techniques and methodologies necessary to develop a credible and reliable estimate of market value.

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RE: **Legislative Affairs Building**

As a result of research and analysis, the value estimates for the subject are as follows:

FINAL MARKET VALUE ESTIMATE		
Legislative Affairs Building		
Property Rights	**Leased Fee**	**Leased Fee**
Condition	**As Is**	**At Completion/Stabilized**
Effective Date of Appraisal	**October 28, 2013**	**December 31, 2014**
Final Market Value Estimate	**$16,500,000**	**$44,000,000**

The value estimates are based on a marketing period of approximately 12 months and an exposure period of approximately 12 months. The value opinion reported above is qualified by certain assumptions, limiting conditions, certifications and definitions, which are set forth in the body of the report. This letter is invalid as an opinion of value if detached from the report, which contains the text, exhibits and Addendum. Thank you for the opportunity to be of service. If you have any questions, please feel free to call.

Respectfully submitted,

Theodore Jensen, MAI
Managing Member
Alaska Certified General - No. 545
Appraisal Institute Member No. 482231
ted@reliantadvisory.com

Certification

The undersigned certify that, to the best of their knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are their personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. They have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. They have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. They have not provided a previous service, as an appraiser or in any other capacity, regarding the subject within the three years prior to accepting this assignment.
6. Engagement in this assignment was not contingent upon their developing or reporting predetermined results.
7. 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.
8. Opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. A personal walk-through of the subject property has been made by Mr. Jensen.
10. No one provided significant real property appraisal assistance to the persons signing this certification and they are competent and qualified to perform the appraisal assignment.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, Theodore Jensen has completed the requirements of the continuing education program for Designated Members of the Appraisal Institute, and for certified appraisers in the State of Alaska.

Theodore Jensen, MAI
Alaska Certified General No. 545

Table of Contents

Assignment Overview

Identity of Property

Name	Legislative Affairs Building
Brief Description	The subject is currently comprised of an older 6-story office building, a two-story restaurant/pub, and a 2-level parking garage. The smaller building is to be demolished to make way for an addition, while the larger building is to be completely gutted to the skeleton. At completion, this will essentially be a unified, new construction, 6-story office tower with auditorium and multiple conference rooms, along with numerous offices for State Legislators and their staff. The entire property has been leased to Alaska Legislative Affairs Agency for an initial 10-year term, and there is a 10-year renewal option.
Address	712/716 West 4th Avenue Anchorage, Alaska 99501
Geo Coordinates	Latitude: 61°13'5.85'N, Longitude: 149°53'47.36'W
Physical Location	The subject is located at the southeast corner of West 4th Avenue and H Street in downtown Anchorage.
Assessor's Tax Parcel Number(s)[1]	002-105-26, 002-105-49
Abbreviated Legal Description	*Lot 2 (West 39.5') and Lot 3A, Block 40, Original Townsite of Anchorage, Anchorage Recording District, Third Judicial District, State of Alaska, according to the official plat thereof.* (Per Department of Natural Resources Records)

Scope of Assignment

Value Definition(s) The following definition of value is utilized in this report:

MARKET VALUE (OCC)[2] *The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

a. the buyer and seller are typically motivated;

b. both parties are well informed or well advised, and acting in what they

[1] Per Tax Assessor Records.
[2] Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.43 Definitions [g].

consider their own best interests;

c. *a reasonable time is allowed for exposure in the open market;*

d. *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto;*

e. *and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Other Definitions	Please refer to the Terms & Definitions section presented in the Addenda for additional definitions of significant terminology used in this report.
Purpose	To estimate the market value of the real estate in its current As Is condition, and its prospective market value At Completion and At Stabilized Occupancy of the proposed improvements described in this report.
Intended Use of Appraisal	The intended use of the appraisal is for prospective financing decisions, and it may not be suitable for other uses.
Intended User(s) of Appraisal	Northrim Bank (the Client)
Property Interest Appraised	This is an appraisal of the real property. Any intangible and personal property is specifically excluded from this valuation.
Property Rights Appraised	Leased Fee
Report Presentation	Self-Contained
Effective Date	October 28, 2013
Report Date	November 1, 2013

Scope of Work

Overview	Current USPAP requires the appraiser(s) to develop and report a scope of work that results in credible results that are appropriate for the appraisal problem, intended user and intended use.
Limitations to Scope of Work	USPAP permits limitations to the scope of work consistent with the appraisal problem, intended user and intended use. The scope of work has been limited by the General Assumptions & Limiting Conditions, Extraordinary Assumptions, Extraordinary Limiting Conditions and Hypothetical Conditions discussed in the report and Addenda. The Scope of Work has also been limited based on the level of information / documentation available to the appraiser. There are no other major limitations to the scope of work for this assignment.
Compliance	The analysis and reporting of this assignment is compliant with the following:

- Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
- The bylaws of the Appraisal Institute.
- The appraisal standards for Federally Related Transactions adopted by the Office of the Comptroller of Currency (OCC).
- Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA), as revised June 1994, codified under 12 CFR 323.
- Client appraisal standards as set forth in the letter of engagement presented in the Addendum.

Assignment Presentation

This is a Self-Contained report as defined by the Uniform Standard of Professional Appraisal Practice under Standards Rule 2-2(a). This format provides a detailed and complete description of the appraisal process, subject data and valuation. The depth of discussion contained in this report is specific to the client's intended use.

This is a two-sided document with new sections beginning on odd numbered pages. Note, where a section ends on an odd page Microsoft Word will automatically insert a blank, even numbered page at the end of a section.

Subject Walk Through

An interior and exterior walk-through of the subject has been made, and photographs taken. The roof was not observed. The scope of this walk-through is presented on the following table.

SCOPE OF WALK THROUGH

Item	Viewed?
Neighborhood	Yes
Subject Exterior	Yes
Subject Interior	Partial
Subject Restrooms	Partial
Subject Roof	No
Subject Mechanical Rooms	Partial
Subject Ceiling Spaces	No

Information Provided to Appraiser for Consideration

Primary data was obtained by the appraiser during the property walk-through. Secondary sources of property data include client, borrower, and public records. The scope of work is specific to the information on the subject provided to the appraiser by the client or property contact. A partial list of items provided follows:

- Plat map
- Conceptual drawings and floor plans
- Geotechnical report
- Construction cost estimate
- Purchase and Sale Agreement (for Anchor Pub)
- Complete lease documents
- Market rent appraisal report by Timothy Lowe, MAI, CRE, FRICS
- Pro forma operating expense information

The following information was not available to the appraiser:

- Three years of historic operating data
- Full architectural plans
- As built
- Title report
- Environmental study

Market Analysis

Extensive research on macro and micro economic conditions within the subject's market has been conducted. Extensive research on current market conditions within the subject's sector of the real estate market has been conducted. The Appraisal Institute recognizes two categories of market analysis: inferred and fundamental. Inferred analyses (Level A and B) are basic methods by which future supply and demand conditions are inferred by current and general market conditions (secondary data). In fundamental analyses (Level C and D), general information is supplemented by detailed data in order to forecast supply and demand, as well as subject-specific absorption and capture (primary data). The market analysis performed in this assignment is based on inferred demand.

Approaches to Value

LAND VALUATION

This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client.

COST APPROACH

This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client.

SALES COMPARISON APPROACH

This approach was not fully developed because there is inadequate market data to develop a credible value estimate through this approach. That said, the most relevant available sales data was gathered and analyzed primarily as a test of reasonableness for the value developed in the other approaches. The available sales data also aided in the selection of an appropriate rate of return for the subject. Note that economic comparison methodology (as opposed to more traditional physical comparison) was necessarily used in this case due to significant differences between the subject and all available comparables.

INCOME CAPITALIZATION APPROACH

This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client.

Valuation Process

The valuation process may include research and analysis performed as part of a prior assignment, as well as new research performed specifically for this assignment, and included but was not limited to the following:

1. The problem or nature of assignment was identified.
2. A scope of work was created that lead to credible results that are appropriate for the appraisal problem, intended user and intended use.
3. Information necessary to complete the assignment was requested and

obtained from the client / property contact.

4. An area, city and neighborhood analysis has been performed.
5. An analysis of the subject's physical and economic characteristics has been performed.
6. Interviews have been performed with property representatives (owners, property managers or leasing agents), tenants, planners, assessors, brokers, investors, developers and other individuals with useful knowledge and insight on the subject.
7. Knowledgeable market participants have been interviewed on the market conditions for properties similar to the subject.
8. An examination of current zoning codes affecting the property has been performed.
9. The functional utility of the site and/or improvements has been determined.
10. A detailed examination of the subject's economic characteristics has been made to determine the property's risk profile and economic potential.
11. A highest and best use analysis for the property was performed.
12. Extensive research to identify transactions involving similar properties was performed.
13. An analysis of the subject and available data was performed using commonly accepted valuation techniques and methodologies.
14. The quantity and quality of available data was considered along with the applicability of the methodology used, and a reconciliation was performed to arrive at the final value estimate(s).

Ownership and Sales Information

Current Owner of Record

According to Department of Natural Resources Records, the subject is presently owned by 716 West Fourth Avenue, LLC.

Three Year Transaction History

Disclosure and analysis of the subject's transaction history within the prior three years is required by USPAP and, if applicable, is presented below.

RECENT SALE ACTIVITY

Lot 3A has been owned by 716 West Fourth, LLC for over a decade. Lot 2 (west 39.5') was acquired in September 2013 for $3,150,000 cash to seller. It had been listed for sale, on and off, since mid-2011 with a beginning price of $3,850,000, eventually reduced to $3,250,000. At the time of sale, the lot was improved with an older structure (circa 1951) which had been renovated in 2007 to bar/pub use. The buyer in this case acquired the property specifically to accommodate the proposed expansion/renovation of the adjacent Legislative Affairs Building, and they likely paid some degree of premium due to this motivation. Moreover, it should be noted that the acquisition price included a liquor license (personal property) with a contributory value of $260,000 (based on the net sale proceeds

the owner is reportedly about to receive for it). Thus, the real estate only price for the Anchor Pub property would equate to $2,890,000. In any event, the acquisition price for this property component has little relevance in the current appraisal assignment, given that a lease has already been signed for the entire property as proposed.

Extraordinary Assumptions, Limiting Conditions & Special Risk Factors

Extraordinary assumptions, extraordinary limiting conditions and special risk factors specific to this assignment follow. The value estimate(s) presented in this report may be amended in the event that the extraordinary assumptions or limiting conditions are found to be false.

1. Cost can be an important indicator of quality and it is an extraordinary assumption of this report that the actual development costs do not differ materially from those provided to the appraiser..

Hypothetical Conditions

Hypothetical conditions specific to this assignment are as follow. In the event that the appraisal was not predicated on the following hypothetical condition(s) the value estimate(s) and analysis presented in this report may be impacted.

1. As described throughout this report, the property is currently comprised of an older office building along with an older bar/pub building. However, a full renovation and expansion project is proposed, and the property has already been leased. Thus, the "at completion / stabilization" value through this appraisal is predicated on the hypothetical condition that the subject is constructed in substantial accordance with the conceptual drawings, floor plans, and design information which was provided to the appraiser for this assignment.

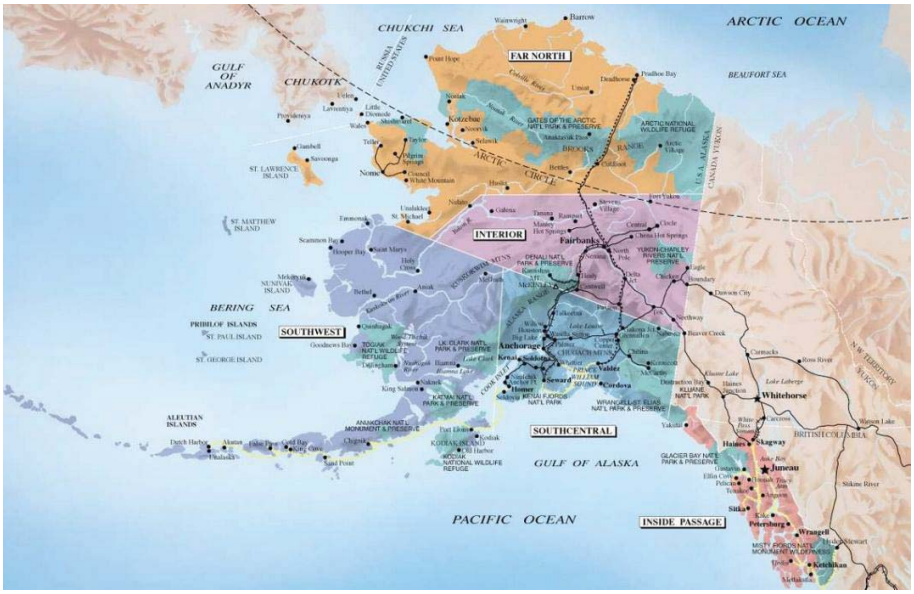
Competency of Appraiser

The appraiser has previously performed similar assignments, including government buildings and new/proposed office buildings, and meets the competency provision of USPAP. Please refer to the Experience Data presented in the Addendum for further information on the appraiser's background and experience.

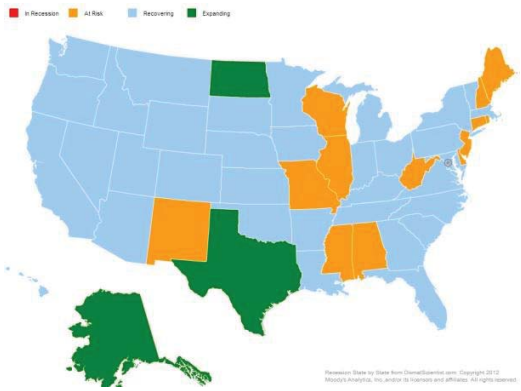
Regional Area Data

Natural Regions

Alaska has five distinct natural regions that are identified by climate, geography, history and industry. The regions are the Southwest, the Far North, the Interior, the Southcentral, and the Southeast or Inside Passage. Anchorage, Alaska's most populous city, is located in the Southcentral region while Juneau, the state capital, is located in the Southeast. A regional map is shown below.



Alaskan Economy vs. National Economy



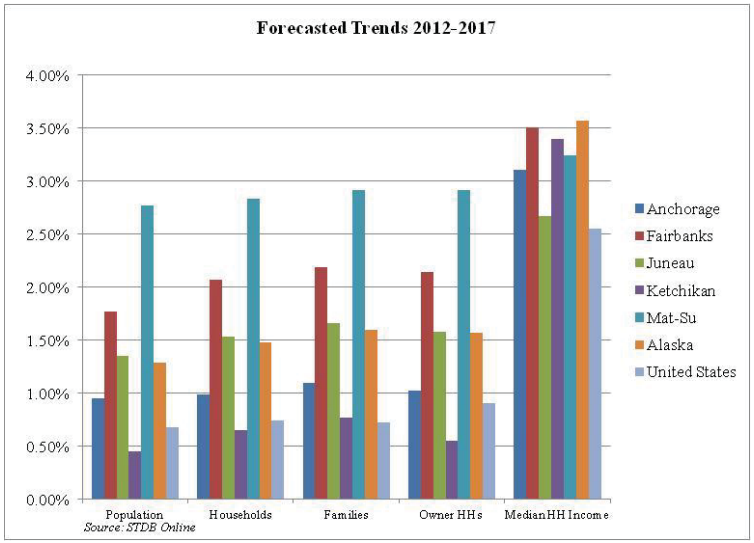
Several factors, which are discussed within this section of the report, make the Alaska economy unique and resilient. As of December 2012, Moody's Economy.com Adversity Index reported that Alaska was one of only three states in expansion (along with Texas and North Dakota). The Adversity Index is meant to be an indicator that presents marked trends in an area's economic activity by analyzing changes in employment, housing starts, industrial production, and housing prices. In order to minimize the effects of month-over-month spikes, a moving average is utilized (generally three month). While these sentiments have been echoed throughout the recession by the *New York Times*, *The Wall Street Journal*, and *The Economist*, it must be cautioned that much of Alaska's economic

resilience is related to the price of oil, which, while above historic prices, is currently about two-thirds its historic high. That said, the Alaskan economy has continued to show stability during the national recession and subsequent recovery period. State of Alaska economists report a gain of 5,300 jobs in 2012, a total of 1.6% of the workforce.

Demographic Data Exhibit

	Anchorage Municipality			Fairbanks North Star			Juneau			Ketchikan Gateway			Matanuska-Susitna			Alaska			United States		
Summary	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**	**2010**	**2012**	**2017**
Population	291,826	297,951	312,412	97,581	102,419	111,795	31,275	32,273	34,505	13,477	13,682	13,991	88,995	94,459	108,291	710,231	732,814	781,502	308,745,538	313,129,017	323,986,227
Households	107,332	109,907	115,449	36,441	38,060	42172	12,187	12,506	13,494	5,305	5,370	5,547	31,824	33,677	38,716	258,058	265,772	285,976	116,716,292	118,208,713	122,665,498
Families	70,544	70,904	74,883	23,726	24,312	27,091	7,742	7,786	8,452	3,369	3,343	3,474	22,579	23,516	27,160	170,750	172,687	186,917	77,538,296	77,957,858	80,816,843
Average Household Size	2.64	2.63	2.63	2.56	2.58	2.55	2.49	2.51	2.49	2.49	2.50	2.48	2.75	2.76	2.76	2.65	2.66	2.64	2.58	2.58	2.58
Owner Occupied HUs	64,285	64,410	67,747	21,410	21,882	24,331	7,590	7,704	8,331	3,076	3,082	3,167	24,181	25,240	29,151	162,765	164,657	177,992	75,986,074	75,420,523	78,931,371
Renter Occupied HUs	43,047	45,497	47,702	15,031	16,178	17,841	4,597	4,802	5,163	2,229	2,288	2,380	7,643	8,437	9,565	95,293	101,115	107,984	40,730,218	42,788,190	43,734,127
Median Age	33.0	33.1	33.5	31.2	31.4	31.8	38.0	38.2	38.4	38.3	38.7	39.0	34.8	34.9	35.2	33.9	34.1	34.4	37.1	37.3	37.8
Trends: 2012-2017 Annual Rate																					
Population		0.95%			1.77%			1.35%			0.45%			2.77%			1.29%			0.68%	
Households		0.99%			2.07%			1.53%			0.65%			2.83%			1.48%			0.74%	
Families		1.10%			2.19%			1.66%			0.77%			2.92%			1.60%			0.72%	
Owner HHs		1.02%			2.14%			1.58%			0.55%			2.92%			1.57%			0.91%	
Median Household Income		3.11%			3.51%			2.67%			3.40%			3.24%			3.57%			2.55%	
	2012			**2012**			**2012**			**2012**			**2012**			**2012**			**2012**		
Households by Income	Number	Percent		Number	Percent		Number	Percent		Number	Percent		Number	Percent		Number	Percent		Number	Percent	
< $15,000	8,448	7.7%		3,348	8.8%		852	6.8%		264	4.9%		1,871	5.6%		21,478	8.1%		15,930,921	13.5%	
$15,000 - $24,999	7,197	6.5%		2,749	7.2%		837	6.7%		368	6.9%		1,499	4.5%		19,916	7.5%		13,235,854	11.2%	
$25,000 - $34,999	9,493	8.6%		3,514	9.2%		700	5.6%		517	9.6%		2,485	7.4%		22,815	8.6%		12,592,251	10.7%	
$35,000 - $49,999	13,237	12.0%		3,983	10.5%		1,848	14.8%		955	17.8%		4,817	14.3%		34,564	13.0%		17,132,127	14.5%	
$50,000 - $74,999	19,965	18.2%		7,250	19.0%		2,553	20.4%		1,015	18.9%		7,119	21.1%		51,291	19.3%		21,990,567	18.6%	
$75,000 - $99,999	16,259	14.8%		5,594	14.7%		2,055	16.4%		836	15.6%		5,282	15.7%		37,413	14.1%		13,385,393	11.3%	
$100,000 - $149,999	21,292	19.4%		7,751	20.4%		2,636	21.1%		972	18.1%		5,504	16.3%		48,244	18.2%		14,227,290	12.0%	
$150,000 - $199,999	7,071	6.4%		2,027	5.3%		627	5.0%		160	3.0%		3,621	10.8%		16,900	6.4%		5,016,492	4.2%	
$200,000+	6,945	6.3%		1,844	4.8%		398	3.2%		283	5.3%		1,479	4.4%		13,150	4.9%		4,696,574	4.0%	
	2000	**2012**	**2017**	**2000**	**2012**	**2017**	**2000**	**2012**	**2017**	**2000**	**2012**	**2017**	**2000**	**2012**	**2017**	**2000**	**2012**	**2017**	**2000**	**2012**	**2017**
Median Household Income	$55,401	$69,317	$80,770	$49,145	$66,814	$79,382	$61,862	$67,958	$77,543	$51,088	$61,894	$73,140	$51,062	$70,367	$82,549	$51,581	$64,362	$76,694	$42,164	$50,157	$56,895
Average Household Income	$67,906	$87,191	$100,176	$58,561	$82,530	$94,375	$69,983	$80,140	$88,610	$61,519	$78,829	$88,671	$59,782	$88,168	$101,212	$62,475	$81,956	$93,232	$56,644	$68,162	$77,137
Per Capita Income	$25,287	$33,113	$37,956	$21,553	$32,079	$36,937	$26,719	$31,577	$35,158	$23,994	$31,281	$35,500	$21,105	$31,920	$36,623	$22,660	$30,678	$35,042	$21,587	$26,409	$29,882

Source: STDB Online



State Income

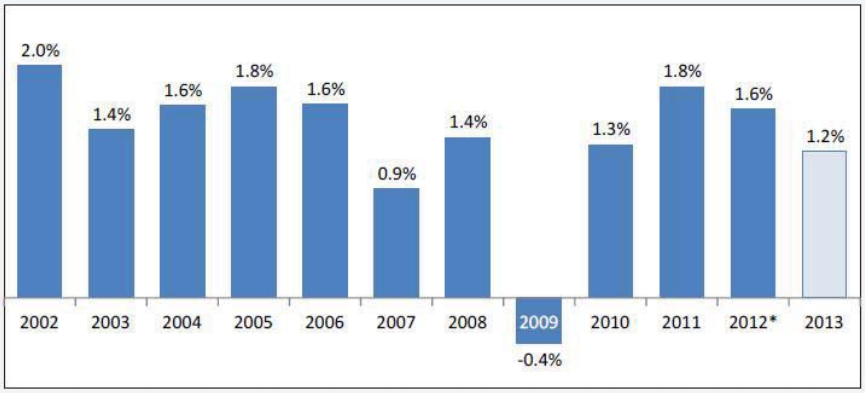
Summary	2012	2017	2012-2017 Change	2012-2017 Annual Rate
Population	732,814	781,502	48,688	1.29%
Households	265,772	285,976	20,204	1.48%
Median Age	34.1	34.4	0.3	0.18%
Average Household Size	2.66	2.64	-0.02	-0.15%

	2012		2017	
Households by Income	Number	Percent	Number	Percent
Household	265,771	100%	285,975	100%
<$15,000	21,478	8.1%	21,912	7.7%
$15,000-$24,999	19,916	7.5%	17,310	6.1%
$25,000-$34,999	22,815	8.6%	19,965	7.0%
$35,000-$49,999	34,564	13.0%	30,940	10.8%
$50,000-$74,999	51,291	19.3%	48,203	16.9%
$75,000-$99,999	37,413	14.1%	49,949	17.5%
$100,000-$149,999	48,244	18.2%	58,252	20.4%
$150,000-$199,999	16,900	6.4%	23,261	8.1%
$200,000+	13,150	4.9%	16,183	5.7%
Median Household Income	$64,362		$76,694	
Average Household Income	$81,956		$93,232	
Per Capita Income	$30,678		$35,042	

Alaska Department of Labor Employment Forecast

After the end of a 21-year streak of job growth in Alaska in 2009, Alaska quickly recovered and posted a gain of 1,800 jobs in 2010, 5,200 jobs in 2011, and 5,300 jobs in 2012. The January 2013 issue of *Alaska Economic Trends* released by the Alaska Department of Labor and Workforce Development (AK Labor) forecasts that Alaska will experience another year of job growth in 2013. The forecast estimates a gain of 4,200 jobs in 2013, or 1.2% of the Alaskan workforce. Historic employment figures and the forecast for 2012 are shown in the following chart.

1 Statewide Employment Growth
Alaska, 2002 to 2013



*Preliminary
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

The most significant sector gains in 2012 were seen in natural resources and mining/oil and gas extraction, professional and business services and healthcare while the most significant losses were in federal government and financial activities. Following is a table further detailing employment changes by industry in 2012 with projections for 2013.

5 Statewide Wage and Salary Employment Forecast
Alaska, 2011 to 2013

	2011 Monthly Average	2012 Monthly Average[1]	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary[2]	330,900	336,200	5,300	1.6%	340,400	4,200	1.2%
Natural Resources and Mining	15,900	16,700	800	5.0%	17,400	700	4.2%
Oil and Gas Extraction	13,000	13,600	600	4.6%	14,000	400	2.9%
Construction	15,800	16,500	700	4.4%	16,600	100	0.6%
Manufacturing	13,700	14,200	500	3.6%	14,400	200	1.4%
Wholesale Trade	6,300	6,300	0	0%	6,400	100	1.6%
Retail Trade	35,700	36,000	300	0.8%	36,100	100	0.3%
Transportation, Warehousing, and Utilities	19,300	19,500	200	1.0%	19,600	100	0.5%
Information	6,300	6,200	-100	-1.6%	6,200	0	0%
Financial Activities	15,000	14,700	-300	-2.0%	14,500	-200	-1.4%
Professional and Business Services	27,200	28,500	1,300	4.8%	29,300	800	2.8%
Educational[3] and Health Services	44,400	46,200	1,800	4.1%	48,000	1,800	3.9%
Health Care	31,500	33,000	1,500	4.8%	34,500	1,500	4.5%
Leisure and Hospitality	32,500	33,200	700	2.2%	33,600	400	1.2%
Other Services	11,000	11,000	0	0%	11,100	100	0.9%
Government	85,700	85,300	-400	-0.5%	85,600	300	0.4%
Federal[4]	17,100	16,400	-700	-4.1%	16,100	-300	-1.8%
State[5]	26,000	26,000	0	0%	26,300	300	1.2%
Local[6]	42,700	42,800	100	0.2%	43,100	300	0.7%

[1]Preliminary and adjusted estimates
[2]Excludes self-employed workers, fishermen, domestic workers, and unpaid family workers
[3]Private education only
[4]Excludes uniformed military
[5]Includes the University of Alaska
[6]Includes public school systems
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Major Economic Influences

Government

Government is one of the most significant influences on the Alaskan economy. According to *Alaska Economic Trends* data, approximately 26% of Alaska's total workforce is employed by governmental agencies on the federal, state, and local levels.

FEDERAL GOVERNMENT

The federal government's influence in the state of Alaska is important for both its role as the state's largest employer and for its spending in the state. At $15 billion Alaska was the highest recipient of federal expenditure per capita in 2010. Federal employment is expected to decline as federal spending in Alaska declines, though it is not expected to decrease significantly. This is due to the type of federal money that comes to Alaska including substantial federal land holdings, federal programs and health care for Alaska Natives, and a large military presence that will continue to bring federal dollars to the state.

STATE GOVERNMENT

On November 23, 2010 Moody's Investors Service announced the upgrade of the state's bond rating to AAA; the service's highest grade. The upgrade was the result of the state's reserves, $11 bilion in liquid assets in two state reserve funds, and projected oil revenues. According to former state revenue commisioner Pat Galvin, Alaska's finances are the strongest as they've been in our history." It must be cautioned, however, that the state's financial security is highly dependent on the price of oil and oil production. While production is forecast to continue its decline over the next decade, it is anticipated to remain within a healthy range. On the other hand, the price of oil is dependent on global economic forces and

subject to dramatic change; like the plunge that was experienced in late 2008. According to Galvin. the reserves the state has built up provide "us with a great deal of stability and a cushion to basically bear any shocks to the system." Further, Alaska is listed as one of only three states by the Center of Budget and Policy Priorities that has not been forced to cut services in any of the following five spending categories since 2008: public health, elderly/diabled, K-12 and early education, higher education, and workforce.

Alaska Permanent Fund Dividend

In 1976 Alaskan voters approved a constitutional amendment to establish the Alaska Permanent Fund. The amendment stipulated that "at least 25% of all mineral lease rentals, royalities, royalty sales proceeds, federal mineral revenue-sharing payments, and bonuses received by the state be placed in a permanent fund, the principal of which may only be used for income-producing investments." The fund is invested in a diversified portfolio of both public and private asset classes. All investments, in order to be qualified, must be expected to generate income with an acceptable level of risk. The fund's market value of $44.64 billion (Jan 23, 2013) ranks it among the top twenty-five of all sovereign wealth funds in the world. Meanwhile, the outlook for the fund is positive. According to the fund's chief executive, Mike Burns, the fund is well-positioned to take advantage of a return in consumer confidence and the strengthening economy.

PERMANENT FUND DIVIDENDS

Year	Amount	Increase Decrease
2012	878	-25.21%
2011	$1,174	-8.35%
2010	$1,281	-1.84%
2009	$1,305	-36.93%
2008	$2,069	25.09%
2007	$1,654	49.42%
2006	$1,107	30.88%
2005	$846	-8.05%
2004	$920	-16.95%
2003	$1,108	-28.12%
2002	$1,541	-16.73%
2001	$1,850	-5.78%
2000	$1,964	10.96%
1999	$1,770	14.86%
1998	$1,541	18.85%
1997	$1,297	14.67%
1996	$1,131	14.18%
1995	$990	0.65%
1994	$984	3.63%
1993	$949	3.67%
1992	$916	-1.66%
1991	$931	-2.23%
1990	$953	9.10%
1989	$873	5.59%
1988	$827	16.77%
1987	$708	27.31%
1986	$556	37.69%
1985	$404	21.95%
1984	$331	-14.21%
1983	$386	-61.39%
1982	$1,000	

Source: State of Alaska Permanent Fund

On June 30 of every year the state Legislature appropriates funds from the account for dividends, inflation proofing, and for any other purpose permitted by law. One of those appropriations, the Permanent Fund Dividend (PFD), is calculated based on an average of the Alaska Permanent Fund Corporation's income over five years. The formula's inclusion of income over a five year period helps to stabilize the dividend's amount year-over-year. This dividend program has put more money into the state's economy than the total payroll of all but two of Alaska's major industries: petroleum and government.

The PFD's influence on local economies is significant and constitutes a considerable share of disposable income. The fund's presence is a stabilizing factor on the economy of Alaska and its influence is expected to grow over the next 20 years. According to the Alaska Permanent Fund Corporation, roughly $17.5 billion has been paid to Alaskans since 1982. The PFD is also an important "safety net" if state oil revenues should decline in the future. The largest PFD to date was received in 2008 and was worth a total of $3,269. It featured a dividend of $2,069 and a one-time energy bonus of $1,200. The dividends for 2011 and 2012 were $1,174 and $878, respectively.

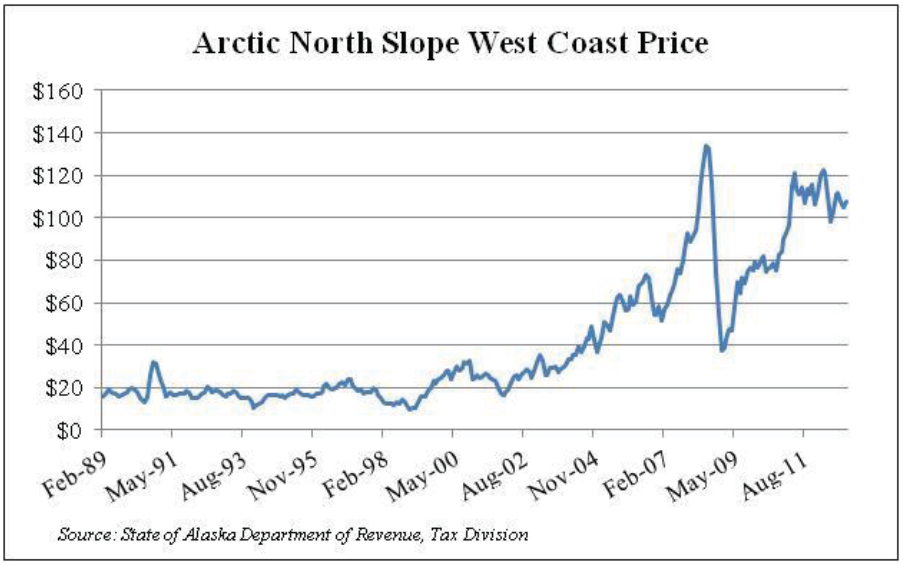
Oil & Gas

Affecting all regions of Alaska, the oil and gas industry has been the keystone of the state's economy. According to the Alaska Department of Revenue, revenue from oil and gas production is expected to account for 87% of the state's unrestricted revenue through fiscal year 2020. The Department of Revenue notes that this figure is based on their conservative fiscal philosophy; which they feel is necessary considering the volatile nature of the price of oil.

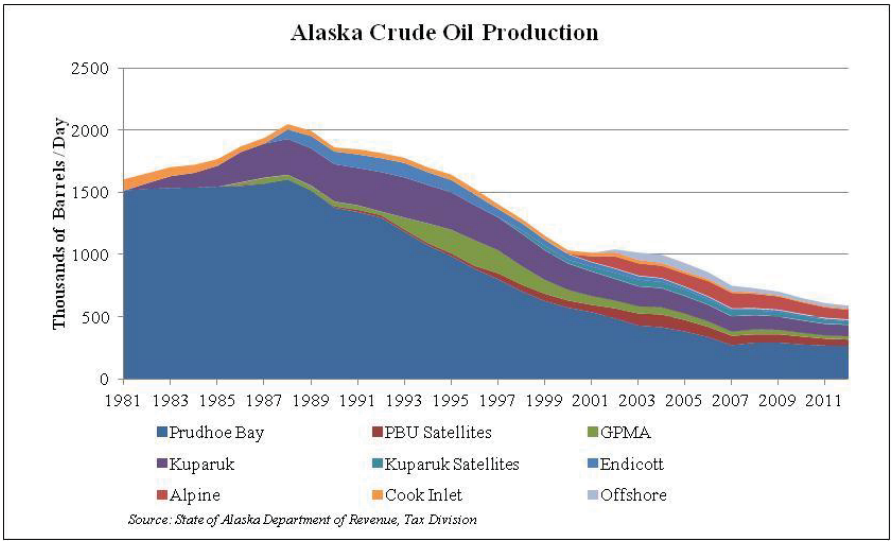
The 1968 discovery of Alaska's largest oil field, Prudhoe Bay, led to the Trans Alaska Pipeline System (TAPS) and was the catalyst for the booming state economy of the late 1970s and early 1980s. Currently, the oil and gas industry employs approximately 13,600, and exports over $1 trillion in oil and gas

annually. According to the January, 2013 issue of *Alaska Economic Trends*, the industry gained 600 jobs in 2012. With a gain of 400 jobs anticipated for 2013, employment in this industry is expected to be relatively flat for the year. It should be noted that while employment declined in 2009, employment numbers for this industry remain at above-average levels on a historical basis.

Both price and production are important indicators of the health of the oil industry. The following charts illustrate annual oil price averages and production levels. The data provided is published by the Tax Division of the Alaska Department of Revenue and is updated monthly. From mid-February 2008 through mid-September 2008, ANS West Coast Crude Oil prices stayed at or above $100/barrel; peaking at $144/barrel on July 17, 2008. After this peak oil prices fell considerably and average $37.70/barrel in December 2008. Since that low, prices have recovered significantly and ANS oil is currently selling at around $110.54/barrel. The Alaska Department of Revenue anticipates ANS crude to average $109.47/barrel in 2013.



Oil production on the Alaska North Slope began in 1978. Production was 0.787 million barrels/day in 1978, a number which increased every year until it peaked in 1988 at 2.01 million barrels/day. Since that peak, production has declined steadily every year and dropped below 1.0 million barrels/day in 2001. In 2012 production was 590 thousand barrels/day. According to state economists, production is expected to continue to decline at a rate between 5% and 6% per year over the next decade. According to some, however, this trend is not absolute. Kevin Banks, director of the Alaska Division of Oil and Gas, believes production could ramp up slightly, if temporarily, by 2013. State officials estimate there are about 5.16 billion barrels of recoverable oil remaining on the North Slope. Beyond this, production is currently restricted in the east by the Arctic National Wildlife Refuge, in the north by offshore oil drilling restrictions, and in the west by the National Petroleum Reserve-Alaska. Production in one or more of these areas could revitalize the industry, and therefore the state, for many years to come.



Natural Gas Pipeline

The prospect of a natural gas pipeline has been the source of great debate within the public and private sectors of Alaska for the past decade. On many levels proponents of a natural gas pipeline contend that it would bring a similar boon to the Alaskan economy as the Trans Alaska Pipeline System (TAPS). TAPS was completed in 1977 at a cost of approximately $9 billion. The construction of the pipeline brought with it a great influx of investment from outside Alaska and was the catalyst for the greatest period of growth in Alaskan history.

ALASKA GAS INDUCEMENT ACT (AGIA)

In May 2007 the Alaska Gas Inducement Act (AGIA) was enacted by the Alaska State Legislature to spark private sector interest in the construction of a natural gas pipeline. As an incentive to conform to state objectives, AGIA offered bidders a $500 million subsidy. The bidding process under AGIA resulted in five bids; none of which were from North Slope gas producers. Of the five bids the state received, only TransCanada's was accepted as it was the sole bid that satisfied the twenty state requirements outlined by AGIA. Supporting former Governor Sarah Palin's recommendation, state lawmakers have endorsed the TransCanada proposal, though continued legislation is required to approve the proposed $500 million subsidy. On June 11, 2009 TransCanada and ExxonMobil announced an agreement to partner in building the natural gas pipeline; subsequently named the Alaska Pipeline Project.

ALASKA PIPELINE PROJECT

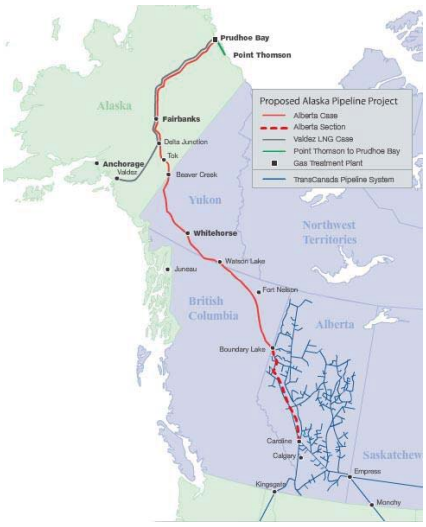
The Alaska Pipeline Project pairs North America's largest operator of natural gas pipelines with the world's largest publicly traded integrated petroleum and natural gas company. Their proposal is to construct a pipeline from Prudhoe Bay, Alaska to Alberta, Canada that will allow for 4.5 billion cubic feet of gas to flow through on a daily basis. Proposed planning costs are estimated at $625 million; $500 million of which will be the AGIA subsidy. The proposal estimates that the Alaska Pipeline Project will be completed in 2020.

THE DENALI PIPELINE PROJECT

Unsatisfied with aspects of AGIA, North Slope gas producers did not submit bids. On April 8, 2008, ConocoPhillips and BP announced a joint venture, the "Denali" project, aimed at constructing an alternate natural gas pipeline outside the framework of AGIA. Though the Denali project is similar in many ways to the proposal from TransCanada/ExxonMobil, it differs in that the Denali project was

not to be subsidized by the state. A favorable aspect of Denali is that the project was orchestrated by two of the largest producers on the North Slope.

PIPELINE CONSTRUCTION



On May 17, 2011 the Denali project team announced it was closing out its operations on the Alaska gas pipeline. After nearly a year and a half of negotiations the team was unable to attain the customer commitments necessary to continue work on the project. According to its web site, the Denali partnership spent over $165 million and invested more than 760,000 man-hours since work began in 2008. The Denali project cited significant change in the North American gas market as reason for the inability to secure financial commitments from potential customers. The prevalence of shale gas resources currently in production was specifically cited as game changing. In light of this TransCanada's Vice President Tony Palmer announced that the end of Denali does not affect his teams' project and that they are continuing their work.

Similar to Denali, the Alaska Pipeline Project has taken longer than expected to achieve signed agreements with gas shippers. The negotiations are confidential, so it is impossible for the public to ascertain the project's status. While analysts, legislators, and others are skeptical, Palmer characterizes the ongoing negotiations as positive. According to Palmer, "we have made good progress on resolving pipeline shipper issues with our customers and have resolved most of the items." He says shippers remain concerned about how much the state will tax natural gas. Nevertheless, TransCanada and Exxon are continuing work. Governor Parnell laid out a critical benchmark in his State of the State address, calling on the companies to firm up the numbers and identify a project timeline by the third quarter of 2013.

Should the Alaska Pipeline Project face a similar fate as the Denali project there remains other proposals to develop and transport Alaska's natural gas resources on the North Slope. One of these alternatives is a 24-inch, high pressure natural gas "bullet line." The "bullet line" would run 800 miles from Prudhoe Bay to the Cook Inlet area. It would serve communities in the Interior as well as Southcentral. The estimated cost to pursue this project is between $5.7 and $11.8 billion depending on future volumes transported and further engineering. The other option under serious consideration is a large diameter pipeline to Valdez. This proposal calls for a 48-inch, high-pressure pipeline to run 803 miles parallel the existing TAPS system. The system would have a capacity of 3 billion cubic feet and have at least five off-take points to serve Alaskans. The estimated cost to pursue this project is between $20 and $26 billion.

Mining

Growth in the mining sector is anticipated to grow approximately 19.3% from 2010-2020. As one of the richest depositories of mineral wealth in the world, Alaska has been invigorated by the currently high prices for precious and base metals. New developments coming online as well as a surge of exploration over

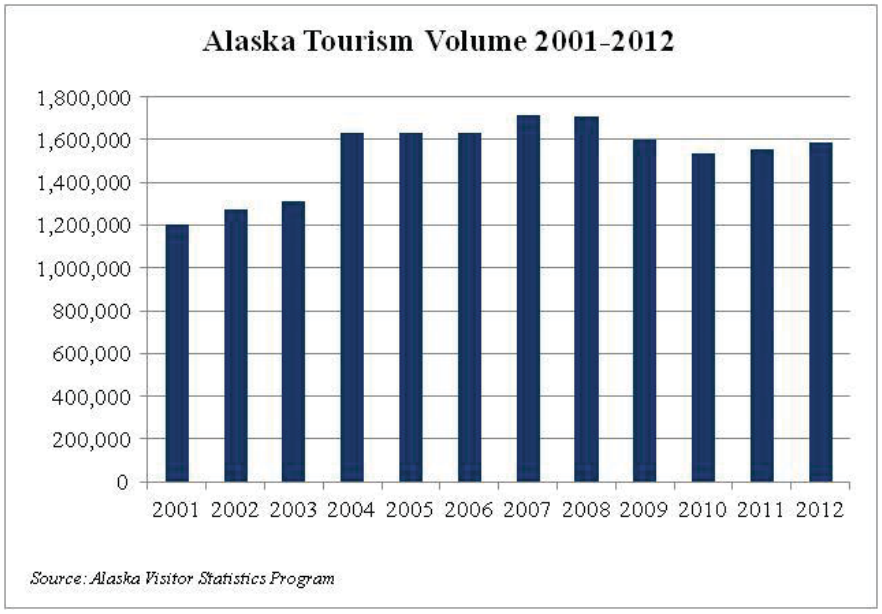
the short-term is anticipated to increase the contribution of the mining industry to the Alaskan economy. One large development recently coming online is the Kensington Mine in southeast Alaska. Kensington, which came online in the summer of 2010, is anticipated to produce as much as 125,000 ounces of gold per year. The mine created 200 full-time permanent jobs, 300 construction jobs, and 150 additional indirect positions. Across the state in northwest Alaska, Red Dog Mine recently gained state and federal approval to mine the Aqqaluk deposit for zinc and lead. The mine, which is the largest producer of zinc in the world, employs 550 and has an approximate payroll of $52 million. Red Dog's expansion into the Aqqaluk deposit is anticipated to keep the mine in operation beyond 2031. Recent discoveries in Pogo Mine will likely keep the mine in production past its previously expected closing date of 2017.

A proposal which could significantly boost the mining industry in Alaska is the 500-mile road to Nome championed by Governor Sean Parnell. Though the actual route is yet to be established, engineers at Dowl HKM recommend the road begin near Manley Hot Springs and follow the Yukon River through Interior villages west to Norton Sound. The cost to construct the road is estimated to be roughly $2.7 billion, or $5.4 million per mile, and the cost to maintain the road is estimated to be another $40 million per year. The road, initially pushed by former Governor Sarah Palin, is anticipated to reduce fuel and supply costs to the area as well as open it up to the exploration of minerals like gold and silver, among others.

Tourism

According to the January 2013 issue of *Alaska Economic Trends*, the tourism industry gained 700 jobs in 2012, an increase of 2.2% from 2011. A similar result is forecast for 2013 as the industry of roughly 33,200 is anticipated to gain 400 jobs in 2013. Meanwhile, the introduction or return of a number of cruise ships to the Alaskan market is expected to boost cruise ship numbers for the year. Overall, state economists expect the combination of a strengthening national economy and a more confident American consumer will provide a boost to this industry as more visitors with more disposable income are expected in 2013. Also, JetBlue became the first low-cost airline to enter the Alaskan market with seasonal daily nonstop service to Anchorage from Long Beach, California beginning May 2016. International travel is also expected to see a boost with the addition of Edelweiss Air providing service between Anchorage and Zurich, Switzerland. Industry observers attribute an increase in air travel capacity this summer to an expanding frequent-flyer base and higher yields to Alaskan destinations.

Historically, one of the major challenges facing Alaska tourism has been the lack of infrastructure that is necessary to attract the non-independent traveler. This challenge is especially evident in rural Alaska. Rural Alaskan destinations are a primary attraction, though often these destinations lack the staff and resources necessary to prepare for and attract tourism development. However, the continued success of the cruise ship industry has been steadily changing this lack of infrastructure, and the trend toward new hotels at national and state parks will become more prevalent. Following is a chart depicting summer visitor volume in Alaska since 2001.

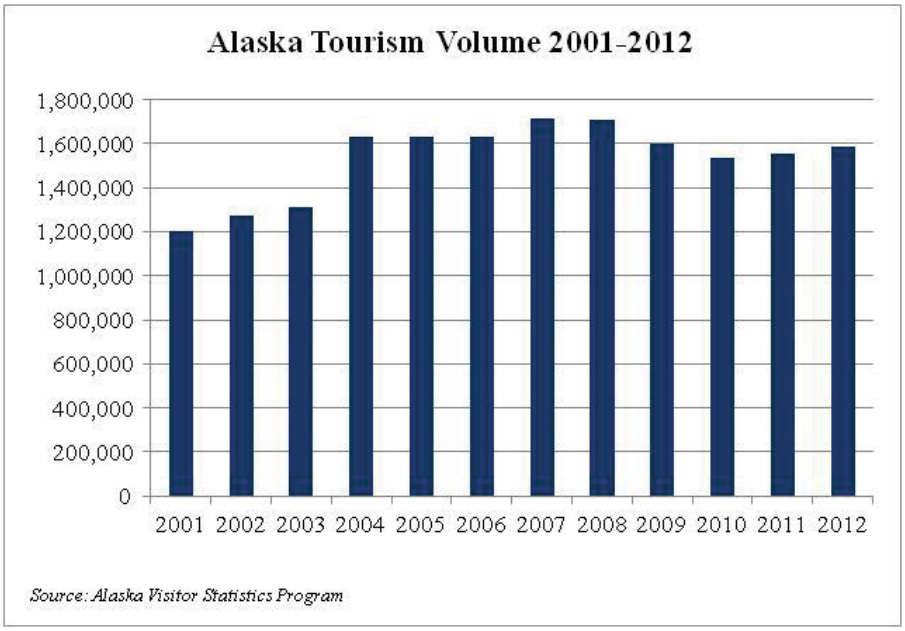


Significant opportunities exist statewide to expand tourism during the winter. Winter visitors are drawn by the aurora borealis, or northern lights, particularly in Fairbanks and the Interior. Aurora viewing is accompanied by dog sled tours, skeet shooting, cross-country skiing, downhill skiing, snow machining, ice-skating, ice fishing, and other winter activities.

CRUISE SHIP INDUSTRY

The single greatest influence on the tourism industry has been the establishment of a vibrant cruising industry. Over time cruise ship travel has evolved to become one of the most significant assets to the Alaska visitor industry. Although cruise ship destinations are found throughout the state, they are primarily focused in the Southeast Alaska region. Destination ports benefit greatly from the regular influx of summer cruise passengers, as cruise ships create a substantial amount of seasonal employment within the services sector of these port economies. Areas immediately surrounding the typical port are dominated by tourist oriented retail and service businesses, such as souvenir shops, restaurants, and scenic tours.

While cruise ship visitation increased substantially over most of the last decade, numbers have fallen in consecutive years since 2008's high. The decline in 2009 and 2010 is seen as a result of both the recession and 2006 legislation that increased the passenger tax and set stringent standards on wastewater emissions. Projections for the 2013 season indicate this trend will reverse as cruise line companies are increasing capacity to the Alaskan market. The addition of the Disney Wonder, the Crystal Symphony, Oceania's Regatta, and Hapag-Lloyd Cruise's Bremen are expected to more than offset the loss of other ships in the market. Following is a chart depicting cruise visitation in Alaska since 2001.



In June 2010, Alaska Governor Sean Parnell signed legislation cutting the head tax from $46/person to $34.50/person with deeper offsets for ships stopping in Juneau or Ketchikan. The immediate effect of the legislation was for the Alaska Cruise Association to drop its lawsuit against the state over the tax it says was onerous and unconstitutional. Another effect was the addition of several cruise ships to the market in 2011 and 2012. Another move that suggests a rebound is in store for the Alaskan cruise industry is the increase of the state's annual tourism marketing budget from $9 million to $16 million.

Health Care

Strong growth in the Alaska health care industry has greatly increased the availability of services previously sought outside the state. According to the January, 2013 Alaska Economic Trends, health care jobs totaled 33,000 in 2012; a growth of 1,500 jobs from 2011 (an increase of 4.8%). A primary reason for this sector's growth is that health care in Alaska continues to be below the national average in the percentage of nonfarm jobs. Nationally, health care jobs make up 10.5% of total nonfarm related wage and salary employment; in Alaska it is currently just above 9.3%. AK Labor anticipates this sector will add another 1,500 jobs in 2013.

According to AK Labor, employment growth in this industry was experienced in all three of the primary regions tracked in the state: Anchorage, Fairbanks, and the Southeast. A similar trend is expected for towns outside these regions. For example, construction was completed in January 2013 on the new 144,000 sq ft Norton Sound Regional Hospital in Nome, at a cost of approximately $100 million. According to Cliff Gray, project manager for Norton Sound Health Corp., the new hospital will increase staffing from 450 to 550 and help to stabilize the area's economy. Also in the works is a replacement hospital for Barrow, a primary care center for Natives in the Mat-Su Valley, and a "super clinic" to replace the Chief Andrew Isaac Health Center in Fairbanks.

Construction

This industry, which has been one of the hardest hit nationally during the recession, has been relatively steady in Alaska. According to AK Labor, Alaska

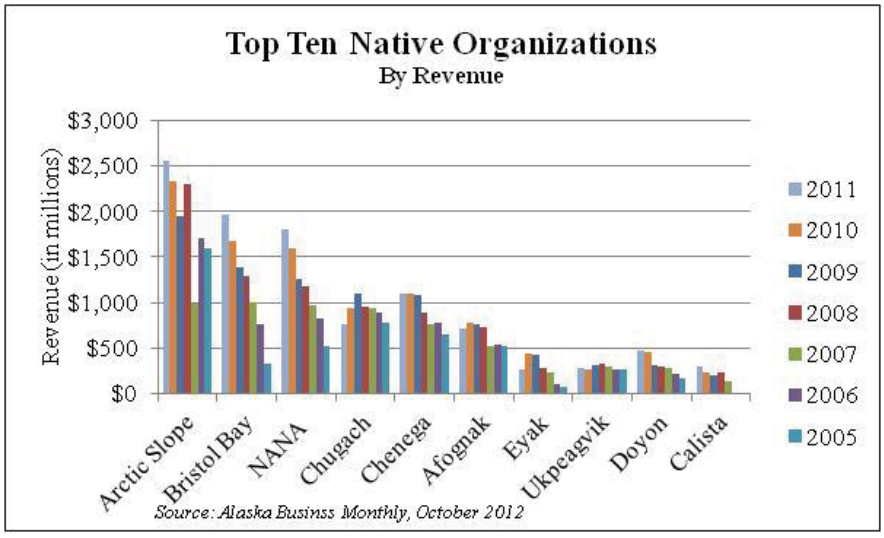
has lost 1,000 construction jobs since 2007 and has experienced an overall decline from the 2005 peak of 18,600 jobs. With a nominal loss of 300 jobs in 2011 and a gain of 700 jobs for 2012, the construction industry is forecasted to gain another 100 jobs in 2013, an increase of 0.6%. According to AK Labor, public construction projects, including transportation, public sanitation and education, were likely responsible for the turn-around in the construction industry. In November 2012, the Alaskan voters passed a $453.5 million transportation bond package to fund road and marine projects statewide. Public spending projects as well as a slowly recovering residential market is anticipated to give the construction industry a modest boost over the next year.

Fishing

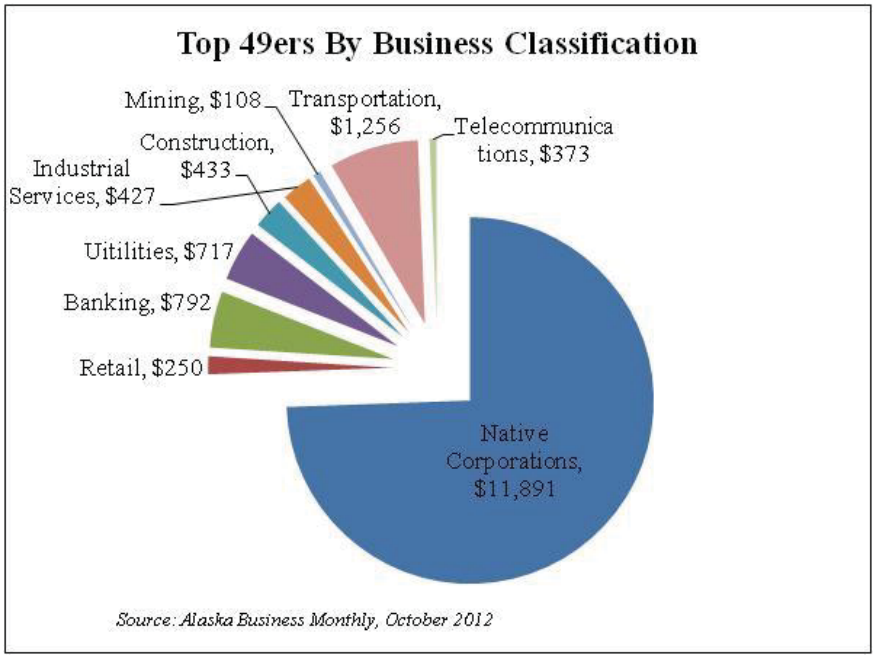
With a $1.9 billion commercial harvest in 2011, Alaska leads the nation in the value of fish harvested; accounting for more than 50% of the nation's harvest. Beyond the raw fish numbers, this industry directly employed more than 30,000 workers at some point in 2011. According to Arni Thomson, president of United Fishermen of Alaska, preliminary data indicates the value and volume of Alaska salmon jumped roughly 30% and 22% from 2009 to 2010, respectively. Thomson attributes the 8% differential in value and volume to the Alaskan brand and a very successful marketing campaign launched by the Alaska Seafood Marketing Institute. The groundfish fishery also saw an increase over 2010's catch. The jump in the groundfish harvest is an early indicator of an increase in employment in 2012 as this fishery represents a majority of the industry's earnings in Alaska. With Alaska's fisheries seen as the most sustainable and best-managed in the world, this industry will continue to be a vital asset to the Alaskan economy.

Alaskan Native Corporations

The Alaska Native Claims Settlement Act, or ANCSA, was ratified by the US Congress on December 18, 1971. ANCSA offered a payment of one billion dollars and a land grant of 44 million acres to the Native peoples of Alaska. ANCSA also called for the formation of 13 regional and 12 urban/village Alaska Native Corporations (ANCs). The monetary and land grants that were provided by ANCSA have served as the economic base for these corporations. Amendments in 1988 and 1992 designated ANCs as economically disadvantaged minority businesses. This designation forced a preference for ANCs in subsequent government contracts. Consequently, regional ANCs are significant landowners, investors, employers and service providers in their respective individual regions. Many of these corporations have nearly doubled their annual revenues over the last five years. This performance is illustrated in the following chart.



While strong revenues may not necessarily translate directly into strong net operating income, ANCs are clearly a dominant force in the Alaskan economy. Alaska Business Monthly's "Top 49ers" survey ranks the top Alaskan owned and operated businesses annually in terms of revenue. In 2011 these corporations held the top four and 20 of the 49 total spots on the list. The survey also indicates that these top 20 ANCs employ over 14,000 people in the state of Alaska and nearly 58,741 people worldwide. The following chart powerfully illustrates the large economic influence of ANCs in Alaska.



ANCs provide a strong economic foundation for the preservation of the Alaska Native cultural heritage. Governmental preference and strong corporate fundamentals have facilitated the growth of ANCs; both of which are expected to continue into the future. Over the next several decades, the role of ANCs in the

state and local economies is expected to increase.

Forestry

While the forest products industry has been an important contributor to the economy of Alaska for over a half century, the industry has been in decline for the last twenty years. In the mid-1990s most of the export volume of Alaska wood products came from the coastal rainforest of Southeast Alaska where high quality Sitka spruce and hemlock were exported to the Pacific Rim as logs, lumber, and timber. However, political and economic pressures since then have forced the closure of two pulp mills in the area. According to the Resource Development Council, emerging changes offer the industry a glimmer of hope as new (though limited) opportunities on state, federal, and private lands are opening up for additional value-added processing of forest resources. The potential of wood-biomass as an energy source is also providing hope to the industry in the Southeast. This development could create new markets for smaller and lower-quality wood. The U.S. Coast Guard is currently exploring this heating method at its Sitka and Ketchikan stations.

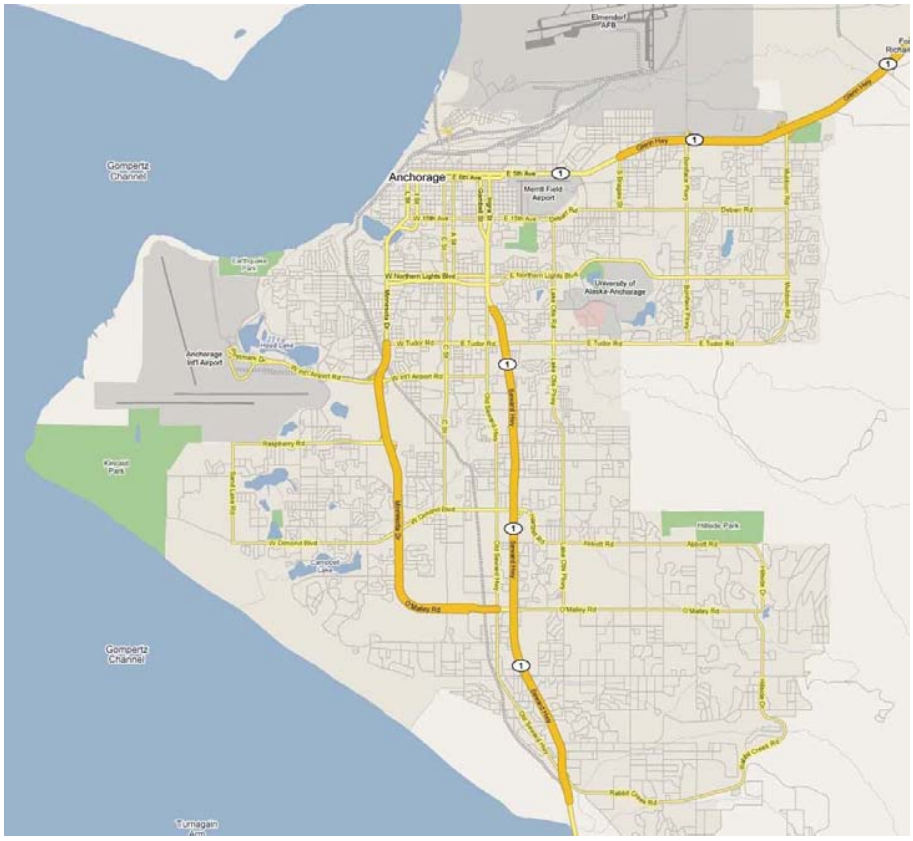
Conclusion

Alaska is highly dependent upon the revenues of the oil and gas industry. While production is forecast to continue its steady decline for the near future, legislators and industry officials will continue to do their part to keep the Trans-Alaska Pipeline in operation. At the end of the day, there continues to be billions of barrels of oil located on the North Slope. In the mean time, the price of oil is expected to remain strong with potential to the upside. Meanwhile, prices for other commodities produced in Alaska, including gold, silver, lead, and zinc, have increased significantly over the last year. The forecast for 2013 calls for the most significant growth to be seen in educational and health services, small gains are to be anticipated in trade, professional and business services, and mining and natural resources. These small gains will be offset to an extent by small losses in federal government and financial activities. Looking back, Alaska's uniqueness facilitated a net growth in employment through the recession with 2011's and 2012's gains outpacing 2009's losses. The outlook for 2013 is for an overall net gain in jobs and continued stability throughout the state's industries.

Local Area Data

City of Anchorage

Anchorage, the largest city in the state of Alaska, is located at the head of Cook Inlet and just west of the Chugiak Mountains in Southcentral Alaska. The city comprises 42% of the state's population and is the primary center for corporate headquarters of businesses within the state.



Employment

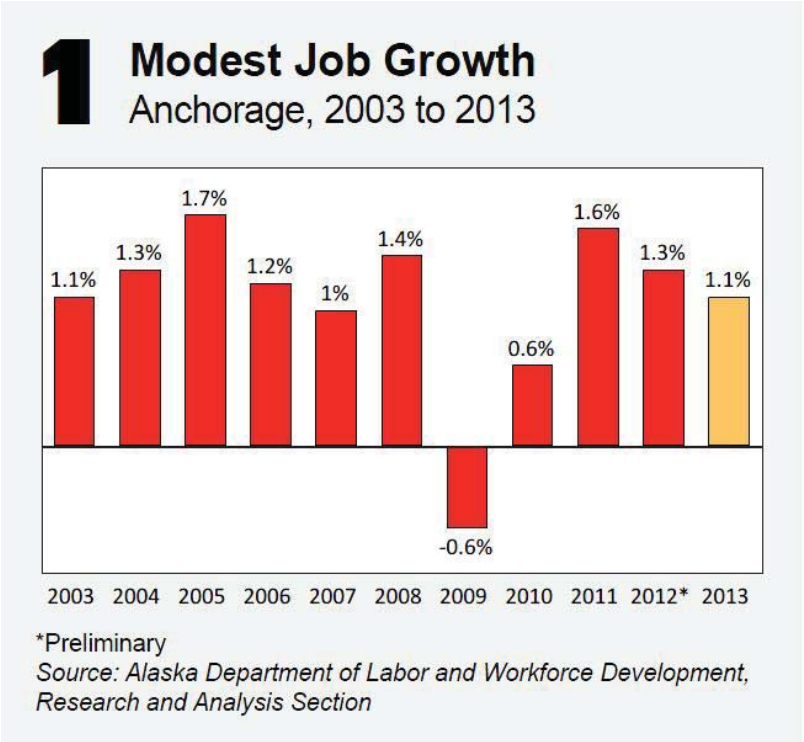
Unemployment Rate

Preliminary data released by the Alaska Department of Labor for 2012 indicates that the average monthly unemployment rate in Anchorage was 5.2%, which is a relatively healthy rate by historical standards and well below the national average. For reference, average unemployment for 2011 was 6.1%. The seasonally unadjusted rate in December 2012 was 5.2%. December's unemployment rate was only slightly higher than November's rate of 4.9%, and is a 0.3% decrease from December 2011.

Historic & Forecast Employment

After shedding jobs and ending a 20-year streak of employment growth in 2009, the Anchorage economy gained 500 jobs in 2010 and. Contrasted with the nation as a whole, which lost 6% of its wage and salary jobs during the official dates of

the recession, the Anchorage economy lost less than a mere 1%. Since then, AK Labor data shows that Anchorage built upon 2010, with a gain of 1,100 jobs in 2011, and 2,000 jobs in 2012. According to the AK Labor forecast, Anchorage is anticipated to experience a gain of 1,800 jobs, or 1.2% growth, in 2013. Historic employment figures and the forecast for 2013 are shown in the following chart::



The following chart details Anchorage's job gains/losses in its primary labor sectors:

3 Anchorage Wage and Salary Employment Forecast
2011 to 2013

	2011 Monthly Average	2012 Monthly Average[1]	Change 2011 to 2012	Percent Change 2011 to 2012	2013 Monthly Average	Change 2012 to 2013	Percent Change 2012 to 2013
Total Nonfarm Wage and Salary[2]	153,300	155,300	2,000	1.3%	157,100	1,800	1.2%
Natural Resources and Mining	2,900	3,100	200	6.9%	3,200	100	3.2%
Oil and Gas Extraction	2,800	3,000	200	7.1%	3,100	100	3.3%
Construction	7,900	8,300	400	5.1%	8,300	0	0%
Manufacturing	2,000	2,100	100	5.0%	2,100	0	0%
Wholesale Trade	4,500	4,500	0	0%	4,500	0	0%
Retail Trade	17,100	17,100	0	0%	17,200	100	0.6%
Transportation, Warehousing, and Utilities	11,200	11,400	200	1.8%	11,500	100	0.9%
Information	4,000	3,900	-100	-2.5%	3,900	0	0%
Financial Activities	8,900	8,500	-400	-4.5%	8,500	0	0%
Professional and Business Services	18,400	19,300	900	4.9%	19,800	500	2.6%
Educational[3] and Health Services	22,700	23,900	1,200	5.3%	24,700	800	3.3%
Health Care	17,100	18,000	900	5.3%	18,700	700	3.9%
Leisure and Hospitality	16,500	16,900	400	2.4%	17,400	500	3.0%
Other Services	6,200	5,700	-500	-8.1%	5,600	-100	-1.8%
Government	31,100	30,600	-500	-1.6%	30,400	-200	-0.7%
Federal[4]	9,500	9,100	-400	-4.2%	8,900	-200	-2.2%
State[5]	10,600	10,700	100	0.9%	10,800	100	0.9%
Local[6]	11,000	10,800	-200	-1.8%	10,700	-100	-0.9%

[1]Preliminary and adjusted estimates
[2]Excludes self-employed workers, fishermen, domestic workersm and unpaid family workers
[3]Private education only
[4]Excludes uniformed military
[5]Includes the University of Alaska
[6]Includes public school systems
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Major Economic Influences & Trends

Public Sector

According to AK Labor, the 30,600 government positions in Anchorage represent approximately 20% of the city's work force. The balance between the different levels of government slightly favors local government at roughly 36%. The state of Alaska employs 10,700, or 34%, and the federal government employs 9,100, or 30%. Federal employment decreased by 400 jobs in 2012, and it is anticipated to decrease by a further 200 jobs in 2013. At the state level, employment grew by 100 in 2012. While a modest gain of 100 jobs is anticipated for 2013, the current discourse in Juneau points to potential changes to the current oil tax structure. Any changes will likely decrease state revenues in the short term. Local government, which has been coping with budgetary pressures, is forecast to lose 100 jobs in 2013 after losing 100 in 2012.

Construction

After peaking in 2005 with a workforce of 9,700, Anchorage's construction industry has experienced moderate job decline in each year since. Building permit values - both residential and commercial - have experienced a similar trend since 2006. Despite the softness, numerous public and private sector projects have kept losses to a minimum. Private projects slated for 2012 include the 189,000 sq ft "Generations" building at Providence Hospital with an anticipated cost of $150 million and a 2014 delivery Public projects include an expansion of the McLaughlin Youth Detention Facility, an 84,000 sq ft Crime Lab, and the renovation/addition to Service High School. The U.S. Army Corps of Engineers, meanwhile, has plans for 6 projects at Joint Base Elmendorf-Richardson, totaling

$143.5 million. Finally, ongoing work at the Goose Creek Correctional Facility, the UAA Health Science Building, and the Anchorage Port Expansion will also support demand for construction labor. All told, the construction industry is expected to gain 100 jobs, or 3.3% of the industry's workforce in 2013.

Health Care

Health care has been the most dynamic industry in Anchorage over the last decade. Employment in this industry grew by almost 6,500 jobs from 2000 to 2010. This equates to about 5.2% per year. Over the same period overall employment grew at a rate of 1.2% per year. The aging of Alaska's population and other factors should continue to push health care employment numbers upward, but likely at a more moderate pace. According to AK Labor the educational and health services industry (of which health care is a significant portion) added 1,200 jobs in 2012. The industry is anticipated to add another 800 jobs in 2013.

The Alaska Native Tribal Health Consortium (ANTHC), Southcentral Foundation, and Providence Hospital make up Anchorage's big-employer triad in health care. The first two anticipate further growth but at a slower pace than in many of the past years; a constraint on federal dollars is a factor. According to the Alaska Department of Labor, Providence Hospital broke the 4,000 employee barrier in 2009 and continues to be the largest private employer in the state of Alaska.

Military

For decades Anchorage was home to two military bases: Fort Richardson and Elmendorf Air Force Base. However, in October 2010 a merger of the two bases into a single installation named Joint Base Elmendorf-Richardson was completed. And while no jobs are to be lost initially, some consolidation is likely to take place over time. Despite the transition it is clear that the military will continue to contribute substantially to the Anchorage economy. Army and Air Force estimates for 2005 indicated that the formerly distinct pair of installations Richardson and Elmendorf contributed over $450 million and $882 million to the Anchorage economy, respectively. Estimates that are more recent are not available, though current military activity indicates these economic contributions have likely increased. AK Labor notes that the number of uniformed military personnel could continue to grow this year, but cautions that major deployments may always lead to a temporary loss of troops.

Natural Resources and Mining

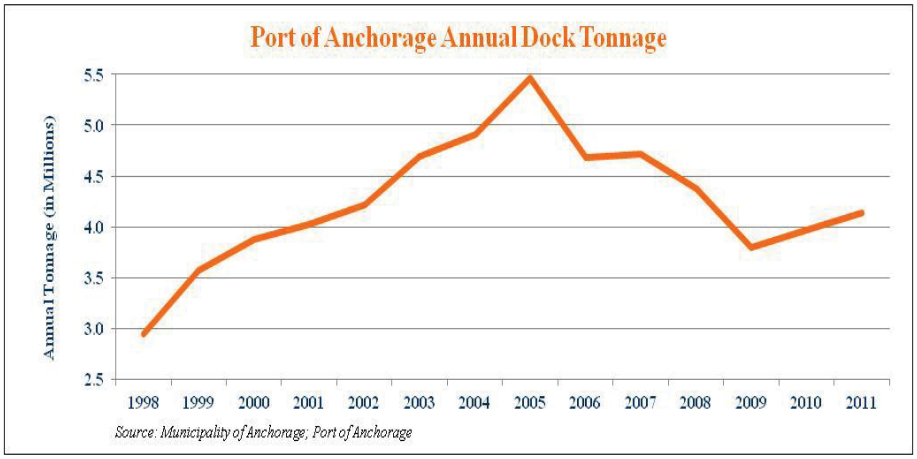
Employment in this critical industry grew by 200 in 2012 or 6.9%, all in the oil and gas extraction subset. Both this industry as a whole and the subset cited above are expected gain another 100 jobs in 2013. That being said, employment in the oil and gas industry remains above historical levels and while employment in exploration and extraction remains unclear due to regulatory hurdles, jobs maintaining pipeline and old infrastructure will continue to be significant.

Still in the works (although not looking as likely) is the development of a natural gas pipeline. If the pipeline is constructed, Anchorage would be positioned to see dramatic economic growth and the oil industry would likely take the lead in market growth and employment. Two competing initiatives were at the front of this development: the Alaska Pipeline Project, and the Denali Project. The former is a partnership of TransCanada and ExxonMobil, while the latter was a partnership of BP and ConocoPhilips. Both project teams negotiated with potential shippers to reach binding agreements for capacity in the proposed line. However, in May 2011 the Denali project team announced it was closing out its

project operations. After nearly a year and a half of negotiations, the team was unable to attain the customer commitments necessary to continue work on the project. Work is continuing on TransCanada's Alaska Pipeline Project, and the team will be holding a second open season in 2012.

Port of Anchorage

Serving 80% of Alaska's maritime trade and 90% of the state's population, the Port of Anchorage has an estimated economic impact of more than $663 million. In addition to the port's importance to the state, it was named one of the United States' 19 "Strategic Seaports" by the Department of Defense. After a period of overall declining tonnage from 2005 to 2009, the Port of Anchorage experienced a 4.3% bump in 2010, and another 4.3% increase in 2011. The port also saw an increase in calls from 300 in 2009 to more than 500 in 2010. According to Port Director Bill Sheffield these numbers were expected to climb again in 2011. Following is a chart of the annual dock tonnage at the Port of Anchorage:



The port is currently undergoing an expansion that will add 135 acres to the facility and effectively double it in size. In order to prevent any impact on daily operations, the expansion has been and will continue to be constructed in phases. The vision for the port is to capitalize on Anchorage's globally strategic geographic positioning in order to increase the quantity and diversity of its users. The port expansion will allow for increases in the size and frequency of barge shipments, increase commercial dock space, and support rapid military deployments. In the long term, the expansion will increase Alaska's appeal as an international shipping destination, increase the inflow of capital to the state, and directly contribute to increases in the quality of life for all Alaskans.

Anchorage International Airport

The Ted Stevens Anchorage International Airport is well-positioned as an international shipping destination. According to Airports Council International, 2011 data places Anchorage as the world's fifth busiest airport in terms of cargo volume. The significant increase in trade with China continues to push much of the cargo growth. Currently, there are seven Chinese and fourteen domestic cargo carriers that maintain international routes through the airport. Federal Express, UPS, Northwest Airlines and other air cargo carriers continue to add a significant number of parking spaces for planes to accommodate their growing fleets. The following chart reflects total airport traffic as well as cargo and passenger data:

As the preceding charts indicate, the national recession was evident in traffic and revenues at the airport. In 2009 cargo landings decreased by 23%, passenger landings decreased by 8.5% and airport revenues decreased by 21.2%. Though not quite the numbers seen in 2008, the charts indicate a rebound in 2011 as cargo increased 4.9%, revenue increased 1.3%, and passenger traffic increased by 3.6%. For 2012, AK Labor anticipates a continued recovery in the international air cargo segment. Over the long term Anchorage's strategic positioning - flights from Anchorage can reach 90% of the industrialized world within less than 9.5 hours - and the airport's room for expansion point to potential upside for the airport.

Tourism, Leisure & Hospitality

After several years of planning and construction, the 210,000 sq ft Dena'ina Civic and Convention Center, located in Downtown Anchorage, opened in the fall of 2008. The $110 million project allows Anchorage to host large conventions or multiple mid-sized conventions and is anticipated to increase visitor volumes in Anchorage over the long term. Preliminary data shows an uptick in visitor volumes for 2012 (based on bed taxes collected). With tourism recovering nationally, a significant rise in the number of independent travelers and convention business is expected. Meanwhile, the number of cruise ship travelers is also expected to increase some with the reintroduction or addition of several cruise ships to the Alaskan market. In 2010 Holland America's 1,380-passenger Amsterdam cruise ship was the first large cruise ship to make regular port calls in Anchorage in many years. Two additional ships were added in 2010, and Princess Cruises plans to bring another 50,000 passengers across the Gulf of Alaska in 2012. Lastly, discount airline JetBlue and Swiss-based Edelweiss Air began

flights to Anchorage from Long Beach, Ca. and Zurich, respectively in recent years.

Matanuska Susitna Borough Growth

The strong and sustained growth that has been occurring in the nearby Matanuska-Susitna (Mat-Su) Borough is a significant factor within the Anchorage economy. Approximately 30% (roughly 12,000) of the Mat-Su Borough's residents commute to Anchorage for employment and it is expected that the area will fulfill the "traditional" role of a metro-suburban commuter model.

Conclusion

After putting to rest 20 years of consecutive job growth in 2009, the Anchorage economy added 500 jobs in 2010. Growth continued in 2011 with 2,100 new jobs, and 2012 with 2,000 new jobs, and the forecast for 2013 is an overall gain of 1,800 jobs or 1.2% growth. Among the industries forecast to experience growth in 2013 are educational and health services, professional services, and leisure and hospitality. Meanwhile, those forecast to shed jobs are financial activities, federal and local government. In summary, the strong fundamentals of the Anchorage economy helped it to weather the storm that was the recent recession. Looking forward, Anchorage can expect continued stability and modest gains for the year, with a few question marks (federal spending, oil industry) in the longer term.

Neighborhood Area Data

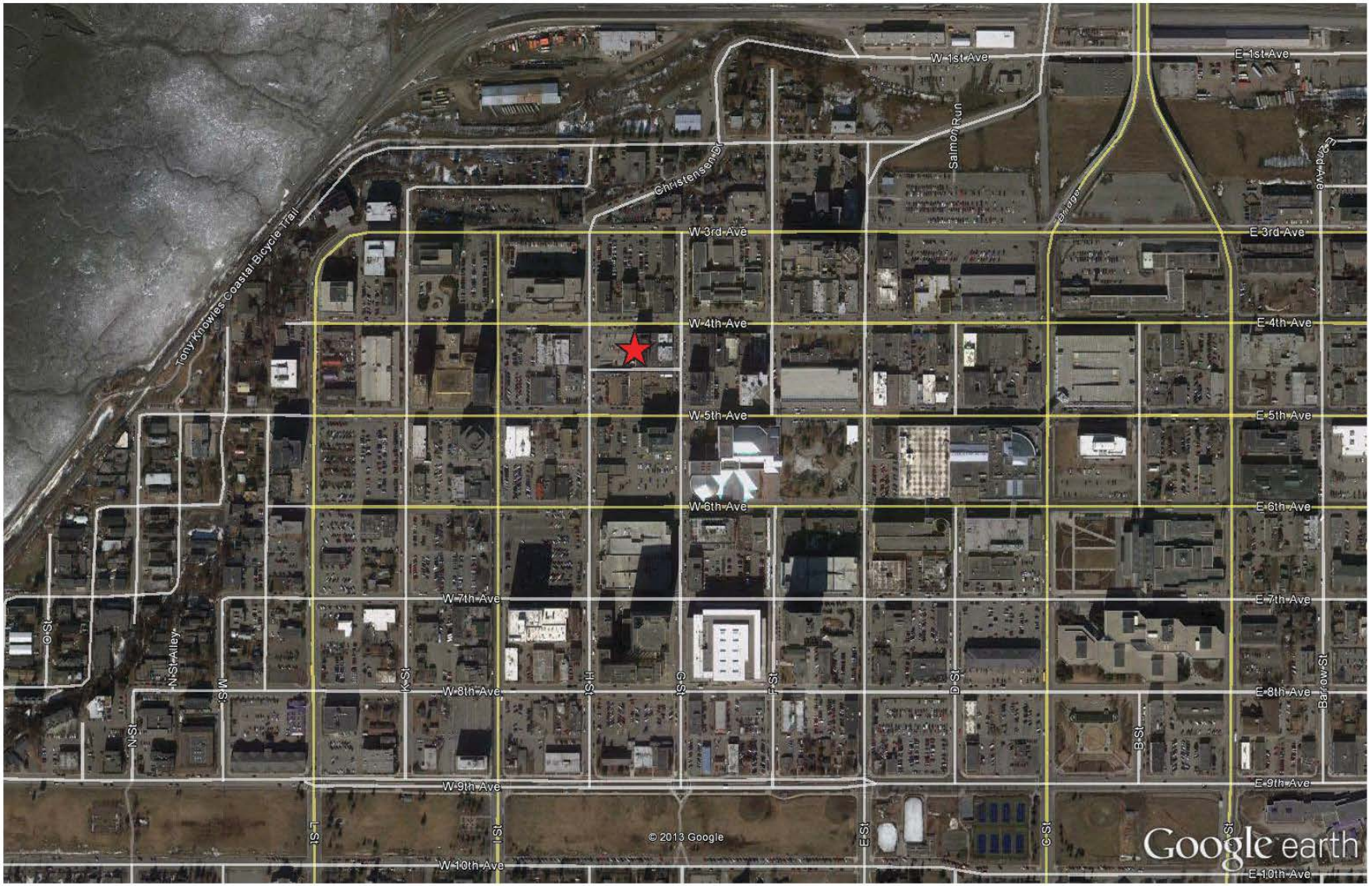
Neighborhood Data

Name	Downtown Anchorage
Location & Access	The neighborhood location and access / linkages are shown on the street and aerial photos that follow. Neighborhood access is considered typical of the market.
Character & Land Uses	The neighborhood character is demonstrated by the neighborhood photos that follow. These photos were taken within close proximity to the subject and are representative of the character of the neighborhood. As with most of Alaska and Anchorage, neighborhood land uses are mixed. Downtown Anchorage is the government and legal center for Anchorage, and in large part for the State. The neighborhood is developed with a mix of low rise, mid rise and high rise office developments (in most cases which have some ground floor retail), tourist retail, parking garages, government/civic buildings (PAC and the Dena'ina Civic & Convention Center, for example) and vacant land - which is utilized as short term or long-term parking.
Typical Age of Improvements	1960s through 1980s, with more limited new construction (2000+)
Land Developed	Roughly 85%-90% with the balance being used as surface parking
Life Cycle	Mature
Trends	No major shift in prevailing land uses, real estate economics, or demographics are anticipated at this time. Given the fixed supply of land, current percentage of developed land and demand trends, neighborhood trends should be towards escalating land values, rents and prices over time.

Conclusion

Conclusion	The neighborhood is stable. Overall, the neighborhood has a positive influence on market value for the subject.

Immediate Neighborhood Aerial Photograph



Immediate Neighborhood Photographs

Typical retail/office use

Typical retail/office use, 4th Avenue Theater

Old Federal Building

Alaska State Courthouse

Signature Building

First National Bank Building

Market Analysis

National Office Market - PwC

National Secondary Office Market

Investor interest in the national secondary office market remains high due to both a limited supply of quality offerings in first-tier markets and the relatively low cost of debt in those markets, which drives down returns. Similar to most primary office markets, average overall capitalization (cap) rates reveal investors' preference for CBD assets over suburban ones. As shown in the Key 3Q13 Survey Stats table, a 52-basis-point spread exists between the average overall cap rate for the CBD and suburbs in the national secondary office market. This spread is down slightly from a year ago.

Investors seeking CBD or suburban office assets in this market can expect to pay 50.0% to 115.0% of replacement cost. The average asset price is 84.5% of replacement cost, which is below the average price for both the national CBD (91.8%) and national suburban (85.7%) office markets.

In terms of value appreciation, the majority of surveyed investors foresee asset value increases of as much as 10.0% for secondary office properties in the coming year. The average value increase is 2.75%.

Our Survey results indicate that just over half of investors believe that underlying office fundamentals are the key factor in the acquisition process in this market – a testament to improving office market conditions. Last quarter, this perspective was split 50/50 between the property's rent roll and local office market conditions. "Investor movement to secondary markets is driven by the chase for yield, but local market knowledge is the key to making buying decisions," explains a participant.

This quarter's CRE Stock Acquisition Trends analysis reveals that the top three metros in terms of percentage of stock traded are secondary office markets. On average, 9.5% of the total office stock in the 44 metros analyzed sold in the 12 months ending June 2013. The markets with the highest stock percentages sold include Austin (26.5%), San Jose (21.3%), and Charlotte (19.3%).

Recent office trades in these markets include Las Cimas II & III in Austin, purchased for $295.00 per square foot; Bayshore Plaza in San Jose, acquired for $164.00 per square foot; and One and Two South Executive Park in Charlotte, which sold for about $140.00 per square foot. ✦

KEY 3Q13 SURVEY STATS*

Tenant Retention Rate:		
Average	72.3%	=
Range	60.0% to 85.0%	
Months of Free Rent(1):		
Average	7.0	=
Range	1 to 12	
% of participants using	92.0%	=
Average Overall Cap Rates:		
Market (as a whole)	8.01%	=
CBD	7.75%	▲
Suburbs	8.27%	=

* ▼, ▲, = change from prior quarter
(1) on a ten-year lease

Table SEC-1
NATIONAL SECONDARY OFFICE MARKET
Third Quarter 2013

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 14.00%	6.75% – 14.00%	6.75% – 14.00%
Average	9.54%	9.63%	9.53%
Change (Basis Points)		– 9	+ 1
OVERALL CAP RATE (OAR)[a]			
Range	4.00% – 11.00%	4.00% – 11.00%	4.00% – 11.00%
Average	8.01%	8.01%	8.11%
Change (Basis Points)		0	– 10
RESIDUAL CAP RATE			
Range	4.50% – 10.00%	6.00% – 10.00%	6.00% – 10.50%
Average	8.11%	8.17%	8.30%
Change (Basis Points)		– 6	– 19
MARKET RENT CHANGE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	0.00% – 12.00%
Average	3.15%	3.24%	2.88%
Change (Basis Points)		– 9	+ 27
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.52%	2.52%	2.54%
Change (Basis Points)		0	– 2
MARKETING TIME[c]			
Range	2 – 12	2 – 12	2 – 12
Average	6.1	6.3	6.3
Change (▼, ▲, =)		▼	▼

a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months

www.pwc.com

Market Watch – The Anchorage Office Market Survey

Introduction

Reliant, LLC produces *Market Watch*, an annual report that details the fundamentals, trends, and inventory of 8.2 million sq ft of Anchorage's Class A and B office space. This annual report is well regarded by market participants as the authoritative analysis of the Anchorage office market. Please contact Reliant, LLC for details on obtaining a copy of the most recent *Market Watch* report.

The Anchorage Office Market Analysis for this report is based primarily on the *Market Watch* report, which is compiled from a variety of sources, including an extensive survey of landlords, tenants, investors, users, property managers, real estate agents, appraisers, city assessors, and other market participants. Other sources of data include property tax records, local/national media coverage, and the Alaska Multiple Listing Service (MLS). The available data has been carefully analyzed on a qualitative and quantitative basis, as appropriate.

Historic Overview

The majority of office product within the Anchorage market was constructed in the first half of the 1980's, during the significant expansion by the oil industry and state government. In 1986, a reduction in oil prices, unfavorable changes in the tax laws, and substantial cuts in state spending, triggered a recession that resulted in a substantial decrease in demand for office product. As a result, rents and prices dropped to half of their previous levels, and vacancy rates approached 20%.

Between 1987 and 1991, there was virtually no new commercial construction, and the vacancy rate at the beginning of the 1990's was near 10%. During this decade, Anchorage experienced a gradual but consistent economic expansion, and market conditions for office space were stable. The market's existing inventory was sufficient to meet any new demand and turnover in the market, and there was little change in rental rates. Values continued to be well below replacement cost resulting in minimal amounts of new construction. The little construction that did occur was by users whose needs could not be met by the existing inventory.

From 1998 through 2004, vacancy rates were consistently between 2.5% and 5%, which resulted in a period of gradual rent and value increases. In 2002, Anchorage experienced the first speculative office construction in over fifteen years. Beginning in 2004, low interest rates, low vacancies, and other factors resulted in a surge of owner user construction resulting in softening market conditions. By mid 2005, vacancy rates had climbed to approximately 10%. Due to positive economic growth, the market absorbed a significant amount of this space, and vacancy rates declined to roughly 3% in 2008, making Anchorage one of the tightest office markets in the entire country.

Supply Analysis

Current Inventory & Classification

A review of tax records indicates that the Anchorage office market is comprised of over 10 million square feet of Class A and B product.

Note, that this includes leased, owner-user, and government occupied space, but does not include most institutionally-occupied space. Roughly 50% of the

inventory is Class A, and 50% is Class B.

Office Market Construction

The office market has expanded at a rate consistent with growth in the overall Anchorage economy. Average annual expansion has been around 140,000 sq ft annually. CIRI native corporation recently completed a 40,000 sq ft Class A office building located in South Anchorage, that is leased on a long term basis to Doyon, Inc. This was the only Class A delivery in 2011, and was a 100% pre-leased, build-to-suit project. In 2012, nearly 215,000 sq ft of product was added to the market. However, of this total amount, only 75,000 sq ft had a direct impact on supply and demand conditions as the remainder of the space is owner user drive and will be owner user occupied.

Factors Driving New Construction

The annual rate of expansion since 2000 has been approximately 200,000 sq ft per year. Historically, demand for the majority of these projects came from users whose needs could not be met by the existing inventory, and no speculative projects were built in Anchorage between 2002 and 2007. To varying degrees, in response to tight market conditions, recent construction (including JL Tower, 188 WNL, and Centerpoint West), all had at least some speculative characteristics.

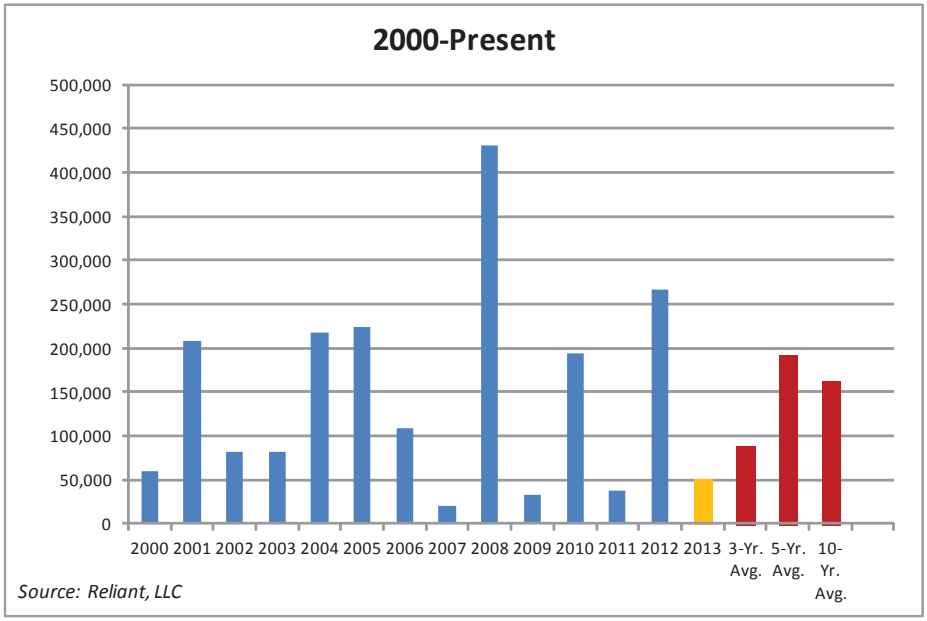
There are a number of factors driving demand for new construction. Market rents do not generally justify the high costs of new construction for smaller tenants, but may be supported for larger (30,000 sq ft plus) tenants, where there has been limited amounts of existing substitute property to choose from. In recent years, many of these large tenants have been forced to pay a premium in rent, and new construction has become a viable option. In addition, the rental spread between existing product and new construction continues to narrow. There has also been a recent trend towards sustainable construction, including the recent development of the LEED (Leadership in Energy and Environmental Design) certification program by the U.S. Green Building Council. This program grants credits that are used in the rating system, which classifies buildings at different levels of LEED certification, based on the sustainable features of a building. This has also become an important element for consideration of government tenants, which are likely to have LEED certification as a requirement included in future office space RFP's. Therefore, gaining LEED certification will likely be a competitive advantage for new construction in the future. In certain cases, these factors combined have resulted in lower occupancy costs for building than for continuing to lease. The market's perception of what constitutes "Class A" space is also gradually changing. Native corporations have had significant economic success in recent years, and in an effort to attain a higher level of corporate identity, have been one of the largest sources of demand for new construction. With additional stimulus monies, coupled with new security, and other requirements, State and Federal agencies have also been seeking to upgrade into newer construction.

However, the tightening of credit markets, higher vacancy within the new construction market, and softer employment outlook, will continue to make speculative construction less feasible in the short term. Consequently, new construction is anticipated to be driven primarily by owner-user construction or else by strong pre-leasing within a partially-speculative project. The market consensus is that the trend in owner-user new construction should subside somewhat over the next several years, due to a softer economy, tighter financial requirements by lenders, high vacancy within recently built new construction, and

increased availabilities of existing product. Speculative projects have clearly tapered off as well, as they typically require at least 30 to 50% pre-leasing before moving forward.

Proposed Construction

Indications are that 2013 will be a year of below average new construction. At this time, no site work ongoing and no cranes up. In addition, market participants report no new construction. There are no project's moving forward at this time, although there are one or two highly speculative and confidential projects, whose final plans have not been determined. At this time it appears that there will be no Class A deliveries in 2013, which will be the first year this has occurred since 1999. For analysis purposes 50,000 sq ft is shown, which represents the total construction for both Class A and Class B product. At present, it appears that at least two new Class A office buildings are planned for 2014 - JL Properties at C Street & International Airport Road, and CIRI at Fireweed Lane & New Seward Highway. For reference, historic and projected deliveries through 2013 are summarized on the following exhibit.



Demand Analysis

Historic Absorption

Since 1980, Anchorage has averaged roughly 175,000 sq ft of total absorption on an annual basis. Since 2000, absorption has been between 200,000 sq ft and 250,000 sq ft annually. This significant amount of absorption resulted in declining vacancy rates, despite the significant new product coming online. For reference, 2009 saw roughly 50,000 sq ft in negative absorption of Class A space, and 2010 was essentially flat. However, 2011 showed a return to positive absorption with roughly 100,000 sq ft. Absorption in 2012 was ~200,000 sq ft.

Employment Forecast

Change in office employment is the primary variable impacting demand for office space. The full impact to the marketplace from changes in employment often takes six to twelve months, and is a leading indicator of office market conditions. Since 1990, employment has grown at an average annual rate of 1.5%. Alaska

Labor projects positive 1.2% employment change in 2013, or roughly 1,800 new jobs. A review of the projection by industry indicates that much of these will be office jobs.

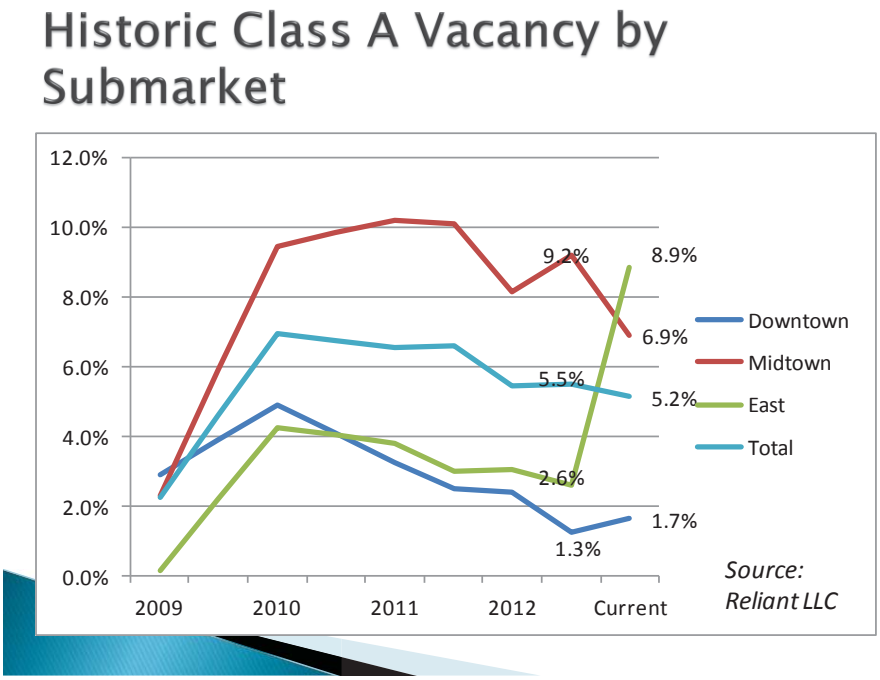
Implied Change in Office Demand

The basis for predicting changes in demand is employment trends. The conversion of employment to office demand is based on a number of factors. According to the 2000 U.S. Census, office employment is 65.3% of total employment within Anchorage. It is estimated that roughly 55% of office employment will be house in Class A space locally. To forecast the future amount of office space per employee, several architects specializing in office space planning were interviewed. Most agreed that office space per employee generally ranged between 200 sq ft and 250 sq ft. In consideration of this information, as well as the historic amount of office space required per employee, demand based on 250 sq ft per employee is forecast. The employment growth could be more or less than forecast. To reflect this, under the Conservative Outlook and Favorable Outlook scenarios, a variance of 0.5% per year forecasted is used. Based on this model, Class A office demand is anticipated to be 80,000 to 120,000 sq ft.

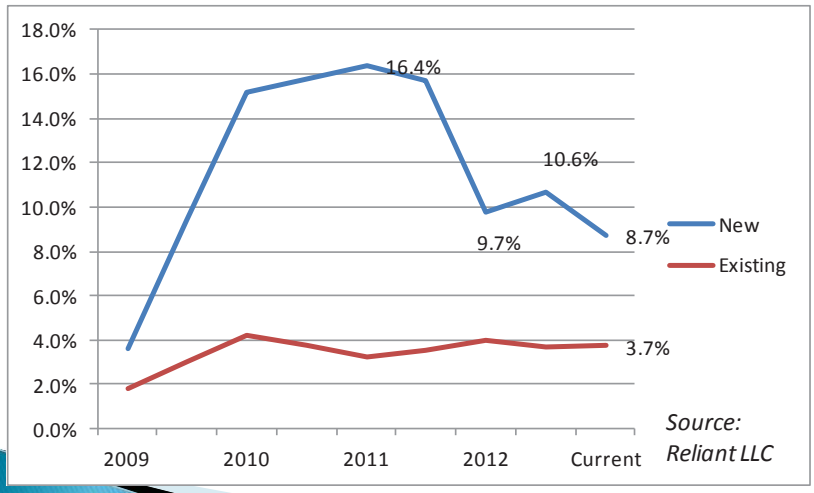
Market Profile

Vacancy Trends

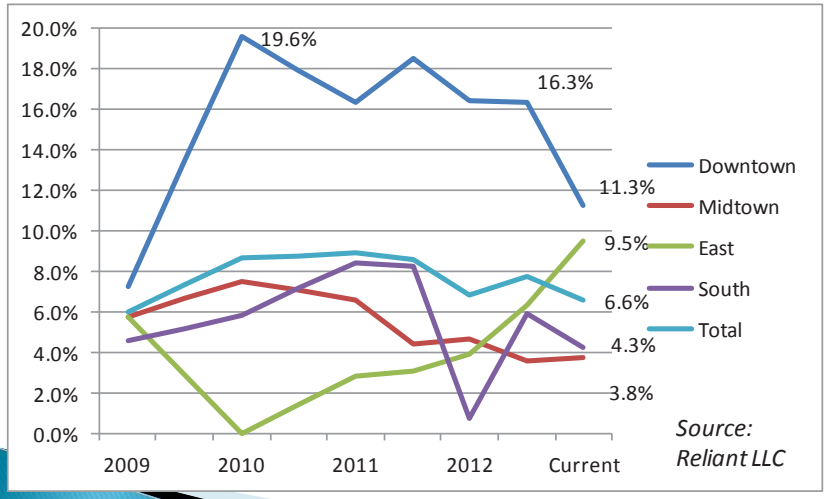
Vacancy trends are summarized on the following tables.



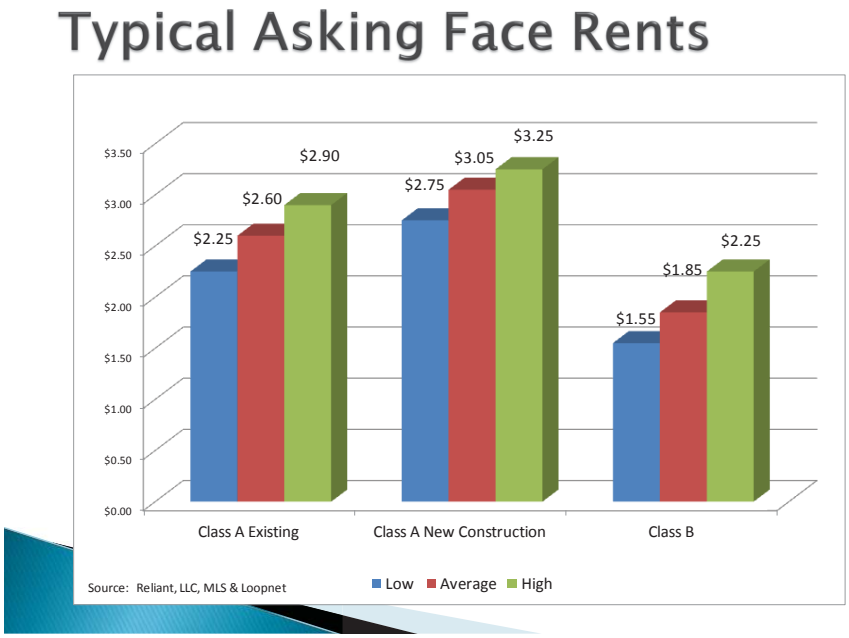
Historic Class A Vacancy by Year Built



Historic Class B Vacancy by Submarket



Rental Rates Current rents are summarized on the following table.



Expense Structure

Expense structures vary widely within this market from one property to another and are negotiable. For consistency, the previous rents were quoted on a full service basis. For most properties, triple net lease rates are roughly $0.60-$0.85/sq ft lower than full service rates.

MULTI-TENANT

For multi-tenant properties, tenant expenses are generally full service with the tenants often responsible for increases in real estate taxes, and on occasion, all operating expenses.

SINGLE TENANT / NEW CONSTRUCTION

The expense structures vary for these properties and are either triple net (with the tenant paying for all expenses except for reserves) or full service (with the tenant usually responsible for increases in operating expenses, either directly or as larger annual rent escalations).

Concessions

TENANT IMPROVEMENTS

Most first-generation, Class A spaces on the market today, offer up to $35/sq ft as an inclusion in the asking rent. This allowance is usually just enough to build-out first generation space from a vanilla shell, to a drywall shell and dropped ceiling condition. For existing space, landlord-paid tenant improvements range widely from as little as $5/sq ft to as much as $40/sq ft (in the case of a complete interior tear down), but generally average $12.50/sq ft. A general rule is $2.50/sq ft of tenant improvements per year, for the term of the lease. Renewals have tenant improvements from $0/sq ft up to $6/sq ft, and average around $4/sq ft. Landlord paid tenant improvements above these amounts are typically amortized as additional rent, or represent a “concession”.

PARKING

For Downtown properties, where parking is generally scarce, an allocation of 1 parking stall per 1,000 sq ft of leased area is sometimes included in the rent.

Parking in excess of this amount is generally paid for by the tenant, or reflected in the negotiated rental rate. Most users require 3 parking stalls per 1,000 sq ft, indicating that tenants typically pay a significant portion of their own parking in this district. Midtown and South Anchorage rents are typically inclusive of parking. For this reason, while the face rates may often appear similar between Midtown and Downtown, in reality commensurate rents downtown are effectively $0.50/sq ft to $0.75/sq ft higher once actual parking costs are factored in.

FREE RENT For existing product, free rent is generally not provided to tenants, except under special circumstances, such as in first-generation new construction, with the goal of attracting strong initial tenants. There have been several recent examples of free rent provided to tenants within the new construction segment. In addition, a few landlords with larger amounts of Class B space (such as Downtown), have begun to offer limited free rent in order to attract new tenants.

Commission Structure

LEASING For new leases, commissions are typically 5% of the total gross lease amount, which is the lease rate multiplied by the lease term. Renewal lease commissions are typically 2.5% of the total gross lease amount. For very large transactions, the commissions are reduced. The commission is typically paid by the landlord.

SALE For smaller properties, sale commissions range from 5% up to 6%, with half going to the listing agent, and half to the selling agent. For very large transactions, the commissions are reduced. The commission is typically paid by the seller.

Operating Expenses

Expenses have increased in recent years, particularly utilities and property taxes. At this time, they typically range from $6/sq ft up to $12.50/sq ft, or 30% up to 50% of effective gross income. Class B product tends to fall towards the lower end of the range, while Class A product tends to fall at the upper end of the range. While newer properties tend to have substantially lower operating costs, this has been offset by their higher real estate taxes.

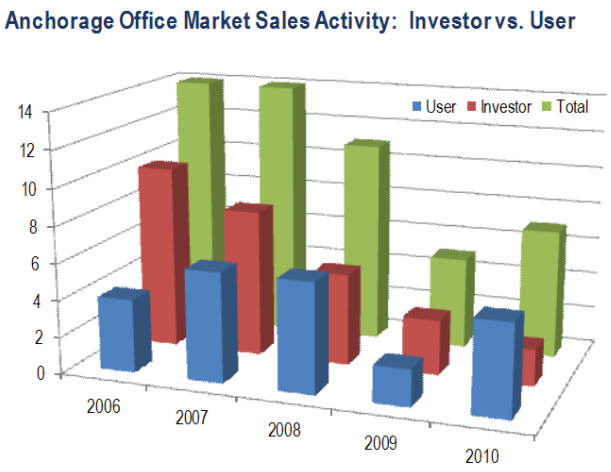
Construction Costs

Excluding land, construction costs for Class A properties range from $180/sq for lower quality buildings, up to $350/sq ft or more for higher quality buildings, with most having costs between $250/sq ft and $300/sq ft.

Investment Climate

Investors generally consider the Anchorage office market attractive. Factors influencing this investor perception are relatively higher returns, high replacement costs, limited supply of vacant land, stable employment, and potential for accelerated economic growth from a natural gas pipeline.

Typical Buyers & Sale Transactions



While investment activity is ongoing, in a reversal from five years ago, the most active buyers are now owner-users. Between 2006 and 2008, Anchorage averaged 14 Class A & B sales per year. In 2009 this decreased to 5 sales. 2010 sales activity showed a modest increase to 7 sales with one Class A sale. A Class A sale has occurred in 2011, indicating only two Class A sales since 2009. The reduced sales volume is indicative of a continued spread between the perspectives of buyers and sellers. Sellers continue to remain in a strong position with little motivation to exit from the solid fundamentals of the Anchorage market. While much of the uncertainty surrounding the national recession and future expectations has been alleviated, many buyers remain "on the fence" at this time. There is a minimal institutional presence in the Anchorage office market, with the exception of first-tier properties, where institutional investor ownership is fairly common. Typical owner-users are either local or regional companies, although there is a strong presence of national and international oil companies.

Prices

Prices are generally determined by the net operating income a property can produce, and its risk profile, particularly in the case of properties purchased by investors. Sale prices (including land) range from $70/sq ft for low quality properties up to $300/sq ft or more for first-tier properties (higher quality). There have been no sales of newer, Class A office properties or high-rise towers. However, based on typical NOI levels, superior tenant bases, and current institutional return requirements, any potential sales of such properties would clearly be expected to achieve prices well above the $250/sq ft range indicated above for older Class A properties. For reference, Class B prices tend to range from $130/sq ft up to $200/sq ft.

Overall Annual Rates (OAR's)

Overall Annual Rates (OAR's) vary widely, as they are heavily dependent on a given property's income generation and risk profile. In the Anchorage office market, OAR's are typically between 7.0% and 9.0%. Institutional-grade properties have been known to fall below this range in a few cases, while distressed/high risk properties have been known to fall above this range.

Over the past decade, the Anchorage office market has shown a tendency towards declining OAR's. These declines were primarily due to favorable interest rates and favorable changes in investor risk perceptions. While recessionary concerns have been driving sale prices down (and OAR's up) throughout much of the lower 48, Alaska is considered to be fairly insulated from these concerns at this time (please refer to the Regional Area Data section of this report).

To date, data on how Anchorage office market OAR's have responded to turmoil in national markets is mixed. Economic uncertainties outside of Alaska have made traditional Anchorage investors more cautious, and less aggressive with property bids. Meanwhile, asking prices tend to disregard these potential risks, and are reflective of the strengths of the local office market. These market tendencies have frustrated some potential sales, as the bid-ask gap is often too substantial for both parties to reach an agreement. Furthermore, interest rates have slightly increased, the availability of capital has decreased, and loan terms have tightened, placing further pressure on buyers. Consequently, in large part, the Anchorage office market appears to be taking a "wait and see" approach to transactions.

Due to limited sales, trends in OAR's have been a controversial topic in recent years. The market has now provided sufficient sales activity to indicate general trends and a review of the data indicates surprising stability in rates during the 2009 recession, with only a 50 to 75 basis point increase. What is even more interesting, is that with the recovery of the capital markets, nearly all of this increase was erased in 2010, and current rates appear to be only slightly higher than they were in 2008.

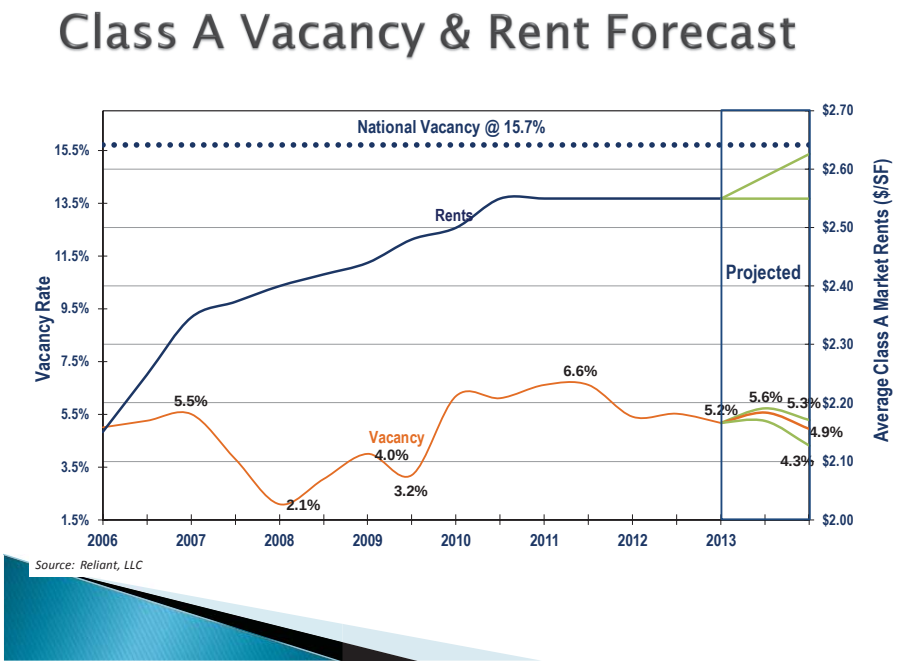
Class A High Rise Market

There are a limited number of class A high rise buildings within the Anchorage market. These can be divided into two categories, existing/new, and investor/owner user owned. Both the BP building and Atwood Building are owner user occupied. The ConocoPhillips building is 100% leased on a long term basis and is more economically equivalent to owner user occupancy. The remaining properties are investor owned and include the Frontier building, Denali Towers North, 188 WNL and JL Towers. Existing high-rise vacancy is estimated at less than 2% and possibly below 1%. New construction high-rise vacancy was recently around 8%, but this has continued to fall as space is absorbed. Well-positioned existing product has attained market rents only slightly below that of new construction. The Frontier Building, for example, has average rents of $2.85/sq ft, whereas new construction has recently had average rents near $3.05/sq ft (which would be higher if costs of additional tenant-borne TIs were reflected). That said, the indicated spread is less than what would normally be anticipated and reflects the tight conditions in the existing market and competitive conditions in the new construction market. Overall, the existing high-rise market is tighter than the overall office market and is healthy and stable.

Market Outlook

Vacancy & Rent Trends

Vacancy and rental trends are summarized on the following exhibit.



Conclusion

The Anchorage office market has remained healthy for the past several decades, and this trend is anticipated to continue. Given the forecast of moderate employment growth for 2013, which will be met with limited new product, the forecast is for downward pressure on vacancy rates and modest increases in rental rates. Overall, market conditions are best described as healthy and tightening.

Application to the Subject

The subject is a proposed government office/meeting building located in downtown Anchorage. At completion, it will be essentially new construction in excellent condition, rated as Class A by local market standards. It will be fully leased to the Alaska Legislative Affairs Agency (LAA), with an initial term of 10 years and a 10-year option. As this is essentially a build-to-suit situation, certain specialized features are incorporated in the design, such as a public auditorium, multiple meeting/conference rooms, and a file/furnishings staging area served by a dedicated freight elevator and loading dock to accommodate the annual moves to Juneau coinciding with the legislative session. It also offers a parking garage - which is a significant amenity for downtown office properties.

The risk of vacancy during the initial term, and realistically during the renewal term, is extremely low (that is, nearly no reasonable chance). The LAA has occupied the existing building on this site (716 West 4th Avenue) for nearly 20 years. In an effort to expand and improve the caliber of space it occupies, the LAA has made a number of attempts over the past several years to identify a viable alternative. This has included efforts to lease existing office space (but

there has not been adequate availability in this size range), buy/renovate an older building (but they lost out to a developer with a Native Corporation tenant), and have a new building constructed specifically for them (but both RFI responders failed to offer space in an acceptable location). Please refer to Exhibit C of the lease documents included in the Addenda for further discussion of the situation leading to negotiation of the subject lease extension.

While there are certainly other options available to lease or build new in Anchorage, in this case the Legislature (via the Legislative Affairs Agency, its administrative arm) has determined that it needs to be downtown in order to provide: constituent access, access to other state and local centers of government, access to public transportation, and access to lodging and meeting spaces. Moreover, the Municipality of Anchorage comprehensive plan encourages government office uses to locate in the CBD:

"Anchorage 2020 "General Land Use Policy #18" (pg. 71) calls on policymakers to "strengthen the Central Business District's role as the regional center for commerce, services, finance, arts and culture, government offices, and medium- to high-density residential development," and "General Land Use Policy #19" specifically calls for policies that "locate municipal, state, and federal administrative offices in the Central Business District,", while The Downtown Comp Plan (pg. 44) calls on policymakers to make "Downtown a priority location for federal, state and local government administrative employment and services."[3]

It is reasonable to assume that the current situation will be unchanged at the time the initial lease term expires in 10 years. Moreover, as the Legislature will have invested $7.5 million in its own tenant improvements as part of the pending renovation/expansion, there will be even greater disincentive to vacate or search for alternative space downtown. For reference purposes only, in the extremely unlikely event the subject were vacated it would certainly appeal to any number of other office tenants given the proximity to the Old Federal Building, Alaska State Courthouse, Brady Building, Atwood Building, and other state, local and federal government offices. However, the market rent attainable with generic office tenants would be substantially less than that which the Legislature is willing to pay given its specific needs. While a situation where contract rent is well above market typically carries with it substantial risk to an investor, in this case there is essentially no such risk during the initial term because the tenant at hand (State of Alaska): is contractually bound, has no viable alternatives, and has the highest credit rating possible by all three ratings agencies. Although very unlikely, there is a small chance the Legislature would not choose to exercise its renewal option at the end of Year 10, in which case a lower market rent would be applicable. This is taken into account in the discounted cash flow analysis in the Income Capitalization Approach.

Overall, the subject will be a good quality, downtown office building with parking, in new condition, and beyond this it will represent an extremely low risk investment given the State of Alaska lease.

[3] Source: "Welcome to our Neighborhood - Locating Government Offices and Services Downtown", Alaska Industrial Development & Export Authority, August 16, 2011, Page 7.

Description of Site

Description of Site

Name Legislative Affairs Building

Address 712/716 West 4th Avenue
Anchorage, Alaska 99501

Geo Coordinates Latitude: 61°13'5.85'N, Longitude: 149°53'47.36'W

Physical Location The subject is located at the southeast corner of West 4th Avenue and H Street in downtown Anchorage..

Assessor's Tax Parcel Number(s)[4] 002-105-26, 002-105-49

Abbreviated Legal Description *Lot 2 (West 39.5') and Lot 3A, Block 40, Original Townsite of Anchorage, Anchorage Recording District, Third Judicial District, State of Alaska, according to the official plat thereof.* (Per Department of Natural Resources Records)

Gross Site Area

SUMMARY OF SITE AREA

Parcel	SqFt	Acres
Lot 2, West 39.5'	5,135	0.1
Lot 3A	25,994	0.6
Total Site Area	**31,129**	**0.7**

SOURCE Tax Assessor Records

Upon review of the site's physical and economic characteristics, there do not appear to be any factors that would reduce the usable area. Nonetheless, a survey of the site indicating usable area was not provided to the appraiser. The market value of this report assumes that all of the site's gross land area is usable. In the event that a portion of the site were found to be un-usable, the market value of the subject could be less than the current estimate.

Excess Land / Surplus Land A review of the subject's land-to-building ratio and comparison with typical market parameters suggests the subject does not have excess or surplus land. Therefore, after careful consideration, the subject is concluded to not include any excess land.

Shape The site is roughly rectangular.

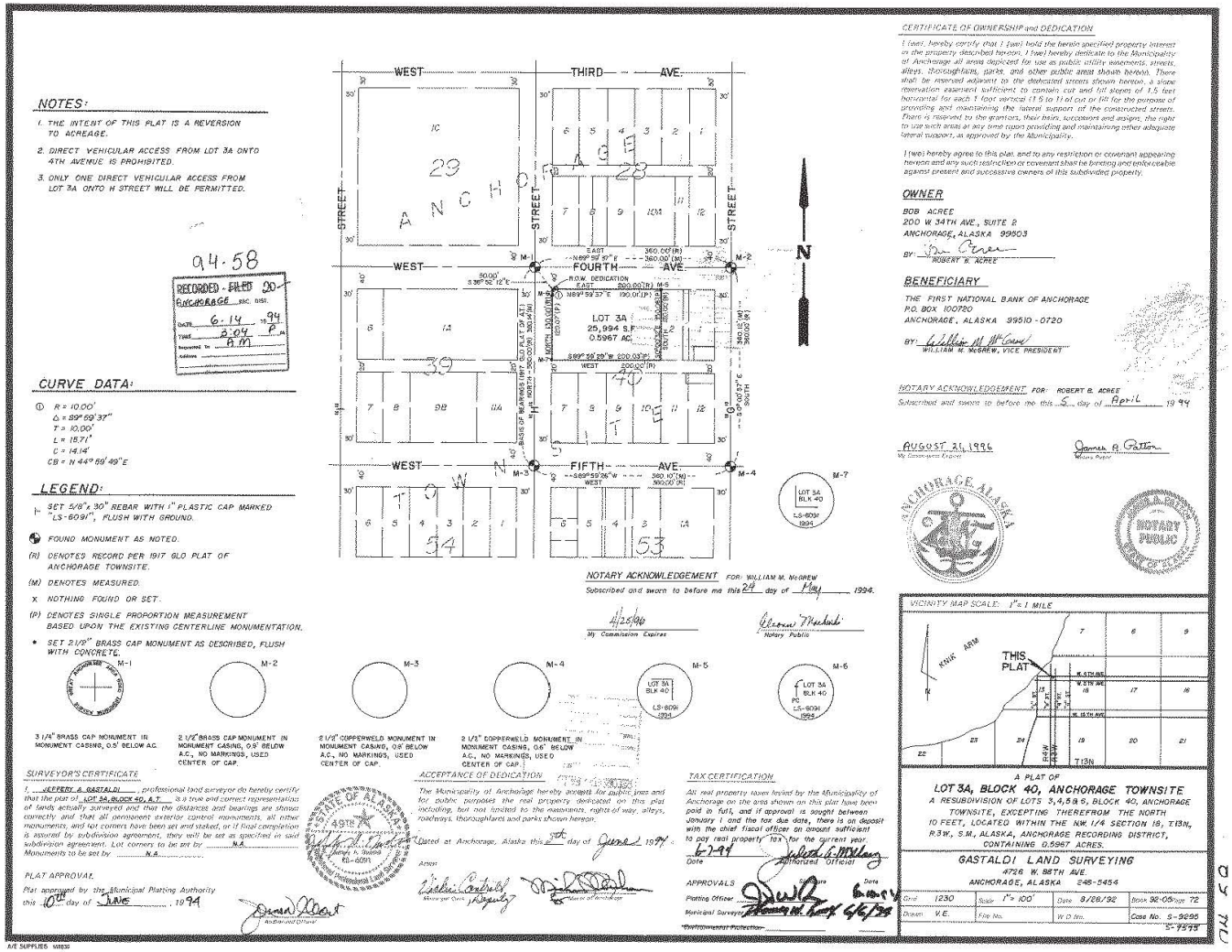
Street Frontage The subject has approximately 232'' of frontage on West 4th Avenue and 130'' of frontage on H Street. It also has 232' of alley frontage to the south, which will allow access to the proposed loading docks and staging area at the building rear.

[4] Per Tax Assessor Records.

Access	Access to and from the subject is considered good relative to competing properties.
Exposure	Exposure of the subject is considered good relative to competing properties.
Topography	The subject has level topography, and is at grade with surrounding properties.
Soil Conditions	Soils conditions in the subject's market are not uniform and can vary widely from one site to another. According to the September 2013 geotechnical report provided, "the foundation soils beneath the proposed project are typical of downtown Anchorage and are suitable for the proposed development." It is an ordinary assumption of this report that the soil conditions are sufficient quality to support the improvements.
Wetlands	No surface water was noted during the walk-through and the subject does not appear to contain any wetlands.
Hazardous Conditions	A complete environmental site assessment was not available to the appraiser. There are no known or disclosed environmental issues, or hazardous conditions, impacting the subject. The detection of hazardous materials or conditions is beyond the scope of expertise and competency of an appraiser, however, and it is recommended that any concerns relating to hazardous conditions be addressed by a qualified environmental specialist. Furthermore, it is an assumption of this report that there are no hazardous conditions present at the subject.
Flood Zone	The Flood Emergency Management Agency or FEMA has prepared flood insurance rate maps for various communities in the State. According to the flood insurance map, community panel number 020005-0732D, issued by the Federal Emergency Management Agency and last updated September 25, 2009, the subject is located in Zone X, which are areas outside the 0.2% annual chance flood plain.
Earthquake Zone	Alaska is a seismically active region. A geotechnical hazards survey was completed for the Municipality of Anchorage in 1979. This survey indicates the subject is located in Zone 4, which is described as high risk of ground failure. In certain instances, lending institutions will require that earthquake insurance be obtained for properties located within high risk zones. Other than the premium in the cost of obtaining earthquake insurance, data does not indicate any discount in value for properties located in higher risk areas. In fact, most competing properties in the subject's area have similar levels of earthquake risk.
Utilities	The subject is improved and all utilities are available to the site.

Aerial Photograph Exhibit

Plat Map Exhibit



Zoning

CENTRAL BUSINESS DISTRICT, INTERMEDIATE (B-2B), MUNICIPALITY OF ANCHORAGE

Intent: This district is intended to create financial, office and hotel areas surrounding the core of the central business district.

Permitted Uses: General office, retail, convenience establishments, lodging, multi-family residential, parks & playgrounds, care facilities, restaurants, recreation establishments.

Conditional Uses: Gas stations, utility substations, commercial recreation establishments, care facilities, facilities selling/dispensing alcohol, correctional community residential centers.

Prohibited Uses: Any use which causes or creates excessive noise, vibration, odor, smoke, dust or other particulate matter, radiation, toxic or noxious matter, humidity, heat or glare at or beyond the lot line.

Basic Design Standards:

Permitted Residential Units:	Multi-family - minimum density of 25 units per acre
Minimum Lot Size:	6,000 sq ft
Minimum Width:	50’
Front Setback:	10’ if residential; 0' nonresidential
Side Setback:	5' if residential; 0' nonresidential
Rear Setback:	10' if residential; 0' nonresidential
Maximum Height:	5 stories
Maximum Site Coverage:	100%

The subject is proposed construction and exact conformance is difficult to determine. Based on a preliminary review of requirements, however, the subject’s improvements and use appear to be legally conforming uses with existing zoning regulations. This is a reasonable assumption, given that the project will have to pass through the permitting process and thus be compliant with current requirements prior to occupancy.

Easements, Covenants, Encroachments & Restrictions

Although requested, a title report was not provided to the appraiser. Normal easements along property boundaries for streets or utilities are assumed. It is understood that there are no legal restrictions that would adversely affect use or marketability of the property. Title and land use, however are legal issues and an attorney should be consulted relating to questions on these matters. It is an assumption of this report that there are no restrictions that would adversely affect use or marketability of the property.

Functional Utility

There are no known physical or economic characteristics that limit the site’s development potential and level of functional utility. The subject is generally physically and economically similar to other sites within the market segment that it competes. Overall, the site is concluded to provide good functional utility.

Description of Improvements

Introduction

Building Occupancy/ Use

The subject is currently comprised of an older 6-story office building, a two-story restaurant/pub, and a 2-level parking garage. The smaller building is to be demolished to make way for an addition, while the larger building is to be completely gutted to the skeleton. At completion, this will essentially be a unified, new construction, 6-story office tower with auditorium and multiple conference rooms, along with numerous offices for State Legislators and their staff. The entire property has been leased to Alaska Legislative Affairs Agency for an initial 10-year term, and there is a 10-year renewal option. Accordingly, this chapter will focus on the proposed improvements in their "at completion" condition.

"As Is" Building Description

As noted, the primary focus of this appraisal, given the signed lease already in place, is clearly the property "at completion." However, for context purposes, the existing LIO Building has a GBA of approximately 45,623 sq ft. It was built in 1972 and is in below average condition. Although the interior of most space appears to be in average condition physically, it is understood that the building lacks potable water, has limited restroom facilities, suffers from an ineffective HVAC system, has deteriorated and leaking plumbing, relies on a single unreliable elevator, has leaking windows, offers inadequate electrical service and lighting, and also incorporates asbestos in its construction. The Anchor Pub has a GBA of 11,630 sq ft, was built in 1951, and is in overall fair to average condition for a structure of this vintage. Please refer to the subject photographs at the end of this chapter for visual depictions of the existing structures.

Building Area

SUMMARY OF AREA STATISTICS

		(Sq Ft)
Gross Building Area (GBA) (1)		64,188
Basement - Storage/Office/IT	11,140	
1st Floor - Auditorium, Conference	11,549	
2nd-6th Floors - Offices	39,840	
Penthouse - Mechanical	1,659	
Rentable Area (1)		56,442
Basement - Storage/Office/IT	9,806	
1st Floor - Auditorium, Conference	10,374	
2nd-6th Floors - Offices	34,820	
Penthouse - Mechanical	1,442	
Efficiency Ratio (Rentable Area)		88%
Parking Garage (GBA)		39,000
Site Area (2)		31,129
Site Coverage		100%
Land to Building Ratio		0.48
FAR		2.06

(1) Source: Building drawings, developer.
(2) Source: MOA Assessor.

Office Building Description

Building Overview This will be a 6-story plus basement government office building specifically designed to accommodate the Alaska Legislative Affairs Agency 'at completion'.

Condition Excellent condition, based on a review of competitive properties within the market segment that the subject competes.

Quality Excellent construction quality, based on a review of competitive properties within the market segment that the subject competes.

Building Class A/A-. The building is intended to be certified as LEED Silver upon completion.

Age Characteristics

YEAR BUILT 2014

YEAR RENOVATED 2014

ACTUAL AGE 0 years

EFFECTIVE AGE The effective age of a property can be less than or more than its actual age, depending on renovations, upgrades, and the level of capital reinvestment. Based on the appraiser's walk-through of the subject, construction type, quality, current condition and economic performance, the effective age of the subject is estimated at approximately 0 years.

ECONOMIC LIFE Marshall Valuation Service indicates properties similar to the subject's construction type and quality have economic lives between 50 and 60 years. In practice, with ongoing capital expenditures and reinvestment the economic life of a building can be extended well beyond the indicated range. Within the Alaska market, the economic lives of improvements have typically been between 50 and 100 years. After careful consideration, an economic life of 60 years has been estimated.

REMAINING ECONOMIC LIFE Based on the subject's estimated effective age and economic life, the remaining economic life is estimated at 60 years.

Floors / Stories 6 stories plus basement.

Layout Please refer to the building concept drawings presented in the Addenda. At completion, the subject will be designed for single-tenancy. It will offer two personnel elevators near the front of the building along with a freight elevator towards the rear. The basement will have conference areas, storage space, and office area for the IT functions. The ground floor will have a public auditorium with teleconferencing capabilities, large demisable conference/meeting space, LIO library, mail room, and the main lobby. At the rear of this level will be the staging area with loading dock and freight elevator, which will accommodate the twice-yearly office move between the subject and Juneau for legislative sessions. Upper floors will house offices for Legislators and their staff, with private meeting rooms on each floor.

There is adequate ingress and egress to the building, the main building lobby is of

reasonable size and is properly located, common area hallways have an efficient layout, public space is appropriately designed and located, and elevators, stairwells and restrooms are conveniently placed in the building. The efficiency ratio (rentable area / gross building area) is not unreasonable, although it is at the low end of the expected market range for single-tenant office buildings. The above referenced building area figures were confirmed with the architect, but in the absence of supporting calculations or complete architectural drawings (beyond the current conceptual drawings) it is difficult to comment further on this issue. Overall, the subject's layout is typical for this type of property and market segment, and it appears to be an efficient design that provides good functional utility for the intended use.

Structural Systems The following is based on the appraiser's walk-through, information provided by the owner, and information contained within the public record. The appraiser is not an engineer and building plans, an architect or engineer should be consulted for additional detail on structural systems.

FOUNDATION Poured concrete footings

STRUCTURAL SYSTEM Steel frame

ROOF / DRAINAGE Flat roof. Rubber membrane covering.

EXTERIOR FINISH Glass Curtain Walls

Mechanical Systems The appraiser is not qualified to make a determination on the condition or functionality of mechanical systems. It is understood that the current mechanical systems are in good working order without any outstanding items of deferred maintenance. Nonetheless, it is an assumption of this report that mechanical systems are typical of a property within the market segment that the subject competes and that systems are functional, in good working condition, without any outstanding items of deferred maintenance or repair.

HEATING Rooftop mounted HVAC system

COOLING Yes

PLUMBING There is an appropriate amount of plumbing located throughout the structure, including restrooms on each level as well as kitchenette/break areas.

ELECTRICAL & WIRING Electrical is assumed to be to code and typical for the subject's property type, age and market classification / segment.

ELEVATORS Two personnel elevators serve all levels. A single freight elevator serves the basement and ground floor to allow for storage/staging of files and furnishings at moving times each year.

LIFE / SAFETY SYSTEMS The building is sprinklered. Fire alarms and extinguishers, as applicable, are assumed to meet current fire safety codes.

Ceiling / Clear Height Approximately 18' (main floor), 9' (all other office levels)

Interior Finish

The interior finish will reportedly be fairly typical of competitive properties within this market segment. Although details have not yet been fully finalized, it is understood there will be upgraded finish materials in many locations, along with glass interior partition walls in many locations. Overall, the interior finish is expected to be very good quality in new condition. Please refer to the conceptual drawings and design information in the Addenda for further information.

Parking Garage Description

Building Overview

The two level, steel and concrete parking structure was built in 1994. According to the Municipal Assessor's website, it contains 19,500 sq ft / level or a total area of 39,000 sq ft. There appears to be some conflicting information regarding the number of spaces, with figures of 86 stalls and 103 stalls mentioned by different parties. For analysis purposes, the more reasonable, higher figure is used in this appraisal. As part of the pending project, the interior walls of this structure will be painted, the lighting will be upgraded, stalls will be re-striped, a roll-up security door will be added to the lower level, security access will be added to the personnel ramp, and the vehicle ramp will be heated.

General Property Characteristics

ADA Compliance

A specific survey and analysis of this property to determine whether it is in conformance with the various detailed requirements of the Americans with Disabilities Act (ADA) has not been conducted. Given the new construction and government/public use, ADA requirements presumably apply in this case. It is noted the building will have elevator service and accessible restrooms on every level. That said, the market value estimate assumes the property is in ADA compliance, if applicable.

Deferred Maintenance

The detection of deferred maintenance in structural, roof, electrical, plumbing and other mechanical systems is beyond the scope of expertise of the appraiser. The subject will be new construction at completion. Accordingly, it is assumed that there will be no deferred maintenance.

Landscaping, Surface Covering & Lighting

Minimal landscaping along the building perimeter. Heated concrete sidewalk in front of the building. Exterior lighting is typical for a property of this type.

Parking

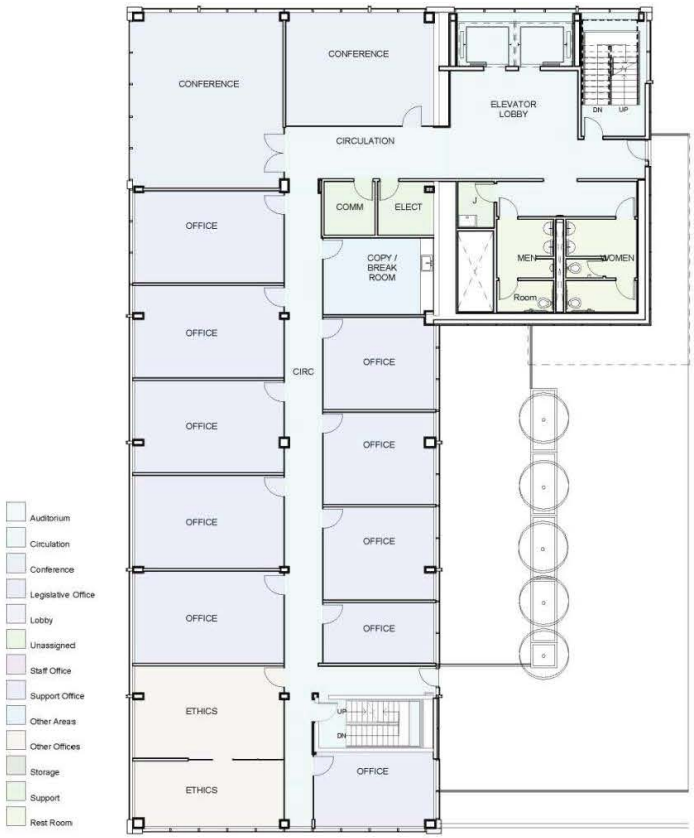
According to information from the developer, there are approximately 103 off-street parking stalls in the subject garage. This is an important consideration in the analysis, as many downtown properties do not include off-street parking and zoning does not require any. Overall, the subject more than satisfies current code requirements. For reference, based on the rentable area provided to the appraiser, the available parking ratio will be approximately 1.8 space / 1,000 sq ft of office, or, stated another way, 548 sq ft / space.

Functional Utility

At completion, the subject will be good quality, Class A/A-, in new condition. It will offer several specialized features required by the tenant (Alaska Legislature). The property will also benefit from the presence of a two-level parking garage. There are no known physical or economic characteristics that limit the improvements level of functional utility. Overall, the improvements will provide excellent functional utility for the intended use.

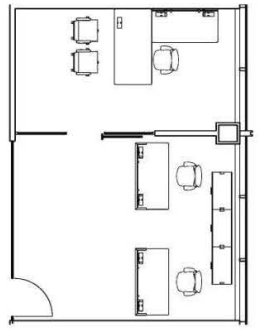
Conceptual Drawing Exhibit

Proposed Upper Floorplans Exhibit

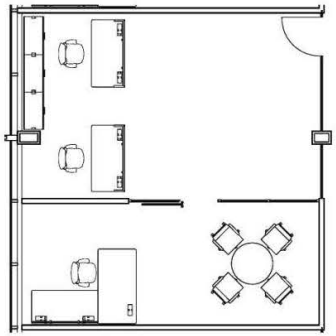


SECOND FLOOR PLAN
1/8"=1'-0"

TYPICAL FLOOR PLAN
1/8"=1'-0"



TYPICAL LEGISLATURE OFFICE PLAN
1/4"=1'-0"



TYPICAL LEGISLATURE OFFICE PLAN
1/4"=1'-0"

LEGISLATIVE INFORMATION OFFICE RENOVATION AND ADDITION
716 W 4TH AVENUE | ANCHORAGE, AK

PFEFFER DEVELOPMENT | kpb architects | Criterion General, Inc.

Property Assessment & Taxes

Summary of Property Assessment & Taxes

Real Property

Properties located within the subject's market are assessed by the assessor every year. By statute, each property must be assessed at 100% of market value. The millage rate (on which property taxes are based) is determined annually based on spending and assessment levels. Millage rates vary constantly and are influenced by state law and services provided in each individual district. The assessed value of all properties located within a district is divided by a particular year's budget requirements to arrive at a millage rate. Thus, actual spending determines the amount of tax, and assessment allocates the tax among property owners. Therefore, an increase or decrease in total assessment will not, by itself, result in a change in the total property tax collected.

While mass appraisal is useful for the allocation of the total tax liability among property owners, it is not always a reliable indicator of the market value of a specific property. As such, market participants do not generally use assessed value to determine market value. Market participants do carefully analyze the impact of current and projected real estate taxes on cash flow and market value. While Alaska is a non-disclosure state and the assessor does not have access to sale information, they do have confirmation from the recorder's office of a sale occurring. Often times the assessment the year following a sale increases dramatically with the burden of disproving the assessment falling on the property owner. This in turn often requires disclosure of any subject sale. Because of these factors, irrespective of actual historic assessment, most market participants input real estate taxes on a stabilized basis, where projected assessment correlates with the estimated market value and is reflective of assessment in a post sale environment.

In recent years, the assessment-to-value ratio has been increasing within the subject's market. Most similar properties in the subject's market have been historically assessed at between 70% and 90% of their actual market values. This is in part because Alaska is a non-disclosure state and in part that values have been increasing and it often takes several years for this to be reflected in the assessment. It is particularly difficult for the Assessor to value older, renovated properties.

While not a regular occurrence, on occasion the assessment on a property will be above market value. In these cases an MAI appraisal is usually sufficient documentation for the assessor to make an adjustment to the assessed valuation. In the event that the assessor is unwilling to change the assessment an appeal may be filed. If the appeal is not granted by the assessor the tax payer has the right to be heard in front of the Board of Equalization. Of note, the taxpayer also has the right to appeal assessed value based on equity (the relative assessment of the subject compared to similar properties).

The subject is proposed construction, and so the current assessment is of little relevance in the analysis. Accordingly, the stabilized assessed value for the subject has been correlated based on actual assessments at competing properties, as summarized below. Note that the first several properties are good quality office

properties located downtown, while the lower properties are new construction in midtown (since there has been no recent office construction in the CBD). Although the stabilized assessment is well below market value as determined through this appraisal (with an AV ratio of just 50%), the concluded assessment is nevertheless reasonable based on the Assessor's guiding principle of equity.

TAX ASSESSMENT COMPARABLES

Property Description	PAN	Year Built	GBA	2013 AV	AV / Sq Ft
Atwood Building	002-113-85	1982	337,115	$60,749,699	$180
Conoco Phillips	002-114-43	1982	629,910	$99,071,800	$157
Brady Building	001-033-28	1982	92,092	$13,562,500	$147
Whale Building	001-033-27	1975	87,817	$11,943,700	$136
Resolution Plaza	001-032-50	1986	55,041	$9,104,200	$165
Signature Building	002-106-18	1986	37,319	$4,486,300	$120
JL Tower	009-071-32	2007	296,721	$61,378,800	$207
Centerpoint West	009-071-31	2010	202,602	$32,231,500	$159
Centerpoint Financial	009-071-34	2004	97,915	$21,537,500	$220
188 WNL	009-037-06	2007	154,245	$33,174,000	$215
Residential Mortgage	009-151-12	2005	32,825	$7,754,100	$236
Dankor Building	009-051-15	2012	35,540	$7,576,600	$213
Projected Stabilized Assessment		**2014**	**64,188**	**$22,000,000**	**$343**

The projected mill rate is input from the most recent year available and is used to calculate the projected stabilized taxes. Historic assessment and taxes, an analysis of historic versus projected taxes and projected stabilized property assessment and taxes are shown on the table that follows.

Property Assessment & Tax Summary Exhibit

MOST RECENT PROPERTY ASSESSMENT & TAXES

	Assessment				
Tax Parcel Number	**Land**	**Improvements**	**Total**	**Mill Rate**	**Taxes**
Year					**2012**
002-105-26	$318,400	$769,500	$1,087,900	$15.57	$16,939
002-105-49	$1,611,600	$2,033,472	$3,645,072	$15.57	$56,754
Total	$1,930,000	$2,802,972	$4,732,972	$15.57	$73,692
Type / Source	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*
Year					**2013**
002-105-26	$318,400	$786,000	$1,104,400	$15.56	$17,184
002-105-49	$1,611,600	$2,094,468	$3,706,068	$15.56	$57,666
Total	$1,930,000	$2,880,468	$4,810,468	$15.56	$74,851
Type / Source	*Actual*	*Actual*	*Actual*	*Actual*	*Actual*

ANALYSIS OF HISTORIC VERSUS PROJECTED TAXES

% Historic Assessment of Market Value	$4,810,468	/	$44,000,000	=	11%
% Historic Assessment of Stabilized Assessment	$4,810,468	/	$22,000,000	=	22%
% Stabilized Assessment of Market Value	$22,000,000	/	$44,000,000	=	50%
% Change in Taxes Post Sale	$342,320	/	$74,851	=	457%
Taxation Trends					**Substantial Tax Increase Expected**

PROJECTED STABILIZED PROPERTY ASSESSMENT & TAXES - AT COMPLETION

Stabilized Value Estimate		$44,000,000
Projected Stabilized Assessed Value		$22,000,000
Projected Stabilized Mill Rate (Per $1,000 AV)	X	$15.56
Projected Stabilized Taxes	=	**$342,320**
Taxes Paid By		Tenant

Subject Photographs

Existing LIO Building

Facing southeast towards subject from H Street.

Facing south towards existing LIO Building from 4th Avenue.

Main entry area.

Current staging/storage area on ground floor.

Typical office space.

Typical restroom.

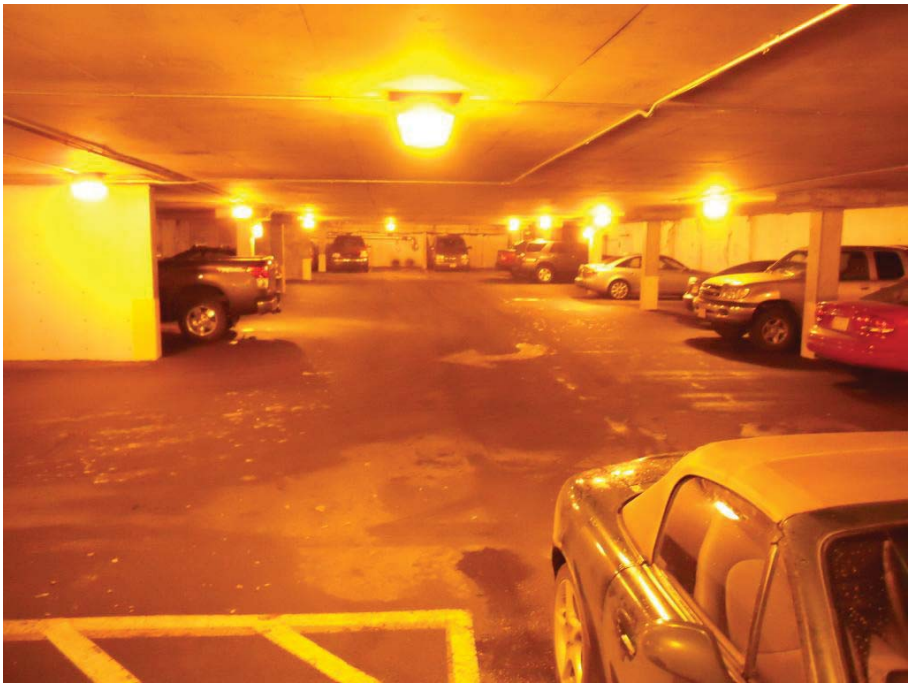
Typical staff/waiting area for Legislator's office.

Typical interior hallway.

Typical elevator lobby area.

Typical office area.

Typical office area in basement.



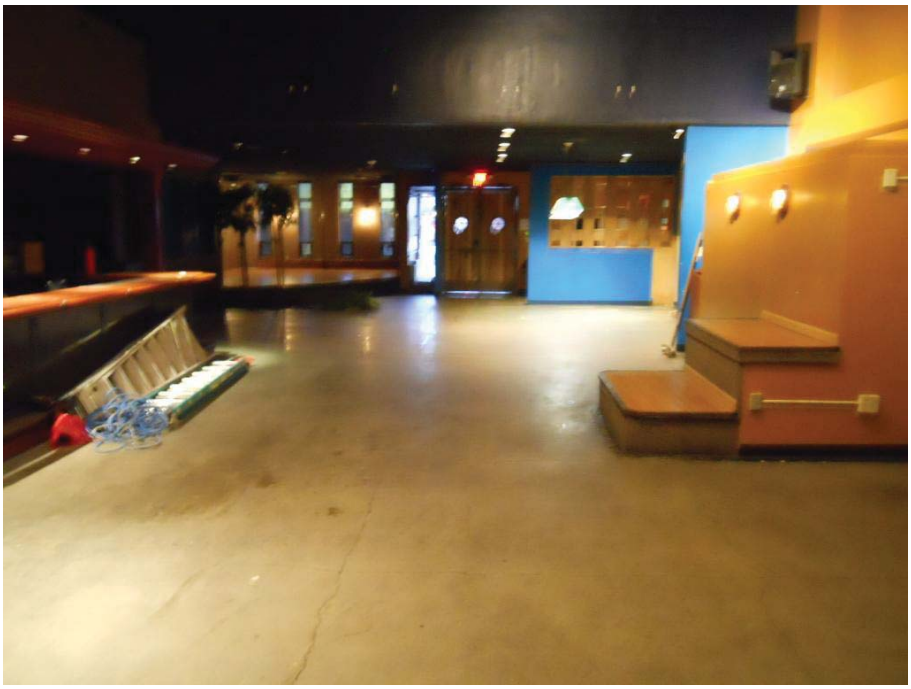
Lower level of parking garage.

Upper (street) level of parking gage.

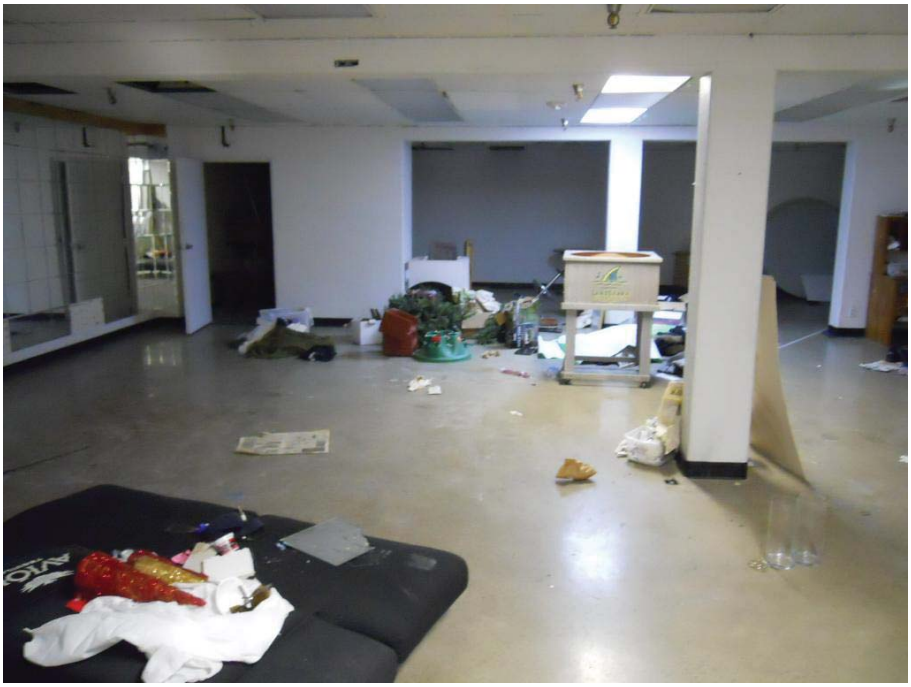
Existing Anchor Pub Building

Existing Anchor Pub building (at right) and adjacent LIO Building (at far right).

Interior of Anchor Pub.



Basement area.



Highest & Best Use

Definition & Methodology

"Highest & Best Use" is defined as:

> *"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."*[5]

Scope of Highest & Best Use

A specific determination of highest and best use would require specific cost estimates, which were not available to the appraiser, and is beyond the scope of this assignment. Unless otherwise indicated, the highest and best use as vacant analysis should not be construed as a feasibility study, which is beyond the scope of the current assignment. Rather, the analysis is meant to provide a general indication of highest and best use based on a qualitative review of the available evidence. Furthermore, unless otherwise indicated, the assignment is not a feasibility study of potential conversion or renovation of the property and continued use "as is" or "as proposed" is implicit in the current value estimate.

As Vacant

Legally Permissible

Private restrictions, zoning, building codes, historic district controls and environmental regulations determine those uses legally permissible on a site. No private restrictions or historical district controls encumber the subject site. In addition, there are no known environmental regulations that inhibit development of the site.

Physically Possible

Size, shape, area, terrain, accessibility and availability of utilities affect the uses under which a property can be developed.

Financially Feasible

Feasibility is indicated by construction trends in the vicinity and current market conditions. All uses that are expected to produce a positive return are regarded as financially feasible.

Maximally Productive

When development options are available, a determination must be made as to which feasible use is the maximally profitable use.

Within this market, the presence of developer's margin is highly specific to the individual project. Nonetheless, it is noted that developer's profits have reportedly been attained within the subject's geographic area for a wide variety of property types in certain situations. The majority of new construction, however, has been by owner-users (directly or as build-to-suits) whose needs were not met by the existing inventory and there has been less speculative development. Based on a review of the subject's zoning, land use trends, neighborhood characteristics and trends, shape, size, functional utility as well as market vacancy rates, rental rates and other factors, the subject's highest and best use as vacant may include holding

[5] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

for future development or immediate development as hotel, office, or other downtown use once feasibility has been ascertained. An interim use would be off-street parking, which remains in high demand at this location.

As Improved / Proposed

Demolition For older improvements near the end of their economic life demolition and replacement of the existing improvements with an alternative use may be the highest and best use of a site as improved.

Conversion Conversion involves a change from one use to another.

Renovation Renovation involves a continuation of the existing use with upgrades or changes to exterior and interior finishes or improvements to functional utility.

Addition If sufficient land area and parking is available, addition is possible alternative for an improved property.

As Is Continued use of a property in its current "as is" condition, without major changes, is a possible alternative for an improved property.

Maximally Productive The existing improvements are in below average condition overall with a reportedly high degree of deferred maintenance. In any case, this is an appraisal of the leased fee interest, and a signed lease is already in place to the State Legislature that dictates demolition of the Anchor Pub and complete renovation/expansion of the existing LIO Building. At this point, the proposed project and subsequent occupancy of the completed property by the State represents the only legally permissible use. With regard to financial feasibility, it is recognized that the overall project (as a public-private partnership) was specifically designed to be feasible and to make it acceptable to the private developer. In support of this, the value indicated by the Income Approach (and the final reconciled value) is above the value through the Cost Approach (including a developer's margin).

Probable Buyer

The subject will be a new, good quality, Class A office property downtown, and will be 100% leased to the State of Alaska for an initial term of 10 years. The most probable buyer is clearly an investor. Given the real estate quality, asset value, and lease to a credit tenant of the highest rating, the profile of the investor is perhaps a large regional, but more likely a national or institutional investor.

Land Valuation

Introduction

Methodology

Land is customarily valued as though unimproved and available for development to the use, which would justify the highest price and the greatest net return. Sales of unimproved land most similar to the subject are investigated and the most appropriate transactions are analyzed. The land value estimate traditionally reflects the fee simple value of raw land with good soils, available access, available utilities, minimal site work completed, generally level and at grade, with no site improvements (paving, landscaping, lighting, fencing, etc.).

Units of Comparison

Units of comparison, components into which properties may be divided for purposes of comparison, are derived from comparable sales data. Brokers, developers and other market participants indicated a common unit of comparison for properties in this market is the price per sq ft of usable land area.

Comparable Data

Sources of Data

The following transactions were obtained from various sources including web sites (Alaska Multiple Listing Service, Loopnet and Craigslist), brokers, assessors, appraisers, other individuals and most notably the Reliant, LLC internal database.

Availability of Data

The availability of comparable data is a function of the subject's location, property type, property size, market size and market activity. In this case, market research identified an adequate number of relatively recent (for downtown Anchorage) sale transactions from which a reliable indication of value may be derived.

Presentation of Data

The most relevant data for these transactions is presented on the following summary table. The following map highlights the location of the comparables relative to the subject.

Summary of Comparable Land Sales Exhibit

No.	Name	Usable Land Sq Ft	Utilities	Soil Conditions	Current Use	Access / Exposure	Shape	Date	Marketing Time	Nominal Price	Analysis Price
	Legal Description	Acres		Zoning	Intended Use	Road Frontage	Topography	Transaction Type			$/Sq Ft
L-1	938 W 5th Ave. - 2069	6,500	All Available	Average	Parking / Office	Average / Average	Rectangular	Aug-13	N/A	$650,000	$670,000
	Lot 5, Block 55, Original Townsite	0.15		B-2B, CBD Intermediate	Parking	50'	Generally Level	Closed			$103.08
L-2	630 I St - 2016	7,000	All Available	Good	Old House	Average / Good	Rectangular	Dec-12	1 month	$530,000	$530,000
	Lt 12, Blk 66, Original Townsite	0.16		B-2B, CBD Intermediate	Unknown	140'	Generally Level	Closed			$75.71
L-3	211 W. 6th Ave - 2077	46,531	All Available	Good	Vacant Land	Average/ Excellent	Rectangular	Jul-12	N/A	$3,500,000	$3,675,000
	Lot 1D, Block 48, Original Townsite	1.07		B-2A, CBD Core	Parking	290'	Generally Level	Closed			$78.98
L-4	400 L St. - 1122	15,643	All Available	Good	Office	Average / Good	Irregular	May-11	10 months	$1,875,000	$1,875,000
	Lot 1A, Block 36, L Street Slide Replat	0.36		B-2C, CBD Periphery	Investment, office	104'	Gentle Slope	Closed			$119.86
L-5	1069 W. 6th Ave. - 1238	7,017	All Available	Good	Parking Lot	Good / Good	Rectangular	May-11	N/A	$630,000	$630,000
	Lot 7-A, Block 56, Original Townsite	0.16		B-2C, CBD Periphery	Parking Lot	141'	Generally Level	Closed			$89.78
L-6	330 L St. - 1009	12,280	All Available	Good	Office	Good / Excellent	Flag Shaped	Feb-11	9 months	$858,986	$858,986
	Lot 6A, Block 32, L Street Slide Replat	0.28		B-2C, CBD Periphery	Future Development	73'	Generally Level	Closed			$69.95
L-7	326 L St. - 1008	12,024	All Available	Good	Multifamily	Average / Average	Rectangular	Feb-11	9 months	$841,079	$841,079
	Lot 4A, Block 32, L Street Slide Replat	0.28		B-2C, CBD Periphery	Parking Lot	82'	Generally Level	Closed			$69.95
L-8	415 L St. - 1007	7,019	All Available	Good	Office/Parking	Average / Good	Rectangular	Feb-11	8 months	$561,520	$561,520
	Lot 11A, Block 37, L Street Slide Replat	0.16		B-2C, CBD Periphery	Future Development	50'	Generally Level	Closed			$80.00
Subj	Legislative Affairs Building	31,129	All available	Good	Office	Good / Good	Rectangular	Appraisal	- - -	- - -	$3,890,000
	Lot 2 (West 39.5') and Lot 3A, Block 40, Original Townsite of Anchorage,	0.71		B-2B, CBD Intermediate	Office	232'	Level				$125.00

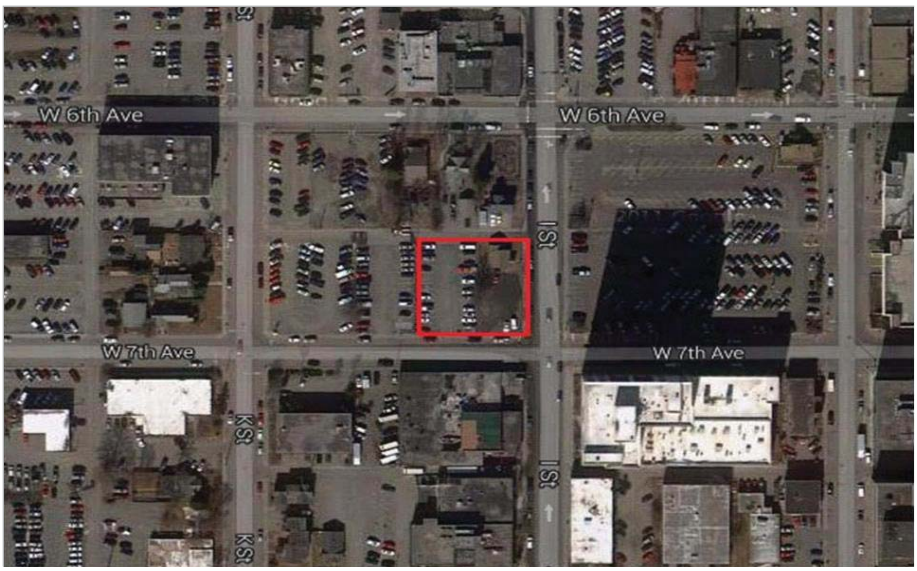
Map of Comparable Land Sales Exhibit

Description of Data

Sale No. L-1

This is the sale of a downtown lot near 5th and K Street. The property was not formally listed for sale. Rather, the buyer and seller had an existing business arrangement (the buyer operated the parking lot), and the seller approached them about purchasing the property after being unable to lease the small office building onsite for an extended period of time. The building itself was a 1,500 sq ft, concrete block office built in the 1960s. The buyer attributed no value to it, but instead expected to incur a demolition cost of $20,000 so the entire site could be used for parking. Thus, the nominal price of $650,000 is adjusted up to $670,000 for analysis purposes. For reference, the buyer ended up running into some utility issues that will increase the demo cost to roughly $40,000. Overall, this was an arms-length transaction with no unusual influences reported.

Sale No. L-2



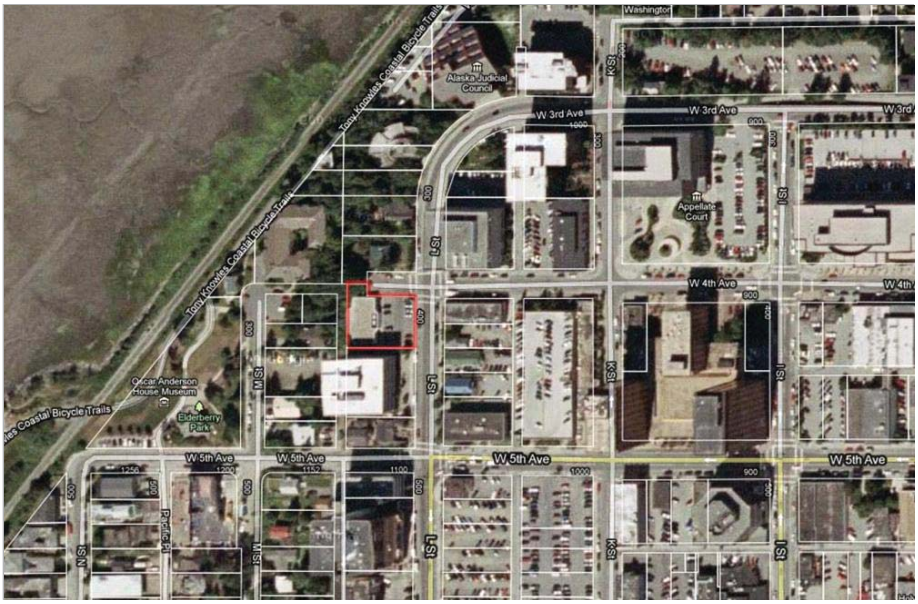
This is the sale of a downtown lot, at the corner of 7th Avenue and I Street. The lot is currently improved with a small (828 sq ft), old (1940) house. The buyer eventually intends to demolish the structure and redevelop the site with an undetermined use. In the interim, income from the structure will essentially offset future demolition costs, and the buyer found no contributory value in the improvements at this time. Thus, this is best viewed as a vacant land transaction. Overall, it was an arms-length transaction reflective of market at the time of sale.

Sale No. L-3

This is the sale of the south half of Block 48, on the north side of 6th Avenue between B and C Streets downtown. The parcel is immediately south of the Park Service office building, which brings with it a 50' development setback from the edge of that structure. The property had previously been marketed for sale at $3,489,825 for roughly 2.5 years between 2005 and 2007. However, it was not

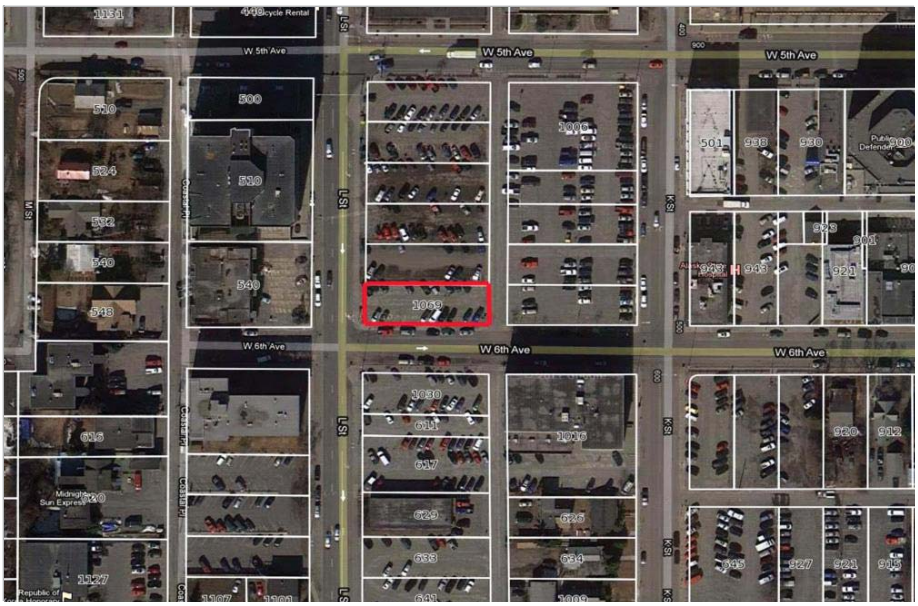
listed at the time this transaction was negotiated. The parties were familiar with one another but unrelated. The nominal price was $3,500,000, but this is adjusted up 5% to $3,675,000 for broker commissions (as no brokers were involved) based on discussions with the seller. For reference, the sale also included air rights to build a skybridge across C Street to the 5th Avenue Mall, but the buyer did not attribute any value to these rights given their intended use. Overall, it was an arms-length transaction reflective of market at the time.

Sale No. L-4



This is the sale of land in west downtown Anchorage. It was owner-financed with a 3-year note, 5% interest only. There is a small building on the lot. The seller had the option to keep the building if they removed it from lot, otherwise they were required to pay for its removal. The buyer owns adjacent properties and this was part of an assemblage. Overall, this was an arms-length transaction representative of market conditions at the time of sale.

Sale No. L-5



This is the sale of a downtown parking lot located on the northeast corner of 6th Avenue and L Street. According to the broker the buyer already had a long-term lease on the property with an option to purchase in the lease. The site's location makes it a key parking lot for the Peterson Tower located across L Street. Note that this lot is one of only two lots on this city block not owned or leased by Diamond Parking. Overall, this was an arms-length transaction with typical financing, and was representative of market conditions at the time of sale.

Sale No. L-6

This is the sale of an improved downtown lot that was primarily marketed for future development. This transaction was a paired sale with the adjacent property 326 L Street. According to the listing agent, the buyer intends to hold for future development. Please note the nominal price has not been adjusted for demolition

or holding costs. Overall, this was an arms length transaction representative of market conditions at the time of sale.

Sale No. L-7

This is the sale of an improved downtown lot that was primarily marketed for future development. This transaction was a paired sale with the adjacent property 330 L Street. The properties were marketed and sold for land value only. According to the listing agent, the buyer intends to pave for parking and hold for future development. Please note the nominal price has not been adjusted for demolition or holding costs. Overall, this was an arms length transaction representative of market conditions at the time of sale.

Sale No. L-8

This is the sale of an improved downtown lot that was primarily marketed for future development. The improvement is a 1,944 sq ft single-family residence that was built in 1935. The improvement has since been converted to office space and was leased at the time of sale. Additional income for the property is made from leasing the eastern portion of the site for parking. According to the broker there are 23 parking spaces. That being said, the property was marketed and sold as vacant land. The improvements are recognized as interim use only and have no contributory value to the site. Please note the nominal price has not been adjusted for demolition or holding costs. Overall, this was an arms-length transaction with typical financing, and was representative of market conditions at the time of sale.

Overview of Adjustments

Nature of Adjustments

Adjustments to the comparables are necessary to reflect advantages and disadvantages relative to the subject. Ideally, quantitative adjustments are determined through paired sale analysis or other definitive data. However, when quantitative adjustments cannot be reliably ascertained - as is often the case in Alaskan markets due to data limitations - qualitative adjustments may be applied through a weighted analysis of each comparable based on its relative merits. These adjustments may be supported by available market data, discussions with local market participants, and/or information contained within the appraiser's files.

Note that qualitative adjustments - based on the above as well as on appraiser judgment - are applied on a numeric (percentage) basis in this appraisal for presentation purposes. Ultimately, the adjustment grid presented further in this chapter is not intended to imply that all of the adjustments were performed on a quantitative basis. Rather, the adjustment grid is presented to more precisely communicate the appraiser's opinion on the direction and degree of adjustment required to a given comparable.

Usable Land Area

Non-usable areas due to topography, wetlands, overhead utilities or other issues are subtracted from gross site area.

Property Rights Conveyed

When real property rights are sold the contract may include rights that are less than or more than all of the real property rights. Examples include the inclusion of another property, personal property, or the sale of a property subject to a below market or above market lease. Therefore, the sale price of the comparable property must be adjusted to reflect the property rights that are similar to those being appraised. In this analysis the comparables are adjusted to reflect the fee simple sale price of the real property. Adjustments to the comparables are required in cases where the property interest sold was less than or greater than the fee simple value.

Financing Terms

Seller-provided financing can play an important role in the sale of a project. Low down payments and terms that are significantly less stringent than those available in the market at the time of sale contribute to sale prices in excess of that obtainable by an all-cash or typically financed (by a disinterested third party) buyer. In order to analyze all properties on a comparable basis, those sales with financing not typically available for the property at the time of sale must be converted to typical terms and cash equivalency.

Conditions of Sale

Adjustments for conditions of sale are intended to reflect the motivations of the buyer and the seller. Conditions of sale that are outside the definition of market value must be adjusted to reflect a fully marketed property with adequate exposure and an arms-length transaction where neither the buyer nor the seller is unduly motivated. Adjustments may be required to properties where one party was unusually motivated, foreclosure sales, properties that were not fully exposed to the market, and active listings that have not closed.

Market Conditions

Market values have generally increased in recent years as the available supply of substitute properties has decreased and the number of investors and users actively seeking properties has increased. In the process of completing this assignment, or as part of previously completed assignments for similar properties in this segment, consideration was given to rent trends, assessment trends, MLS trends, and discussions with market participants. Based on the available information, actual market appreciation was likely more than 5% annually during 2006 and 2007, decreasing to between 3% and 5% during 2008. Since 2009, it appears that prices have been essentially flat. Accordingly, all of the selected transactions are considered to be reflective of the current environment, and no market conditions adjustments are warranted.

Location

Location is a broad term that includes non-property specific factors such as neighborhood and surrounding demographics and property specific factors such as surrounding streets, street frontage, access, exposure, number of corners, traffic counts, adjacent properties and other factors. Where appropriate adjustments for certain components of location may be performed individually.

Access / Exposure

The access adjustment is an aspect of location that is performed as a separate element of adjustment. Access is the convenience of vehicle ingress and egress. Surrounding streets, traffic patterns and available curb cuts are important elements. Exposure is the visibility of a site to surrounding traffic. Streets, traffic patterns, surrounding properties and presence of obstructions are important elements.

Size

If an adequate supply of larger sites exists then generally smaller parcels tend to sell for higher prices per sq ft. If supply of larger parcels is limited then they occasionally sell for a premium. A review of data indicates that within the subject's market smaller parcels generally tend to sell for higher prices per sq ft than larger parcels. In this case, however, the subject represents an assemblage of nearly half a downtown block. Unfortunately, only one recent sale of such large parcel has occurred (L-3), and in this case the buyer's intended use as off-street parking resulted in them giving no incremental value to the assemblage. This makes it difficult to say what if any premium would be warranted. Ultimately, no adjustments for size have been applied, under the presumption that the plottage value would effectively offset the traditional negative impact of larger size on unit price.

Topography

Topography refers to whether a site is level or sloping and at, above, or below the grade of surrounding streets. Adjustment is required to those comparables that have dissimilar topography relative to the subject. In certain cases, the slope of the topography is so severe that the impacted area is not usable and is therefore excluded from usable site area. In other cases, the sloping area is still usable but is not desirable because it increases development costs and requires mitigation prior

	to development.
Use / Zoning	Differences in the current use or the highest and best use of a potential comparable and the subject must be analyzed. Site development potential depends heavily on zoning requirements. Zoning determines how large a structure and for what type of use a site can be developed. Adjustments are required to comparables with zoning designations that provide a lower or higher level of overall functional utility relative to the subject's zoning.
Development Costs	Development costs vary widely from one property to another and include soft costs such as permitting and engineering and hard costs for offsite items such as streets and utilities or onsite items such as soils work, demolition or other factors not already explicitly considered. Adjustment is required to those comparables that have lower or higher development costs than those anticipated for the subject.
Other	The adjustments listed above are not inclusive of all the adjustments considered by the appraiser. Physical and economic differences where adjustments have not been explicitly made are implicitly considered in the appraiser's analysis of the comparable and value estimate.

Adjustment Grid Exhibit

Land Analysis Grid			L-1	L-2	L-3	L-4	L-5	L-6	L-7	L-8
Name	Legislative Affairs Building		938 W 5th Ave. - 2069	630 I St - 2016	211 W. 6th Ave - 2077	400 L St. - 1122	1069 W. 6th Ave. - 1238	330 L St. - 1009	326 L St. - 1008	415 L St. - 1007
Date	10/28/2013		8/30/2013	12/31/2012	7/10/2012	5/25/2011	5/20/2011	2/17/2011	2/17/2011	2/17/2011
Price	Appraisal		$670,000	$530,000	$3,675,000	$1,875,000	$630,000	$858,986	$841,079	$561,520
Land SF	31,129		6,500	7,000	46,531	15,643	7,017	12,280	12,024	7,019
$/Sq Ft	- - -		$103.08	$75.71	$78.98	$119.86	$89.78	$69.95	$69.95	$80.00
Transaction Adjustments										
Property Rights	Fee Simple		Fee Simple 0.0%	Fee Simple 0.0%	Fee Simple 0.0%	Fee Simple 0.0%	Fee Simple 0.0%	Leased Fee 0.0%	Leased Fee 0.0%	Leased Fee 0.0%
Financing	Conventional		Conventio 0.0%	Conventio 0.0%	Conventio 0.0%	Owner-fina 0.0%	Conventio 0.0%	Conventio 0.0%	Conventio 0.0%	Conventio 0.0%
Conditions of Sale	Arms Length		Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%	Arms Leng 0.0%
Adjusted Land SF Unit Price			**$103.08**	**$75.71**	**$78.98**	**$119.86**	**$89.78**	**$69.95**	**$69.95**	**$80.00**
Market Trends Thru	1/09	5.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Land SF Unit Price			**$103.08**	**$75.71**	**$78.98**	**$119.86**	**$89.78**	**$69.95**	**$69.95**	**$80.00**
Subsequent Trends Thru	10/13	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Adjusted Land SF Unit Price			**$103.08**	**$75.71**	**$78.98**	**$119.86**	**$89.78**	**$69.95**	**$69.95**	**$80.00**
Location										
% Adjustment			0%	0%	10%	10%	10%	10%	10%	10%
$ Adjustment			$0.00	$0.00	$7.90	$11.99	$8.98	$7.00	$7.00	$8.00
Land SF	31,129		6,500	7,000	46,531	15,643	7,017	12,280	12,024	7,019
% Adjustment			0%	0%	0%	0%	0%	0%	0%	0%
$ Adjustment			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Shape	Rectangular		Rectangular	Rectangular	Rectangular	Irregular	Rectangular	Flag Shaped	Rectangular	Rectangular
% Adjustment			0%	0%	0%	0%	0%	0%	0%	0%
$ Adjustment			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Utilities	All available		All Available	All Available	All Available	All Available	All Available	All Available	All Available	All Available
% Adjustment			0%	0%	0%	0%	0%	0%	0%	0%
$ Adjustment			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Zoning	B-2B, CBD Intermediate		B-2B, CBD Intermediate	B-2B, CBD Intermediate	B-2A, CBD Core	B-2C, CBD Periphery	B-2C, CBD Periphery	B-2C, CBD Periphery	B-2C, CBD Periphery	B-2C, CBD Periphery
% Adjustment			0%	0%	0%	0%	0%	0%	0%	0%
$ Adjustment			$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Adjusted Land SF Unit Price			**$103.08**	**$75.71**	**$86.88**	**$131.85**	**$98.76**	**$76.95**	**$76.95**	**$88.00**
Net Adjustments			0.0%	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Gross Adjustments			0.0%	0.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%

Discussion & Analysis After Adjustment

The comparables bracket the physical and economic characteristics of the subject. They bracket the market value of the subject on an unadjusted basis, and inferior comparables were adjusted upward while superior comparables were adjusted downward. Comparables requiring a lower degree of gross adjustment are generally the most reliable indicators of value. Comparables requiring higher degrees of gross adjustment are generally less reliable indicators of value, but may still be meaningful and given weight if the adjustments made were strongly supported.

Prior to adjustment, the comparables range from $69.95/sq ft to $119.86/sq ft, with an average of $85.91/sq ft. After adjustment, they range from $75.71/sq ft to $131.85/sq ft, with an average of $92.27/sq ft. As noted, none of the comparables were adjusted for size despite the fact that most are substantially smaller than the subject. While it is certainly possible that a premium would be attainable due to plottage influences, there is insufficient sales data available to say with certainty. In the end, the degree of gross adjustments suggests that all of the sales provide reasonable indications of value in this case.

After careful consideration, based on analysis of the data presented previously as well as data contained within the appraiser's work file, the market value of the subject is estimated near the high end of the range at $125.00/sq ft in recognition of the subject's location and larger assembled size.

Land Value Calculation

LAND VALUE CALCULATION	
Usable Land Area	31,129
Land Value / Sq Ft	$125.00
Estimated Land Value	$3,891,125
Rounded	**$3,890,000**

Cost Approach

Introduction

Methodology

The Cost Approach is an appraisal method of arriving at a value indication for the subject by estimating the cost to replace the improvements with current materials and labor, less accrued depreciation from all causes. The estimated land value, as detailed in the previous section, is then added to the depreciated value of the improvements to reflect a total value by the cost approach.

This approach is based on the assumption that replacement costs provide a reasonable estimate of value, providing the improvements represent the highest and best use of the land, and depreciation from all causes is appropriately accounted for. Valuing the improvements separately from the land thus serves to satisfy the principle of substitution; that is, a buyer will tend to not pay more for the property than it would cost to replace.

Replacement Cost - Marshall Valuation Service

Overview of Marshall Valuation Service

The following cost estimate is based on a cost per sq ft method. This method estimates the replacement cost of the improvements, including contractor's profit and overhead, and indirect cost. The price per sq ft costs for the subject were obtained from the cost estimating service of Marshall Valuation Service (MVS) Commercial Estimator software, an appraiser's guide to current construction costs. The program automatically makes appropriate adjustments to reflect the current local costs for the area, building occupancy (type of building), class (type of construction), quality of construction, perimeter/shape, story height, mechanical equipment, elevators, and other factors. The adjusted base cost has been applied to the building area.

The MVS replacement cost estimates include architectural and engineering fees (including plans, plan check, building permits and survey to establish building lines and grades), normal interest on only the actual building funds during period of construction (including processing fee and service charges), local, state and federal sales taxes, GST taxes on material and labor costs, normal site preparation (including finish, grading and excavation for foundation and backfill for the structure only), utilities from the structure to the lot line for a typical setback, and contractors overhead and profit, workmen's compensation, fire and liability insurance, unemployment insurance, equipment, temporary facilities and security.

The MVS replacement cost estimates exclude developer's margin or profit, cost premiums for pilings or hillside foundations, costs associated with land development and planning, real estate taxes and other holding costs during construction, discounts or bonuses paid for financing, yard improvements (including signs, landscaping, paving, walls and yard lighting), offsite costs (including roads, utilities, parking fees, jurisdictional hookup, tap-in, impact or entitlement fees, etc.), furnishings and fixtures (usually not found in the general contract) and absorption costs (including rent loss, marketing, tenant improvements, leasing commissions, and other costs to bring the property to a

stabilized condition).

The MVS Summary sheet(s) follow this analysis.

Occupancy Type

Based on the subject's configuration and type of improvements the following MVS occupancies have been selected.

327 GOVERNMENT BUILDING

These buildings include city halls, courthouses, etc., but do not include typical office or service buildings. They may be massive buildings or buildings utilizing modern exterior curtain walls. The better qualities have well-finished chambers and hearing rooms, as well as executive offices, while average quality governmental buildings have only a few decorative features. These buildings are built using all classes of construction. Exteriors vary with the building class; typical finishes include marble, granite, concrete, metal and glass panels, concrete block and various types of masonry veneer. Interiors commonly utilize high-use floor covers such as terrazzo, marble, carpet, ceramic tile and, in some cases, resilient flooring. Most, except the low quality governmental buildings, have combined heating and cooling systems.

345 PARKING STRUCTURE

Built above grade, these structures are designed for live load storage of autos. They commonly have either no exterior walls or partial exterior walls and are usually Class A or B buildings, and in some cases Class S. While the lower quality structures do not have office area, the better qualities have some small office and service areas. There is low-level lighting and adequate plumbing for office restrooms and service areas. The quality of these structures can be influenced by their design characteristics. Ramp designs vary from separate and exclusive ramps, which separate the travel and the parking/unparking operations, to continuous sloping floor or adjacent ramp, which have both the travel and parking operations integrated within the same space. The determination of the type of ramp used is based on the site's shape and dimensions and the parking demand characteristics. The costs are based on the number of stories where there is always one more parking level (rooftop) than stories.

Building Class

Based on the subject's construction type, the following MVS building class has been selected for the subject.

CLASS A: FIREPROOF STRUCTURAL STEEL FRAME

The primary feature of Class A buildings is the fireproofed structural steel frame, which may be welded, bolted or riveted together. The fireproofing may be masonry, poured concrete, plaster, sprayed fiber or any other method which gives a high fire-resistance rating. Floor and roof in Class A structures are normally reinforced concrete on steel decking or formed slabs resting on the frame or poured to become integral with it. They may also be composed of prefabricated panels and may be mechanically stressed. Exterior walls are curtain walls of masonry, concrete, steel studs and stucco, or one of the many types of panels of metal, glass, masonry or concrete. Interior partitions frequently are of masonry or gypsum block, although many movable and lightweight steel partitions are used. Included in this class are Uniform, Basic and Standard Building Code construction, Types I and II (noncombustible) and ISO Classes 5 and 6, if the framing is protected steel. ISO Class 5 and 6 buildings with load-bearing walls and no interior framing and most low-rise buildings should be classified as Class C for pricing purposes. This class is also referred to as Modified Fire Resistive or Two-Four-hour construction.

Quality Rank

The cost rank, or quality of construction, determines the level of the calculated costs. MVS rank system considers exterior walls, interior finish, mechanicals and HVAC systems. A cost rank is estimated for each occupancy and can range from 0.5 up to 5.0. The four basic cost ranks are:

LOW (RANK 1)

These tend to be very plain buildings that conform to minimum building code requirements. Interiors are plain with little attention given to detail or finish. Typically, there are minimum mechanical and low-cost finishes throughout.

AVERAGE (RANK 2)

These buildings are the most commonly found and meet building code requirements. There is some ornamentation on the exterior with interiors having some trim items. Lighting and plumbing are adequate to service the occupants of the building.

GOOD (RANK 3)

These are generally well-designed buildings. Exterior walls usually have a mix of ornamental finishes. Interior walls are nicely finished and there are good quality floor covers. Lighting and plumbing include better quality fixtures.

EXCELLENT (RANK 4 TO 5)

Usually, these buildings are specially designed, have high-cost materials and exhibit excellent workmanship. Both exteriors and interiors have custom and ornamental features. Lighting and plumbing include high-cost fixtures.

ADJUSTMENT TO QUALITY RANKING ALASKA

The quality ranking is an important input for MVS. Unfortunately, MVS does not receive large amounts of cost data directly from the Alaska market. A comparison of MVS estimated cost and actual cost indicates that MVS typically understates construction costs within Alaska by varying degrees depending on location and property type. For urban markets with road access an upward adjustment of "1" quality ranking is typically required to result in realistic cost estimates. For rural markets without road access, an upward adjustment of "2" to "3" ranks is needed.

Story Height

The story height is the average story height for each occupancy. In a one-story building, story height is measured from the floor surface to the roof eave. Parapets (extensions of the wall above the roof line) are not included in story height. For building with multiple stories, the average story height can be computed by dividing the total building height by the number of stories or by entering the story heights in separately for each floor.

Perimeter / Shape

The shape of a building also impacts its cost of construction and is best measured by the perimeter of the building. Perimeter is the total linear feet of wall that encloses the floor area, based on exterior dimensions. Where perimeter measurements are not available, the shape of the building can be indicated by a numerical reference where:

1=Square
2=Rectangular or Slightly Irregular
3=Irregular
4=Very Irregular

Base Cost

Based on the inputs into MVS, the cost comparisons contained in its database, and adjustment to the subject's specifications, the base costs for the subject improvements are indicated.

Other Costs

Unless otherwise indicated, other costs are also provided by MVS.

SITE IMPROVEMENTS

Normal site preparation under the building improvements (including finish, grading and excavation for foundation and backfill for the structure only) is included in MVS. Non building improvement related site improvements include grading, filling and soils work, sub base gravel, paving, lighting, fencing, gates and landscaping or other improvements to the site that are real property. Depending on a properties size, shape, type, amount of parking versus landscaping and other factors, site improvements are typically $1.50/sq ft up to $7.00/sq ft of total usable site area less the building footprint. Generally, site improvements for larger areas with gravel parking that require minimal landscaping are towards the low end of the range (an industrial building with a high land-to-building ratio for example), while site improvements for smaller areas with paved parking that require extensive landscaping are towards the high end of the range (a stand-alone bank, restaurant or other retail use with a low land-to-building ratio for example).

PERMANENT LOAN FEES

It is appropriate to add the cost of attaining permanent loan fees for a property upon completion of construction. While fees vary depending on the structure of the financing, a typical fee of 2.0% of the total hard and soft MVS base costs has been used.

HOLDING COSTS DURING CONSTRUCTION

Holding costs during construction result from real estate taxes and in some cases actual operating costs while the property is encumbered by the planning and construction process. Holding costs are estimated at 0.5% of the total hard and soft MVS base costs.

MISCELLANEOUS COSTS

Miscellaneous costs are added to reflect non-specific costs incurred during construction not typically recognized above. Miscellaneous costs are estimated at 0.5% of the total hard and soft MVS base costs.

ABSORPTION COSTS

Absorption costs are incurred to bring a property from completion to stabilization. Marketing, lost rent, tenant improvements and leasing commissions are costs associated with bringing a property to stabilization. They are costs generally incurred for investment properties (where the probable buyer is an investor) and are not typically incurred for special purpose properties or owner user occupied properties where the at completion value and stabilized values are equivalent. In certain cases absorption costs for these items are calculated individually within the Cost Approach while in other cases the difference between the at completion and stabilized value estimates indicated by the Income Capitalization Approach are incorporated. As the subject is already fully leased, absorption costs are not incorporated in this analysis.

MVS Summary Report - Legislative Affairs Building

Estimate Number	:	267
Estimate ID	:	Legislative Affairs Building
Property Owner	:	716 West Fourth LLC
Property Address	:	716 W. 4th Ave
Property City	:	Anchorage
State/Province	:	AK
ZIP/Postal Code	:	99501

Section 1

Occupancy	Class	Height	Rank
100% Governmental Building	Fireproof structural steel frame	14.00	4.5
Total Area	: 53,048		
Number of Stories (Section)	: 6.00		
Shape	: 2.00		

Components	Units/%	Other		
Exterior Walls:				
Curtain-Metal with Glass Panels	100%			
HVAC (Heating):				
Warmed and Cooled Air	100%	Climate	:	3
Elevators:				
Passenger #	2	Stops	:	7
Freight Power #	1	Stops	:	7
Sprinklers:				
Sprinklers	100%			
Miscellaneous:				
Fire Alarm System	53,048			

Basement	Type	Area	Depth	Rank
Office Building	Finished	11,140	10.00	4.0
Number of Levels	: 1.00			
Shape	: 2.00			

Basement Components	Units/%	Other		
HVAC (Heating):				
Warmed and Cooled Air	100%	Climate	:	3
Sprinklers:				
Sprinklers	100%			

Cost as of 10/2013

	Units/%	Cost	Total
Basic Structure			
Base Cost	53,048	340.72	18,074,515
Exterior Walls	53,048	63.15	3,349,981
Heating & Cooling	53,048	38.99	2,068,342
Elevators	3	285,482.00	856,446
Sprinklers	53,048	6.30	334,202
Fire Alarm System	53,048	3.10	164,449
Basic Structure Cost	53,048	468.40	24,847,935
Basement			
Finished Basement	11,140	86.92	968,289
Heating & Cooling	11,140	35.30	393,242
Sprinklers	11,140	7.51	83,661
Building Cost New	53,048	495.65	26,293,127

MVS Summary Report - Parking Garage

Estimate Number	:	268
Estimate ID	:	Legislative Affairs Garage
Property Owner	:	716 West Fourth, LLC
Property Address	:	716 W. 4th Ave
Property City	:	Anchorage
State/Province	:	AK
ZIP/Postal Code	:	99501

Section 1

Occupancy	**Class**	**Height**	**Rank**
100% Parking Structure	Fireproof structural steel frame	12.00	4.0
Total Area	: 39,000		
Number of Stories (Section)	: 2.00		
Shape	: 2.00		

Components	**Units/%**	**Other**
Exterior Walls:		
Concrete, Formed	100%	

Cost as of 10/2013

	Units/%	**Cost**	**Total**
Basic Structure			
Base Cost	39,000	84.19	3,283,410
Exterior Walls	39,000	22.06	860,340
Basic Structure Cost	39,000	106.25	4,143,750

Escalated Original Cost

Original construction costs are excellent indicators of a building's reproduction cost provided they are current. Original construction costs reflect the subject's specific design, construction materials and quality. The major limitation is that they often do not reflect current construction costs and provide an indication of reproduction cost (what was actually built) rather than replacement cost (what should have been built). When building costs are not current they can be adjusted by current cost multipliers provided by Marshall Valuation Service. The subject's escalated original cost is presented on the Cost Approach Summary Exhibit at the end of this section.

Replacement Cost - Cost Comparison

Cost comparison can be a good indicator of replacement cost provided the comparables are representative of the subject's design, construction material, quality and current construction costs. Representative cost comparisons from the subject's market are presented below. Note that the first table includes office buildings, and the second contains parking structures.

ID	Construction Property Type	Stories	Cost Year	GBA	Cost	Unit Cost	Current Multiplier	Adjusted Cost
819	Fireproof Steel Office	2	2011	40,000	$10,192,500	$254.81	1.093	$278
817	Fireproof Steel Office	14	2008	299,057	$70,854,854	$236.93	1.194	$283
818	Fireproof Steel Office	8	2010	211,218	$53,319,030	$252.44	1.126	$284
1893	Fireproof Steel Office	5	2012	93,542	$26,800,000	$286.50	1.061	$304
814	Fireproof Steel Office	4	2005	68,410	$17,191,720	$251.30	1.305	$328
905	Metal Frame Office	3	2007	25,623	$7,782,099	$303.72	1.230	$374
815	Fireproof Steel Office	3	2006	38,070	$11,991,729	$314.99	1.267	$399
957	Metal Frame Office	3	2007	20,396	$6,977,000	$342.08	1.230	$421
816	Fireproof Steel Office	5	2005	72,104	$23,628,077	$327.69	1.305	$428

Note: Current multipliers are based on estimated annual cost change of 3.0%

ID	Construction Subtype Special	Parking Stalls	Cost Year	GBA	Cost	Unit Cost	Current Multiplier	Adjusted Cost
900	Fireproof Steel Parking Garage	168	2006	56,300	$2,300,000	$40.85 $13,690	1.267 1.267	$51.75 /SF $17,343 /Stall
901	Fireproof Steel Parking Garage	420	2002	144,480	$5,650,000	$39.11 $13,452	1.426 1.426	$55.76 /SF $19,180 /Stall
899	Concrete Parking Garage	354	2009	139,012	$8,581,000	$61.73 $24,240	1.159 1.159	$71.56 /SF $28,101 /Stall
898	Fireproof Steel Parking Garage	297	2000	122,000	$7,808,000	$64.00 $26,290	1.513 1.513	$96.81 /SF $39,765 /Stall
896	Fireproof Steel Parking Garage	840	2008	368,000	$37,000,000	$100.54 $44,048	1.194 1.194	$120.05 /SF $52,595 /Stall

Note: Current multipliers are based on estimated annual cost change of 3.0%

After careful consideration, the cost comparisons support a replacement cost estimate for the subject office building of $425 /sq ft (the high end of the adjusted range). For the parking garage, a cost of $120/sq ft (also at the high end of the range) is considered reasonable, with most weight placed on the only comparable located downtown (896). It is widely understood that construction costs are higher downtown than in other districts, owing to the permitting, staging and other logistical issues typically encountered here (due to the high density and high site coverage ratios). In fact, the subject developer - who has experience with development in the Anchorage CBD - indicated that costs could be as much as 50% higher than for a commensurate building in Midtown.

Replacement Cost - Developer Cost Estimate

Third party cost estimates include those provided by the developer, developer's contractor or company specializing in cost estimating. The accuracy of third party

cost estimates is highly dependent on the source. Below is a cost estimate provided by the subject developer:

DEVELOPER'S COST PRO FORMA

Item	Total
Direct Costs	
General Requirements	$3,811,738
Sitework	$3,912,396
Concrete	$1,388,138
Metals	$2,234,054
Wood and Plastic	$351,181
Thermal and Moisture	$1,688,900
Doors and Windows	$2,568,251
Finishes	$2,913,117
Specialties	$232,485
Furnishings (glass wall systems, shades)	$841,005
Conveying Systems	$570,555
Mechanical	$4,199,269
Electrical	$3,109,429
Contractor Markup, Profit	$2,295,759
Contractor Premiums (Permits, Fees, Bond, etc.)	$864,367
Subtotal	**$30,980,644**
Other Costs	
Soft Costs (Legal, Appraisal, etc.)	$515,000
Acquisition - LIO Building	$5,000,000
Acquisition - Anchor Pub	$2,890,000
Interim Rent for Alternative Space	$1,000,000
Contingency	$771,722
Interim financing costs	$1,755,756
Developer's Overhead & Fee	$2,414,488
Subtotal	**$14,346,966**
Total Project Cost Basis *	**$45,327,610**
Appraiser Adjustments:	
Less: Underlying Land Value	($3,890,000)
Less: Developer's Overhead & Fee	($2,414,488)
Adjusted Cost New w/o Land & Dev. Profit	**$39,023,122**
$/Sq Ft of Office GBA (64,188 sq ft):	**$608**

** Includes underlying land value, demolition costs, Lessee's $7.5M TI contribution, & developer's overhead/profit. Essentially reflects a turn-key, fully finished development.*

As shown above, the total project cost basis provided by the developer comes to $45,327,610. However, this includes land value (a part of the stated acquisition costs for the existing LIO and Anchor Pub properties), as well as a developer's profit. Deducting land value (see Land Valuation chapter) and developer's fee results in an adjusted cost new for the fully finished project of $39,023,122. The reader should be aware that this figure is more accurately described as

reproduction cost than replacement cost, since it reflects the costs entailed by this specific project in this specific location. For example, it includes the cost of temporarily relocating the tenant during construction, as well as demolishing the Anchor Pub and most of the existing LIO Building (everything but the steel frame). It also includes tenant improvements, which will almost completely be covered by the lessee in this case ($7.5 million). This will be adjusted for at the end of the Cost Approach in order to reflect the building in its at completion status (essentially warm shell) prior to the tenant completing its leasehold improvements.

Reconciled Replacement Cost (Before Developers Margin)

Replacement cost indicators vary widely in this case. The quality and reliability of the replacement cost indications must be considered in the final estimate:

- The MVS estimate is comprehensive and reflects the subject's specific building occupancy, construction type and quality. The quality ranking is ultimately somewhat subjective, however. Moreover, it does not reflect the cost premium associated with projects in the core of the Anchorage CBD relative to less dense areas of the city.
- Cost comparison is somewhat subjective in that it requires a qualitative analysis of the comparables to determine their overall applicability to the subject. Moreover, it should be recognized that none of the office building cost comps were actually located in the CBD. Because of this, cost comparison is best viewed as a test of reasonableness in this case. For reference, though, the cost comparables are very consistent with the MVS estimate - again reflecting a somewhat generic building situation in Anchorage.
- The reliability of the third party cost estimates is highly dependent on the source of the information and actual costs frequently differ from estimates. That said, the project costs in this case were provided by an knowledgeable developer experienced with construction in the CBD. Moreover, this is the only cost estimate among the various sources which reflects the expected development costs of this specific project in this specific location.

It is recognized that the developer's estimate is roughly 20% higher than the costs indicated by the other sources. As noted, however, it is the only estimate reflecting the subject's specific situation and location. Moreover, there is additional third party information that supports the reasonableness of the costs. For example, Alaska Housing Finance Corporation (AHFC) recently retained Brataslavsky Consulting Engineers, Inc. of Anchorage to evaluate the proposed costs and they concluded: "this construction cost estimate… was found to be not unreasonable in general, even though some items may be on the high side." Other past investigations into new space options for the Legislature were performed by Alaska Housing Finance Corporation (in 2012) and RIM Architects with Davis Constructors (2009). These latter estimates, allowing for differences such as finish levels and structured parking, are also generally supportive.

Ultimately, the developer's cost estimate is the best indicator of replacement cost in this case, with the other approaches relegated to contextual support. Replacement cost is reconciled as shown on the Summary of Cost Approach exhibit at the end of this chapter. Strictly for presentation purposes, it is allocated

between the two structures by the appraiser.

Developers Margin

Market Properties

For properties with numerous potential users developer's margin can be obtained through either speculative or build-to-suit construction. For investors a developer's margin must be achievable for construction to be financially feasible. While developer's margin is often attained by users, its presence is not necessary for construction to occur since even though it is not financially feasible form a real estate perspective it may be financially feasible from a business perspective. The presence of developers margin is highly specific to an individual property. For market properties similar to the subject developers margins currently range from a low of 5% up to a high of 25%.

Limited Market or Special Purpose Properties[6]

Special purpose properties generally have limited conversion potential and are constructed expressly for a particular user with a designated special use in mind. They are developed to fulfill a business need, not to attain a profit on the real estate and when profit is present it accrues to the business rather than the real estate.

Conclusion

The subject has physical and economic characteristics consistent with a market property - not surprising given that this project represents a public-private partnership. After careful consideration, a developer's margin of 10.0% has been incorporated.

Depreciation

Introduction

Depreciation is a loss in value from the reproduction (or replacement) cost of improvements due to any cause as of the date of appraisal. The value difference may emanate from physical deterioration, functional depreciation, external depreciation, or any combination of these sources. A description of the various sources of depreciation follows.

PHYSICAL DEPRECIATION

Physical deterioration is evidenced by wear and tear, decay, cracks, incrustations, or structural defects. Physical deterioration can be either curable or incurable. Incurable physical deterioration applies to both short-lived items (roof, plumbing, HVAC, etc.) and long-lived items (structural).

FUNCTIONAL DEPRECIATION

Functional depreciation can be either curable or incurable and is caused by a flaw in or a deficiency or super-adequacy in the structure, material or design.

EXTERNAL DEPRECIATION

External depreciation is incurable and caused by negative influences in property values outside of the owners control such as market conditions, property uses, zoning, financing, or legal influences.

Effective Age

Effective age is estimated by the appraiser by weighing the actual age of a property against its current condition. In certain cases, the effective age is equal to the actual age, while in other cases it may be more or less than the actual age. The concept of effective age acknowledges that properties rarely depreciate on a linear basis. Construction type and quality play important roles, as does ongoing

[6] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.

maintenance and capital infusion. The subject's effective age was estimated in the Description of Improvements chapter.

Economic Life

As discussed in the Description of Improvements chapter, economic life is estimated using MVS information based on actual economic lives for properties of similar construction type, occupancy and quality.

Effective Age / Economic Life Method

The effective age and economic life expectancy of a structure are the primary concepts used by an appraiser in measuring depreciation with age-life relationships. Under this method, total depreciation is estimated by calculating the ratio of the effective age of a property to its economic life expectancy and applying this ratio to the property's total cost new. Note that this method does not typically reflect abnormal, property specific depreciation or external depreciation.

Marshall Valuation Service Depreciation Tables

The MVS Cost Estimator software provides depreciation calculations to account for physical and functional depreciation. Depreciation is estimated based on a statistical compilation of actual depreciation present at similar properties of similar effective ages and economic lives. Economic life is determined by the software based on building class and quality. The software recognizes that depreciation does not typically occur on a linear basis but rather on a logarithmic basis. As a result, this method is fairly accurate for both older and newer properties. Note that this method does not typically reflect abnormal, property specific depreciation or external depreciation.

Property Specific Depreciation

The analysis presented above assumes that the subject exhibits normal depreciation typical of similar properties in the market. Any property specific depreciation not typical of the market must be separately considered. The subject is of modern design, has a functional layout, and will effectively be new construction. No property specific depreciation is noted in this case.

External Depreciation

The preceding methods do not fully account for external depreciation. While it is commonly held that there is external obsolescence present in the local market, as speculative office construction is not generally feasible, in this case the project is a public-private partnership specifically designed to be feasible. No external depreciation is deducted.

Reconciled Depreciation Estimate

The methods for estimating depreciation fall within a fairly narrow range. After careful consideration all methods of measuring depreciation are concluded to be reliable and given equal weight. It is recognized that depreciation is ultimately only applied to the parking structure, as this will not truly be new construction like the main office building improvements.

Cost Approach Conclusion

The results of the preceding Cost Approach analysis are summarized on the following page exhibit. As shown, the depreciated improvements value comes to $42,375,434. This would reflect a fully finished building, however. In order to arrive at a meaningful "at completion" value through this approach, the lessee's TI contribution of $7.5 million must now be deducted. Also, underlying land value must be added. The resulting conclusion through this approach is a slightly rounded $38,770,000.

Summary of Cost Approach Exhibit

Valuation Component		LIO Building Office Bldg	Parking Garage Garage	Property Total
Gross Building Area		**64,188**	**39,000**	**103,188**
Pro Rata Share (by GBA)		**62%**	**38%**	**100%**
REPLACEMENT COST				
MVS Commercial Estimator				
Base Cost		$26,293,127	$4,143,750	$30,436,877
Site Improvements				
Usable Site Area	31,129			
Cost Per Sq Ft	$4.00	$77,455	$47,061	$124,516
Permanent Loan Fees	2.0%	$525,863	$82,875	$608,738
Holding Costs During Construction	0.5%	$131,466	$20,719	$152,184
Miscellaneous Costs	0.5%	$131,466	$20,719	$152,184
Total Replacement Cost		$27,159,376	$4,315,123	$31,474,499
Cost Comparison				
Cost / Sq ft Estimate		$425 /SF	$120 /SF	$310 /SF
Total Replacement Cost		$27,279,900	$4,680,000	$31,959,900
Developer Estimate (Not allocated by structure)		-	-	$39,023,122
Reconciled Replacement Cost Excluding Profit		**$34,023,122**	**$5,000,000**	**$39,023,122**
Plus: Developers Margin	10.0%	$3,402,312	$500,000	$3,902,312
Replacement Cost Including Profit		**$37,425,434**	**$5,500,000**	**$42,925,434**
Per Sq Ft		$583 /SF	$141 /SF	$416 /SF
LESS: DEPRECIATION				
Effective Age / Economic Life Method				
Year Built		2014	1994	
Actual Age		0 Yrs.	20 Yrs.	
Effective Age / Actual Rage Ratio		100.0%	50.0%	
Effective Age		0 Yrs.	10 Yrs.	
Economic Life		60 Yrs.	45 Yrs.	
Percent Depreciated (Eff. Age / Actual Age)		0.0%	22.2%	
MVS Depreciation Tables		0.0%	8.0%	
Reconciled Physical & Functional Depreciation		**0.0%**	**10.0%**	
Property Specific Depreciation		**0.0%**	**0.0%**	
External Depreciation		**0.0%**	**0.0%**	
Total Percent Depreciation		**0.0%**	**10.0%**	
Total Depreciation		**$0**	**($550,000)**	**($550,000)**
DEPRECIATED BUILDING VALUE		**$37,425,434**	**$4,950,000**	**$42,375,434**
Per Sq Ft		$583.06 /SF	$126.92 /SF	$410.66 /SF
Contributory Percentage of Value		88%	12%	100%
LESS: LESSEE TI CONTRIBUTION		**($7,500,000)**	**$0**	**($7,500,000)**
PLUS: LAND VALUE (ALLOCATED)		**$3,435,598**	**$454,402**	**$3,890,000**
MARKET VALUE ESTIMATE (ROUNDED)		**$33,360,000**	**$5,400,000**	**$38,770,000**
Per Sq Ft		**$520 /SF**	**$138 /SF**	**$376 /SF**

Cost to Complete

In order to arrive at an indication of the subject's "as is" value, the remaining cost to complete the project has been calculated. Based on the cost new estimate of $39,023,122 (excluding land value or a developer's margin), adding back in the appraiser's conclusion of developer's margin, and then deducting the lessee's TI contribution along with acquisition costs for the existing LIO Building and Anchor Pub, the remaining cost to complete is estimated at a rounded $27,5000,000 as shown in the table below. This amount is deducted from the "at

completion" value indications from each approach to arrive at the "as is" value for the property.

COST TO COMPLETE CALCULATION	
Cost New w/o Land & Dev. Profit	**$39,023,122**
Add: Developer's Profit @ 10%	$3,902,312
Less: Lessee's TI contribution	($7,500,000)
Less: Acquisition - LIO Building	($5,000,000)
Less: Acquisition - Anchor Pub	($2,890,000)
Remaining Cost to Complete Estimate	**$27,535,434**
Rounded to:	**$27,500,000**

Sales Comparison Approach

Introduction

Methodology

The Sales Comparison Approach is based on the premise that market value of the property is directly related to recent sale prices of competitive properties and the availability of substitute properties with similar utility and desirability. The most similar sales of properties are investigated and compared to the subject in this analysis.

Unit of Comparison

Units of comparison, components into which properties may be divided for purposes of comparison, are derived from comparable sales data. Brokers, developers and other market participants indicated that price per sq ft of rentable building area is the most common and reliable unit of comparison in the subject's market segment.

Physical Comparison

Overview

This method explicitly considers physical dissimilarities between the comparables and the subject. Data are examined to establish the prices, real property rights conveyed, transaction dates, financing terms, motivations, locations, physical and functional conditions. Adjustments to the comparables are necessary to reflect advantages and disadvantages relative to the subject.

Sources of Data

The following transactions were obtained from various sources including web sites (Alaska Multiple Listing Service, Loopnet and Craigslist), brokers, assessors, appraisers, other individuals and most notably the Reliant, LLC internal database.

Availability of Data

The availability of comparable data is a function of the subject's location, property type, property size, market size and market activity. There have been few sales of office product within the CBD in recent years. Moreover, there have been no recent sales of new office buildings such as this. It is not surprising, then, that market research identified limited transactions involving properties similar to the subject which would provide a reliable basis for comparison. Substantial upward adjustments would be required to all of the available comparables relative to the subject in order to account for its location, age, quality, and structured parking. The magnitude of the adjustments would severely reduce the meaningfulness of the approach, and the concluded value would be well above the available transaction prices. For these reasons, physical comparison methodology is of little use in this case. Instead, economic comparison will be used, with the resulting indication of value from the available sales serving primarily as a test of reasonableness for the value derived by the Income Capitalization Approach.

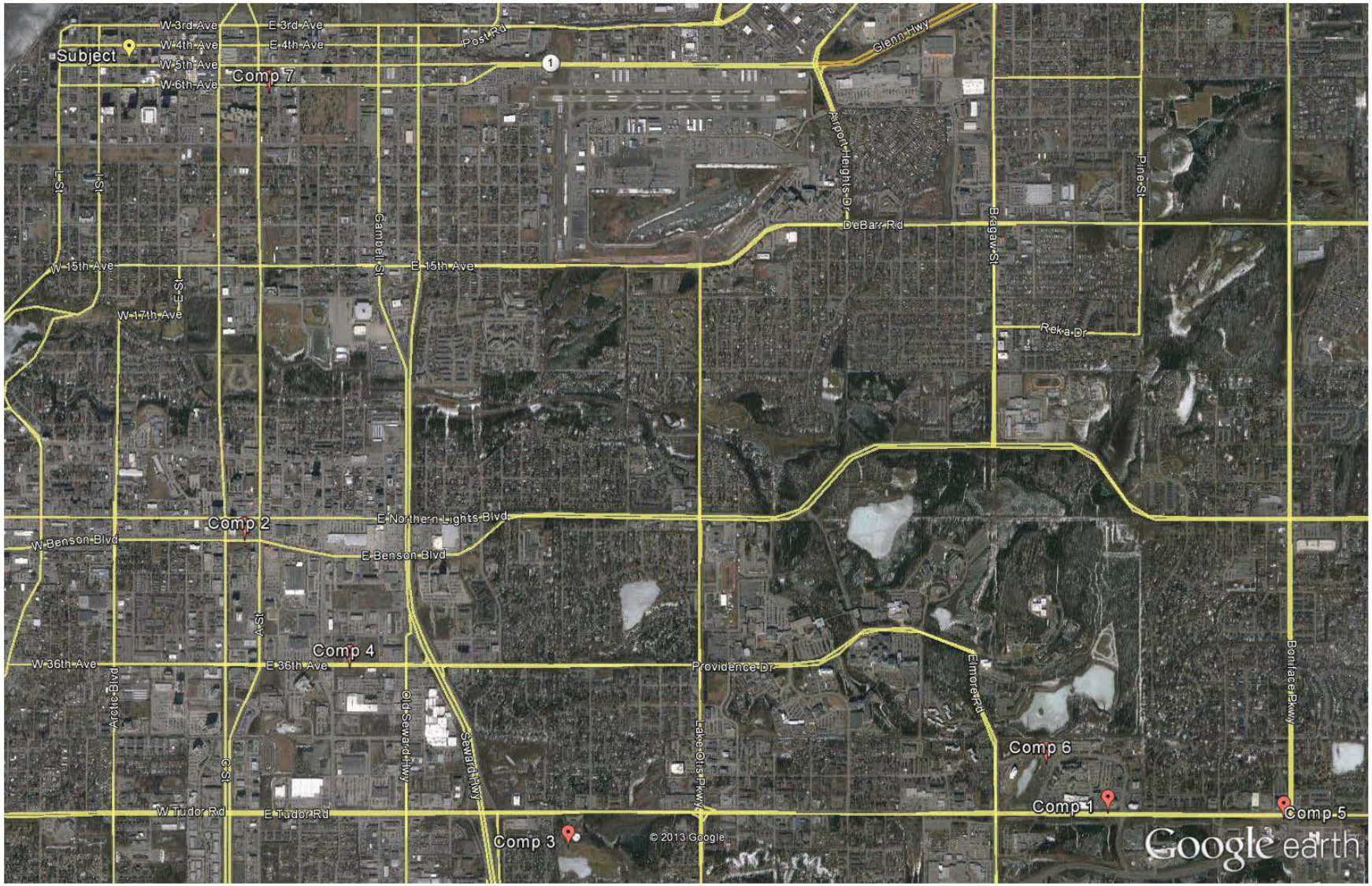
Presentation of Data

The most relevant data for the available transactions, such as they are, is presented on the following summary table. The following map highlights the location of the comparables relative to the subject. Photographs and brief descriptions of the comparable data follow.

Summary of Improved Sale Comparables Exhibit

No.	Name	Subtype Office	Quality	Rentable Area	Land SF	Date	Nominal Price	Analysis Price	Buyer Type	NOI/SF of Rentable
	Address	Construction	Year Built / Renovated	Efficiency Ratio	Land to Building Ratio	Transaction Type		$/SF Rentable Area		OAR
I-1	Diplomacy Building - 2011	Professional Office	Good	50,022	111,215	Jun-13	$16,500,000	$16,500,000	Owner-User	$19.09
	4500 Diplomacy Dr.	Fireproof Steel	1985 / 1985	89%	2.0 : 1	Closed		$330		5.8%
	008-011-25									
I-2	KeyBank Center - 1891	Professional Office	Very Good	66,000	118,659	Dec-12	$17,575,000	$21,015,000	Investor	$23.10
	101 West Benson Blvd.	Concrete	1978 / Periodic	88%	1.6 : 1	Closed		$318		7.3%
	009-037-09									
I-3	DEA Building - 788	Professional Office	Good	13,901	100,405	Feb-12	$4,825,000	$4,825,000	Investor	$27.11
	1630 E. Tudor Rd.	Fireproof Steel	2000 / 2000	46%	3.4 : 1	Closed		$347		7.8%
	009-181-15									
I-4	Tatitlek Building- 1393	Professional Office	Good	25,356	47,329	Jul-11	$6,500,000	$6,500,000	Owner-User	$20.54
	561 E. 36th Ave.	Fireproof Steel	2003 / 2003	91%	1.7 : 1	Closed		$256		8.0%
	009-052-75									
I-5	AHFC Building - 512	Professional Office	Good	68,293	223,018	Mar-11	$12,000,000	$12,000,000	Owner-User	$15.16
	4300 Boniface Pkwy.	Fireproof Steel	1984 / 1984	88%	2.9 : 1	Closed		$176		8.6%
	007-162-66									
I-6	Inuit Office Bldg. - 564	Professional Office	Good	34,124	139,784	Oct-10	$9,400,000	$8,030,000	Partial User	$16.69
	4141 Ambassador Dr.	Metal Frame	1996 / 1996	96%	2.5 : 1	Closed		$235		7.1%
	008-011-55, -56									
I-7	FBI Bldg. - 151	Professional Office	Good	38,357	46,651	Feb-08	$9,550,000	$11,020,000	Investor	$24.41
	101 E. 6th Ave.	Fireproof Steel	1994 / 1994	51%	0.6 : 1	Closed		$287		8.5%
	002-094-57									
Subj	Legislative Affairs Building	Professional Office	Excellent	56,442	31,129	- - -	- - -	- - -	Investor	$58.25
	712/716 West 4th Avenue	Steel frame	2014 / 2014	88%	0.5 : 1					

Map of Improved Sale Comparables Exhibit

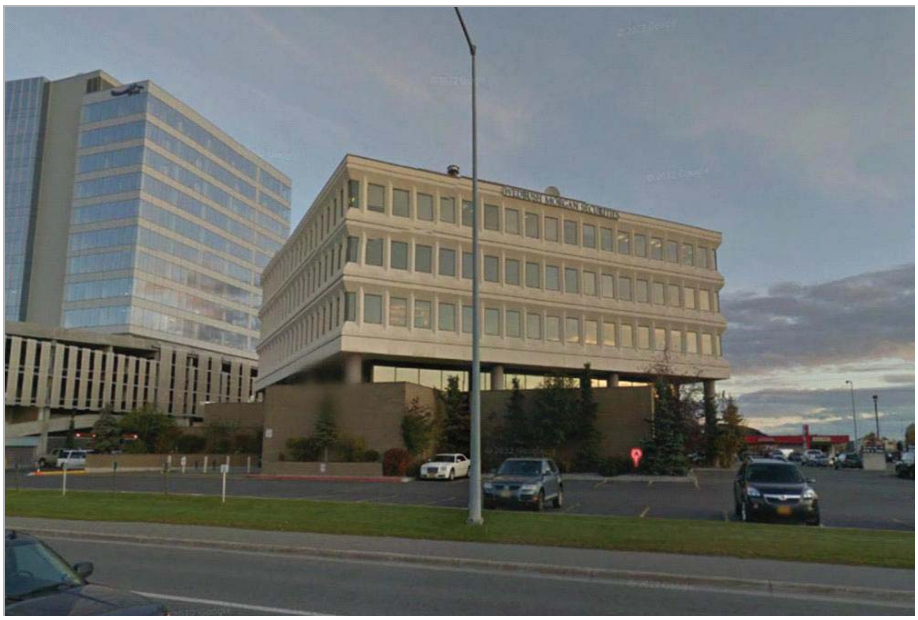


Description of Data

Sale No. I-1

This is the sale of an office and educational building located on the Alaska Native Medical Center campus in East Anchorage. The sale occured between two institutional owner users; UAA was the seller and ANTHC was the buyer. UAA intended to use the proceeds to acquire another office property. ANTHC needed the property for expansion purposes. The building is primarily office space, but does include some educational class rooms. The property was appraised by an MAI on behalf of both parties at $14.7 million, with an investment value of $16 million. However, after negotiation, the final price was as shown. Overall, this is an arms-length transaction that reflects the strong demand for on-campus properties by institutional users.

Sale No. I-2

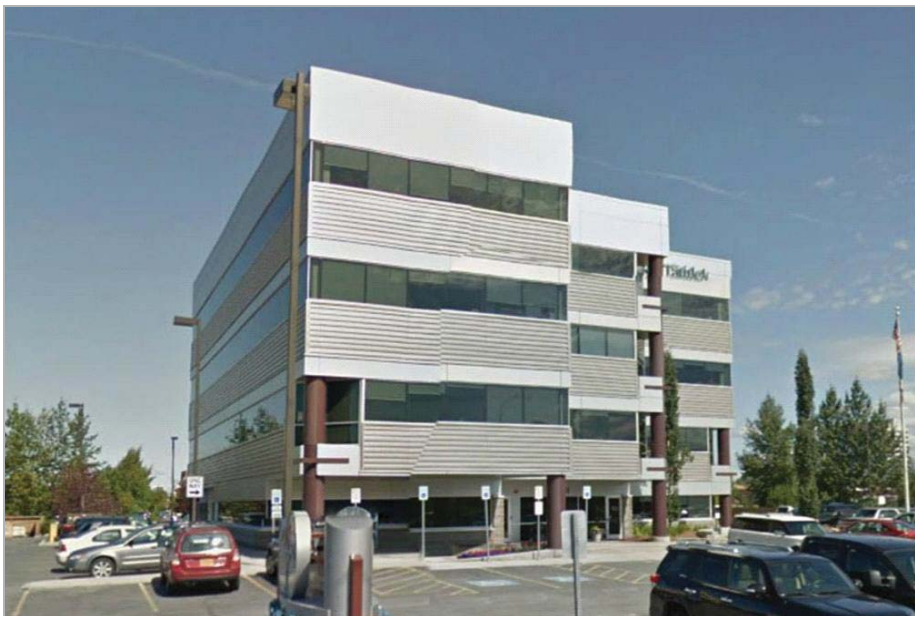


This is the sale of a Class A office building in the heart of midtown to a native corporation. The building was in very good condition for its age and recent capital projects totaled $2.4 million including a 100% remodel to all common areas. The building includes some specialized space build out on the ground floor as a bank branch, including a teller drive through in the parking lot area. The KeyBank lease had seven years remaining on the term. The building represents an under improvement to the site but there is no excess land. The asking price (leasehold) was $18,750,000. The actual sale price was $17,575,000; however, the building is located on leased land. The ground lease began in 1974 and continues through June 2073 and therefore has substantial term remaining. Contract rents are adjusted every five years at 7% of the fee simple value of the site with the most recent adjustment occurring in 2009. Based on ground lease payments of $240,800, capitalized at a 7% OAR, the upward adjustment to reflect fee simple ownership in the land is $3,440,000, indicating a fee simple equivalent analysis price of $21,015,000. The significant term remaining on the lease and low return on the land result in limited spread between the fee simple and leasehold OARs. Overall, this is an arm's length transaction representative of market conditions at time of sale.

Sale No. I-3

This is the sale of the DEA building located just east of the Seward Highway on Tudor Road. The buyer is a local investment partnership. The building was constructed specifically for the GSA, Drug Enforcement Agency. Approximately 13,901 sq ft of office space was built above 13,862 sq ft of heated garage space. Therefore, total rentable square footage would be 27,763 sq ft. The monthly base rent is $47,861.43 paid in arrears, which equates to $1.72/sq ft over the entire building or, more meaningfully, $3.44/sq ft over just the office area. In addition, the operating expenses increase above the base year by the CPI. The 15-year lease for the building began in 2001 and expires in 2016. There are two, five-year options at the same base rent as the original term. The price was $4,825,000, or $347.10/sq ft over the rentable office area (reflecting the inclusion of the garage as an amenity). For reference, this property sold previously in 2008 for $4,275,000.

Sale No. I-4



This is the sale of the Chugach Alaska Building on East 36th Avenue just east of Denali Street. The buyer, the Tatitlek Corporation, was the building's tenant at the time. The tenant had the option of either renewing their lease or exercising their option to purchase the building at market terms. Renewal contract rents were $2.23/sq ft/month with the tenant responsible for all expenses except management, insurance, real estate taxes, and reserves. The full service equivalent renewal rent equated to $2.75/sq ft/month. The sale was negotiated by the parties in part based on two MAI appraisals. The appraisal performed on behalf of the buyer indicated the leased fee interest in the property was worth $6.9 million. The appraisal performed on behalf of the buyer indicated the fee simple interest in the property was worth only $5.9 million with the leased fee interest worth $6.4 million. The final negotiated price was $6.5 million. Overall, this is an arm's length transaction representative of market conditions at time of sale.

Sale No. I-5

This is the sale of the AHFC Building located on the corner of East Tudor Road and Boniface Parkway that was 100% occupied by the State with the lease nearing expiration. The property was not listed for sale, rather, the landlord (the Tatitlek Corporation) and the tenant (AHFC) entered negotiations for the sale of the property. Negotiations were finalized after roughly one year of discussions. Discussions with an agent of the seller indicated that the building was in need of significant capital improvements to bring bathrooms into ADA compliance and upgrade building mechanical systems. The landlord did not want to make the significant capital investments required and the State would not likely have renewed their lease without this expenditure. The State's post sale expenditures are reported to be in the millions. It is unknown, however, how much of this expenditure is deferred maintenance versus capital improvements/upgrades. Overall, this was an arms-length transaction with typical financing, and was representative of market conditions at the time of sale for an existing Class A building requiring upgrades.

Sale No. I-6

This is the sale of the Inuit Building and excess land in the U-Med district. This is the sale of a fully leased asset to ANTHC, who was a tenant in the building. The other tenant was the General Services Administration Indian Health Services. This property was not formally placed on the market for sale. ANTHC had an option to purchase the property at market value. The purchase price was negotiated based on market value per an MAI appraisal. The asset had limited lease rollover during the first three years of the lease and a low risk profile due to its location on the Alaska Native Hospital campus. Contract rents averaged $2.27/sq ft compared to market rents of $2.60/sq ft. The building is relatively new and is good quality in good condition. The nominal price of $9,400,000 is adjusted downward $1,370,000 ($26.32/sq ft) to reflect the value allocated for the excess land in the transaction based on an MAI's appraisal. Therefore, the leased fee analysis price is $8,030,000. Note that the fee simple equivalent sale price based on market rents equates to $9.12 million dollars or $267/sq ft. Overall, this was a market transaction between informed parties representative of market conditions at time of sale.

Sale No. I-7

This is a national investor's purchase of a build-to-suit for the GSA that is occupied by the FBI. The buyer also purchased the DEA Building around the same time. This was the sale of the leasehold position in the land and leased fee position of the improvements, otherwise known as the sandwich position. The leasehold sale price was reported at $9,550,000. For the transaction, the grantee secured a loan in the amount of $6,950,000. The ground lease began in 1994 for a term of 50 years. Contract rents were $88,148/year. The leased fee interest in the land is estimated at $1,570,000 indicating a fee simple equivalent sale price of $11,020,000. The leasehold NOI was $847,780 indicating a leasehold OAR of 9%. This indicates that a 50 basis point premium was required due to the ground lease. The yield rate was 8.5%. The high OAR reflects the flat lease, which has no escalations except for increases in pass throughs. Operating expenses reflect a heated garage and 24-hour tenant operations. Overall, this is a market transaction between knowledgeable market participants and is representative of market conditions at time of sale.

Economic Comparison

Overview

A common economic unit of comparison is the gross income multiplier (GIM), which is based upon potential gross income (PGI) and/or effective gross income (EGI). A weakness of these methods is that they do not account for variations in operating expenses. The net income multiplier (NIM) is another common economic unit of comparison and is often preferred over other methods since it does account for variations in operating expenses. Under the assumption that a physically superior property will be economically superior, this method implicitly considers physical dissimilarities between the comparables and the subject.

Net Income Multiplier Method

The Net Operating Income Multiplier method is used in economic comparison. In this method the sale price of the comparison is divided by its NOI per sq ft indicating its Net Income Multiplier (NIM). The NIM is then multiplied by the

subject's NOI indicating the adjusted sale price per sq ft for the subject. The calculation is shown below.

LOCAL SALE NET INCOME MULTIPLIERS

Comp	Name	Price per SF Rentable		NOI/SF of Rentable		NIM		Subj. NOI/SF of Rentable		Subject $/SF
I-1	Diplomacy Building - 2011	$329.85	/	$19.09	=	17.28	x	$58.25	=	$1,006
I-2	KeyBank Center - 1891	$318.41	/	$23.10	=	13.78	x	$58.25	=	$803
I-3	DEA Building - 788	$347.10	/	$27.11	=	12.80	x	$58.25	=	$746
I-4	Tatitlek Building- 1393	$256.35	/	$20.54	=	12.48	x	$58.25	=	$727
I-5	AHFC Building - 512	$175.71	/	$15.16	=	11.59	x	$58.25	=	$675
I-6	Inuit Office Bldg. - 564	$235.32	/	$16.69	=	14.10	x	$58.25	=	$821
I-7	FBI Bldg. - 151	$287.35	/	$24.41	=	11.77	x	$58.25	=	$686
				Low		11.59	x	$58.25	=	$675
				High		17.28	x	$58.25	=	$1,006
				Average		13.40	x	$58.25	=	$781
Subject	Legislative Affairs Building					Stabilized Value Concluded:				$750

As shown above, the sale comparables indicate NIMs from 11.59 to 17.28, with an average of 13.40. For reference, the subject "at completion" will generate substantially higher NOI/Sq Ft than any of the comparables - highlighting the weakness of the available sales data for physical comparative analysis. In any case, based on these multipliers, economic comparison indicates market value for the subject between $675/sq ft and $1,006/sq ft, or an average of $781/sq ft. "at completion," the subject will effectively be new construction, with an excellent CBD location and structured parking. Most importantly, it will be fully leased to a credit tenant with the highest rating. However, the lease is flat throughout the initial 10-year term (although the impact is minimized somewhat by the modified NNN lease structure). After careful consideration, the market value of the subject by economic analysis is estimated at $750/sq ft of rentable area. Finally, the estimated cost to complete is deducted for an indication of the property's "as is" value through this approach.

Value Calculation

At Completion / Stabilization

ECONOMIC COMPARISON VALUE	
Concluded Subject $/SF	$750
Rentable Area	56,442
Stabilized Market Value Estimate	$42,331,500
Rounded	**$42,330,000**
Less: Remaining Cost to Complete	($27,500,000)
As Is Market Value	**$14,830,000**

Income Capitalization Approach

Introduction

Methodology

Income-producing real estate is typically purchased as an investment and from the investor's point of view earning power is the critical element affecting property value. The Income Capitalization Approach consists of methods and techniques used to analyze a property's capacity to generate income and convert this income into value. This approach provides a value indication for the property by estimating a net income stream through an analysis of the marketplace including past performance levels as well as projections for the future. Generally, the Income Capitalization Approach section utilizes two methods: 1) Discounted Cash Flow Analysis and 2) Direct Capitalization.

DISCOUNTED CASH FLOW ANALYSIS

The discounted cash flow analysis accounts for the timing, frequency and magnitude of variable cash flows. It is particularly appropriate when a property is not currently operating at a stabilized level resulting from either recent construction, renovation, or a significant alteration. It is also appropriate when a property is affected by a change in management, marketing strategy or a variation in economic or market conditions. The approach capitalizes multiple years (defined as the holding period) of income into value using a yield rate.

DIRECT CAPITALIZATION

The direct capitalization approach is particularly appropriate when the subject property is stabilized and located in a stable market. The approach capitalizes a single year of income into value using a single overall annual rate that implicitly considers the future income pattern.

Method of Capitalization

Both Direct Capitalization and Discounted Cash Flow Analysis have been utilized in this report, as investors in this asset range may employ both in their decisions.

Occupancy Status

Current Occupancy

"At completion," the subject has been 100% leased to the State of Alaska Legislature, via its administrative arm the Legislative Affairs Agency. It will thus be stabilized immediately upon completion. The lease term begins June 1, 2014 and expires after 10 years on May 31, 2024, not counting a 10-year option to be negotiated at that point. Note that rent during the construction phase will continue at $56,863/mo full-service, although the landlord will bear the cost of not only servicing the lease but also securing alternative space in nearby buildings and moving the tenant. Contract rent for the new building commences upon occupancy, and it will be $281,638/mo. flat throughout the term. Although the lease references the gross building area, the local market typically operates on a rentable sq ft basis, and on this latter basis contract rent equates to $4.99/sq ft. However, the local market also typically incorporates annual rent escalations while the subject's lease is flat. As calculated shown in the following table, beginning equivalent rent for this lease would equate to $4.63/sq ft assuming it also incorporated 2% annual escalations.

		Contract Structure Cash Flow 1		Market Structure Cash Flow 2
Rate		8.0%		8.0%
Net Present Value		$21,764,597	=	$21,764,617
Annual Escalation		NA		2.00%
Term (Years)		10		
$/Sq Ft/Mo. Rentable		$4.99		$4.63
Period	Year			
1	2015	$3,379,656		$3,139,164
2	2016	$3,379,656		$3,201,947
3	2017	$3,379,656		$3,265,986
4	2018	$3,379,656		$3,331,306
5	2019	$3,379,656		$3,397,932
6	2020	$3,379,656		$3,465,891
7	2021	$3,379,656		$3,535,209
8	2022	$3,379,656		$3,605,913
9	2023	$3,379,656		$3,678,031
10	2024	$1,408,190		$1,563,163

The lease has a modified-NNN lease structure, wherein the landlord only pays for certain maintenance costs (elevator, plumbing, HVAC, fire sprinklers, interior carpet/paint every 10 years or as needed, parking lot striping, etc.), general liability insurance, and reserves for replacement. The lessee pays for all other operating expenses including professional management, utilities, janitorial, basic interior maintenance, property insurance and real estate taxes.

In addition, it must be recognized that the tenant is paying for nearly all of the project's tenant improvement (TI) costs at $7.5 million (equating to $133/sq ft rentable). If this TI contribution were amortized over the initial term only at 7%, the additional monthly amortization payment would be $1.58/sq ft. Thus, for context purposes, the beginning contract rent of $4.63/sq ft (converted to incorporate 2% annual steps), adjusted up $1.58/sq ft for lessee's TIs, and adjusted up another $0.85/sq ft for tenant expenses would suggest a full-service, fully finished rate of $7.06/sq ft. As demonstrated by the selected rental comparisons further in this chapter, and as generally discussed in the Market Analysis chapter, contract rent is substantially above market for professional office space in the local Class A segment - downtown or otherwise. The specialized building features required by this tenant account for only a small part of this rent spread.

For reference, the lessee (via AHFC) recently retained an appraiser from the Lower 48 (Waronzof Associates) to ascertain market rent for the subject as proposed, and they concluded the contract rent to be less than 90% of market. It appears Waronzof believed the subject represented a special purpose / limited market property, and so they estimated market rent in large part based on a market rate of return applied to estimated development costs (including land and developer's margin). This finding satisfied State of Alaska statutory requirements that an existing lease extension not formally put out to bid must be 10% or more below market. It is not within the scope of the current assignment to review or comment on the Waronzof rent appraisal. That said, it is the appraiser's opinion that, while the design certainly incorporates some tenant-specific features, the

proposed improvements do not appear to be special purpose in at least the traditional sense of the term.

ALASKA LEGISLATURE (LEGISLATIVE AFFAIRS AGENCY)

As discussed at the end of the Market Analysis chapter, the lessee in this case has made several attempts in recent years to identify and secure alternative space. This was in part because its staffing levels have increased and it needed to expand its office footprint as a result. It was also because the existing LIO Building was in below average condition with substantial deferred maintenance, and was generally not able to meet the lessee's space standards. The Legislature (via its administrative arm, Legislative Affairs Agency or LAA) considered several options including leasing other space, buying an existing building, and building new. In the end, though, it was ultimately unable to identify a viable option that would meet its space requirements - which include, significantly, a downtown CBD location. As such, and given that its current lease expires in May 2014, LAA was forced to negotiate the present lease extension at the subject. It is worth observing that, from a strictly political vantage point, it is likely to be more palatable for elected officials to announce a lease extension with renovation/expansion to the public than it would be to announce a brand new building. In any case, this historical context helps to explain the lessee's urgency as well as its willingness to pay the substantial lease rate.

In cases where contract rent is significantly above market there is typically additional risk to an investor. In short, above-market rents generally create additional incentive for the tenant to vacate or default on a lease. Moreover, even if the tenant fully honors its lease, there is real risk that net income will decrease at the time of rollover when rents presumably return to market. Given that the subject's contract rent appears to be well over market, one might initially expect that this similarly creates a high risk situation for an investor. In point of fact, though, this is not the case here.

As already discussed, LAA made significant efforts to secure alternative space in recent years but was unable. It is of course impossible to predict the market landscape 10 years from now with any degree of certainty. However, given current and historic trends it is likely that LAA will find itself in the same position at the end of the initial term in 2024. That is to say, there will not be 65,000 sq ft of vacant, contiguous space for lease in the CBD which would accommodate LAA or fully meet it somewhat specialized needs. It is possible that a developer would be willing to construct a new build-to-suit office property, but presumably the occupancy cost would be the same as, or higher than, its occupancy cost of remaining at the subject for another 10 years. Moreover, LAA will have a significant incentive to stay at the subject because of its initial $7.5 million TI investment. For these and other, non-realty reasons, it is unlikely that LAA will have a viable alternative option beyond the subject during either the initial term or at the time of the 10-year renewal option. Thus, the lure of decreased rent which might lead smaller, private tenants to elect default from an above-market lease in ordinary situations does not apply in this situation.

The State of Alaska, which leases over 2 million sq ft of office and other types of space around the state, has a long-established history of abiding by its lease agreements. Nearly all State leases include language which would allow the State to terminate a lease early in the case that adequate funds were not appropriated by the Legislature, yet this does not appear to have been exercised to date. The

general consensus among property owners and investors is that a State lease constitutes a low risk income stream - even in a case where the State has for some reason found itself in an unfavorable leasing situation.

With regards to tenant strength, a State of Alaska entity such as the Legislative Affairs Agency is considered the topmost tier. Summaries of the State's credit by the three main rating companies (S&P, Moody's and Fitch) are included in the Addenda. As shown, all three have the State with the highest rating of AAA or Aaa, citing its substantial financial reserves, relatively conservative fiscal practices, and low debt burden compared to available reserves. In short, LAA is considered a fully credit tenant and the risk of it defaulting on the subject lease (or other obligations) due to inadequate funding is considered extremely remote.

EARLY CANCELLATION CLAUSE

Nearly all State leases include language which would allow the State to terminate a lease early in the case that adequate funds were not appropriated by the Legislature, and this is typically to be determined by the LAA Executive Director's judgment. This is, in essence, because future Legislators cannot typically be bound by previous lawmaker's spending choices, and because state funding levels are subject to change over time. The subject lease, included in the Addenda, also has this clause (see Section 43). Notably, however, the developer was able to incorporate additional language that contractually requires the Executive Director to include a budget request to cover the LAA's obligations under this lease in every annual budget request and approval process. If the LAA does not request budget funds for the subject obligation, it would be in breach of the lease and thus liable for the remaining contract rent over the initial term (net of any rent the owner is able to generate by re-tenanting). Said another way, the subject is not at the whim of just the Executive Director - a single person in a position which can see turnover from time to time - who could otherwise simply choose not to include a budget request one year and then be able to exit the lease. Instead, thanks to the additional language, the subject lease obligation will have a line item budget request each year that could only be negated by a concerted voting action of the entire Legislature at large. Such an action would have to occur in full public view and would be subject to intense scrutiny, as it would create a precedent wherein the State could no longer be counted on by private property owners to fulfill its lease obligations.

To summarize, the inclusion of the State's standard early cancellation clause has been largely mitigated in this case by the developer's additional language. In light of this, and given the State's long history of honoring leases despite its standard early-out language, it is concluded that the risk of either vacancy or default is nearly non-existent during the initial 10-year term. Moreover, for the reasons discussed previously, it is extremely likely that the State will exercise its renewal option in 2024. All of this taken together explains why, essentially regardless of the appraiser's finding contract rent to be well above market, the subject ultimately represents an extremely low risk income stream from an investor's perspective.

Comparable Rental Data

Overview

This is an appraisal of the leased fee interest, and so contract rent will be applied in the forecast. However, market rent must still be ascertained for the property in order to evaluate contract rent (which was discussed at length in preceding

paragraphs). In addition, market rent must be input into the discounted cash flow model so that the weighted renewal probability at the time of initial term expiration (May 2024) can be applied to escalated contract rent (that is, assuming renewal - which is likely in this case) while the small chance of non-renewal can be applied to escalated market rent (that is, assuming the State does not renew and so a replacement generic office tenant would be secured at a lower rate).

Sources of Data

The following transactions were obtained from various sources including web sites (Alaska Multiple Listing Service, Loopnet and Craigslist), brokers, assessors, appraisers, other individuals and most notably the Reliant, LLC internal database.

Availability of Data

The availability of comparable data is a function of the subject's location, property type, property size, market size and market activity. In this case, the majority of new construction leasing has occurred within the midtown district. Accordingly, several recent midtown leases have been included along with the most meaningful available downtown CBD leases, and location adjustments are considered along with other elements required for comparability. Overall, the selected data results in a credible indication of market rent for the subject (assuming a generic, professional office tenant - as opposed to the subject's actual State tenant which found itself in this specific leasing situation).

Presentation of Data

The most relevant data for these transactions is presented on the following summary table. The following map highlights the location of the comparables relative to the subject. Photographs and a discussion of the comparable data also follow.

UNIT OF COMPARISON

Consistent with local market standards for this property type/segment, rent is analyzed on the following basis: $/Sq Ft of rentable area, monthly.

EXPENSE STRUCTURE EXPLANATION

For the valuation of the fee simple estate, market rents are estimated in accordance with the prevailing tenant expense structure used within the market. For the valuation of the leased fee estate, in most cases market rents are estimated in accordance with the subject's dominant expense structure. In this case, rent is analyzed consistent with the lease - that is, on a modified-NNN basis with the landlord only responsible for certain maintenance items, general liability insurance and reserves. Appropriate adjustments must be made to the rental comparisons when differing expense structures are present. Note that the expense structures shown on the following page exhibits have been abbreviated for presentation purposes, with an explanation key included below.

DESCRIPTION OF EXPENSE ABBREVIATIONS

Elect	Tenant pays for electricity.
Gas	Tenant pays for natural gas.
Utils	Tenant pays for all utilities.
NNN	Triple net, with tenant paying all operating expenses.
FS	Full-service, with landlord paying all operating expenses.
FS, no Jan	Full-service, with landlord paying all but janitorial costs.
w/ PT	Tenant pays pro-rata share of expense increases over base.

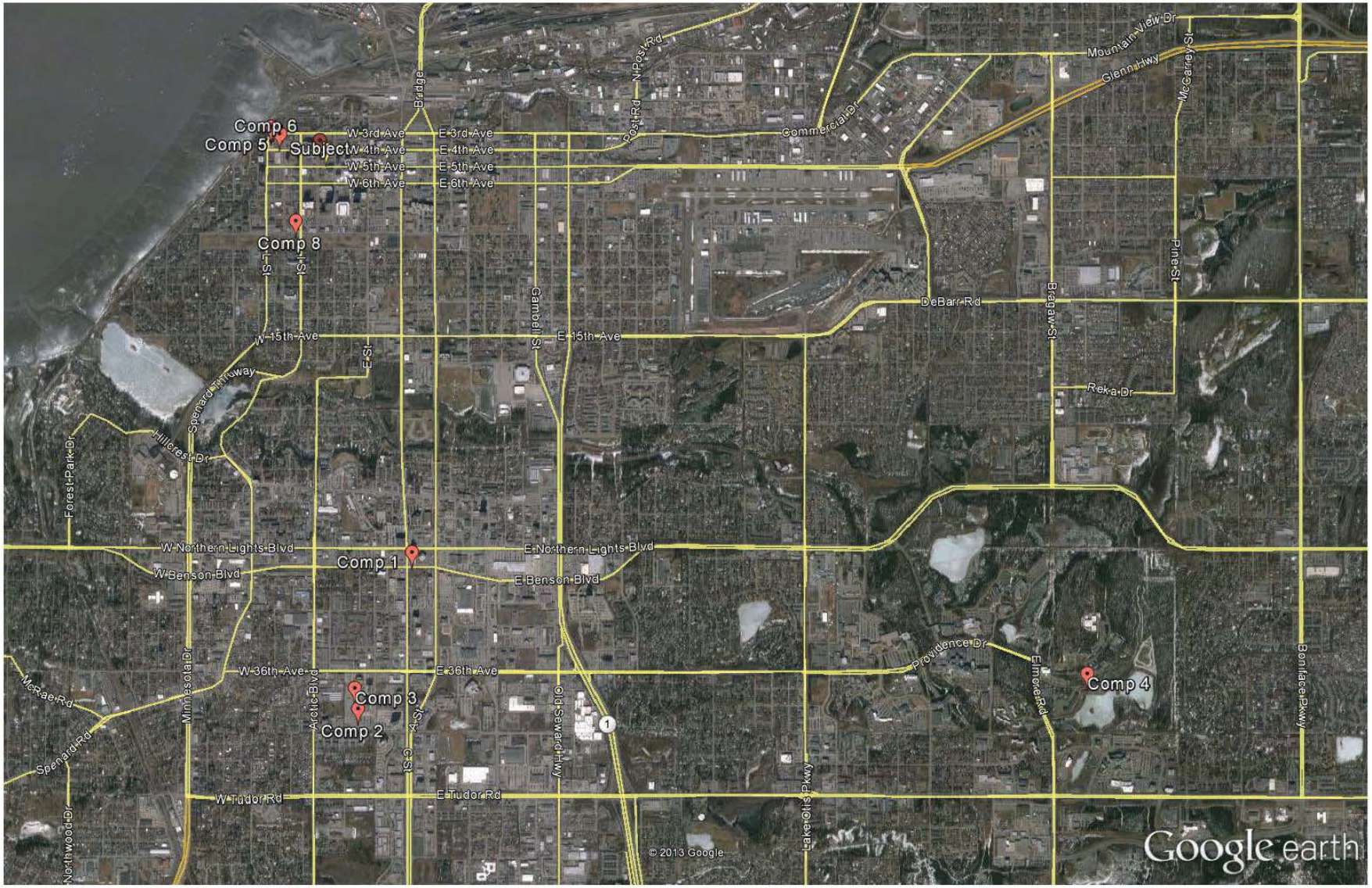
Summary of Rental Comparables Exhibit

No.	Name / Address	Construction / Year Built	Space Type / Finish	Transaction Type	SF Leased	Date / Term	Expense Structure	TIs / Parking Spaces	Steps	Starting Rent / Basis	Adj. Rate
R-1	188 WNL Bld. - 1454 188 W. Northern Lights Blvd.	Fireproof Steel 2008	Office Warm Shell	New Lease	24,493	2012 8-10 Yrs	FS w/ PT	$40 Adequate	3%/Yr	$3.18 Per Rentable SF	**$2.69**
R-2	JL Tower - 1300 3800 Centerpoint Dr.	Fireproof Steel 2008	Office Finished	New Lease	7,198	2013 5-7 Yrs	FS w/ PT	$19 Adequate	3%/Yr	$3.10 Per Rentable SF	**$2.10**
R-3	Centerpoint West - 1301 3700 Centerpoint Dr.	Fireproof Steel 2010	Office Warm Shell	New Lease	5,841	2012 5-7 Yrs	FS w/ PT	$45 Adequate	3%/Yr	$2.95 Per Rentable SF	**$2.37**
R-4	Glenn Olds Hall Addition (Phase II) - 487 4210 University Drive	Metal Frame 2012	Office Finished	New Lease	19,650	2012 11 Yrs+	FS	$0 Adequate	1.5%/Year	$3.33 Per Rentable SF	**$2.56**
R-5	Whale Building - 1417 310 K St.	Fireproof Steel 1975	Office Finished	Renewal	3,650	2013 3-4 Yrs	FS	$10 0.5 / 1,000	3%/Yr	$2.85 Per Rentable SF	**$2.12**
R-6	Resolution Plaza - 1401 1029 W. 3rd Ave.	Fireproof Steel 1986	Office Finished	Renewal	2,100	2012 1-2 Yrs	FS w/ PT	$10 None	3%/Yr	$2.65 Per Rentable SF	**$2.01**
R-7	Signature Bldg. - 1400 745 W. 4th Ave.	Fireproof Steel 1986	Office Finished	New Lease	2,911	2013 5-7 Yrs	FS w/ PT	$5 None	3%/Yr	$2.44 Per Rentable SF	**$1.76**
R-8	NANA Headquarters - 913 909 West 9th Avenue	Fireproof Steel 1970/2012	Office Finished	New Lease	48,647	2011 11 Yrs+	NNN	$0 2.5 / 1,000 SF	3%/Yr 1-8, 5%/Yr 9-	$2.35 Per Rentable SF	**$2.16**

Rent Comparable Adjustment Grid Exhibit

Lease Analysis Grid		R-1	R-2	R-3	R-4	R-5	R-6	R-7	R-8
Address	712/716 West 4th	188 W. Northern	3800 Centerpoint	3700 Centerpoint	4210 University	310 K St.	1029 W. 3rd Ave.	745 W. 4th Ave.	909 West 9th
Transaction Type	Appraisal	New Lease	New Lease	New Lease	New Lease	Renewal	Renewal	New Lease	New Lease
Date	12/31/2014	2012	2013	2012	2012	2013	2012	2013	2011
Term		8-10 Yrs	5-7 Yrs	5-7 Yrs	11 Yrs+	3-4 Yrs	1-2 Yrs	5-7 Yrs	11 Yrs+
Space Type		Office	Office	Office	Office	Office	Office	Office	Office
SF Leased		24,493 SF	7,198 SF	5,841 SF	19,650 SF	3,650 SF	2,100 SF	2,911 SF	48,647 SF
Basis		Per Rentable SF	Per Rentable SF	Per Rentable SF	Per Rentable SF	Per Rentable SF	Per Rentable SF	Per Rentable SF	Per Rentable SF
Rent Begin	- - -	$3.18	$3.10	$2.95	$3.33	$2.85	$2.65	$2.44	$2.50
Transaction Adjustments									
Lease Conditions	Typical	Typical $0.00	Typical $0.00	Typical $0.00	$0.00	Typical $0.00	Typical $0.00	Typical $0.00	$0.00
Expense Structure	NNN	FS w/ PT -$0.80	FS w/ PT -$0.80	FS w/ PT -$0.80	FS -$0.85	FS -$0.85	FS w/ PT -$0.80	FS w/ PT -$0.80	NNN $0.00
Analysis Rent		**$2.38**	**$2.30**	**$2.15**	**$2.48**	**$2.00**	**$1.85**	**$1.64**	**$2.50**
Market Trends/Year	2.0%	5.1%	3.7%	4.6%	5.6%	2.8%	4.4%	3.0%	6.3%
Implied Current Rent		**$2.50**	**$2.39**	**$2.25**	**$2.62**	**$2.06**	**$1.93**	**$1.69**	**$2.66**
Location									
% Adjustment		30%	31%	33%	29%	0%	0%	0%	0%
$ Adjustment		$0.75	$0.75	$0.75	$0.75	$0.00	$0.00	$0.00	$0.00
Quality / Condition									
% Adjustment		0%	0%	0%	0%	10%	10%	10%	10%
$ Adjustment		$0.00	$0.00	$0.00	$0.00	$0.21	$0.19	$0.17	$0.27
Year Built	2014	2008	2008	2010	2012	1975	1986	1986	1970/2012
% Adjustment		0%	0%	0%	0%	25%	25%	25%	0%
$ Adjustment		$0.00	$0.00	$0.00	$0.00	$0.51	$0.48	$0.42	$0.00
Finish	Warm Shell	Warm Shell	Finished	Warm Shell	Finished	Finished	Finished	Finished	Finished
TIs	$0	$40	$19	$45	$0	$10	$10	$5	$0
Est. Cost of Finish		$0	$60	$0	$60	$60	$60	$60	$60
Total TI Differential		($40)	($79)	($45)	($60)	($70)	($70)	($65)	($60)
Rate		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Term		10	10	10	10	10	10	10	10
% Adjustment		-19%	-39%	-24%	-27%	-40%	-43%	-46%	-27%
$ Adjustment		($0.47)	($0.94)	($0.53)	($0.71)	($0.83)	($0.83)	($0.77)	($0.71)
Parking									
Provided Stalls:		*73*	*22*	*18*	*59*	2	0	0	120
Subject Stalls:	1.8 / 1,000 SF	44	13	11	35	7	4	5	88
Difference		29	9	7	24	-5	-4	-5	32
Per Per Stall		$75	$75	$75	$75	$125	$125	$150	$75
Monthly Rent		($2,175)	($675)	($525)	($1,800)	$625	$500	$750	($2,400)
% Adjustment		0%	0%	0%	0%	0%	0%	0%	0%
$ Adjustment		($0.09)	($0.09)	($0.09)	($0.09)	$0.17	$0.24	$0.26	($0.05)
Adjusted Rent		**$2.69**	**$2.10**	**$2.37**	**$2.56**	**$2.12**	**$2.01**	**$1.76**	**$2.16**
Net Adjustments		-15.5%	-32.1%	-19.5%	-23.0%	-25.8%	-24.0%	-27.6%	-13.5%
Gross Adjustments		70.3%	86.0%	77.0%	76.3%	92.2%	99.1%	101.3%	47.4%

Location Map of Rental Comparables Exhibit



Description of Data

Rental No. R-1

This is the lease of the 13,633 sq ft on the 13th floor and 10,860 sq ft on the 12th floor at 188 WNL to a national credit tenant for a ten year term with options to a tenant in the financial services industry that was formerly located downtown. There was significant covered garage parking included in the rent as well as signage on two sides of the building. The expense structure is full service including pass throughs on taxes, insurance and all operating expenses. Overall, this is an arms length transaction representative of market conditions at time of lease.

Rental No. R-2

JL Tower is a newer state-of-the-art high rise LEED certified office building located in midtown. The building includes substantial surface parking, a ground floor coffee shop, fitness center and meeting rooms. This is the lease of second generation finished space that was formerly occupied by Chevron. Overall, this is an arms length transaction representative of market conditions at time of lease.

Rental No. R-3

Centerpoint West is a newer state-of-the-art mid rise LEED certified office building located in midtown. The building includes substantial surface parking, covered parking, a ground floor coffee shop and meeting rooms. This is the lease of first generation space in a warm shell condition. Costs to build out the space as good quality Class A office with numerous re-lights along perimeter offices was around $90/sq ft. The space is located on the ground floor and benefits from convenient access but lacks views. Overall, this is an arms length transaction representative of market conditions at time of lease.

Rental No. R-4

This is a build-to-suit for the GSA/USGS located on the Alaska Pacific University campus. It was an addition to the existing building, which was also a build-to-suit for the same tenant. The tenant had limited other options available due to their existing lease in place. The three story structure is built into the side of a hill and has good views of University Lake and the Chugach mountains. Overall, this is a market transaction representative of market conditions at the time.

Rental No. R-5

This is a recent renewal/expansion at the Whale Building on the corner of K Street and West 3rd Avenue. Much of the building is leased to State of Alaska tenants with rents typically between $2.75/SF and $3.00/SF. Asking rates for currently available spaces range from $2.75 to $2.85/sq ft, depending on floor location.

Upper floors generally offer good views of Cook Inlet or Downtown. This particular tenant had over a year remaining in its term, but decided to expand its footprint while simultaneously extending the term an additional 4 years. Overall, it was an arms-length transaction reflective of market.

Rental No. R-6

This is Resolution Plaza, downtown on West 3rd Avenue at L Street. The building is considered Class A/A- by local market standards, and offers 6 stories with elevator service. Note that several of the floors are actually below street grade, as the building was constructed along the bluff, but this can be misleading as most floors actually have excellent views of Cook Inlet. A renewal and expansion for an existing tenant was negotiated at the end of 2012 here, at a beginning rate of $2.65/sq ft. The tenant pays its pro rata share of tax and insurance increases over the base year. No parking was included in the rent, but spaces are available in the onsite lot for $125/mo each. Currently, there is roughly 10,000 sq ft available on the 2nd floor at an asking rate of $2.65/sq ft, and the leasing agent reports that activity has been relatively slow of late.

Rental No. R-7

This is a new lease in the Signature Building on West 4th Avenue downtown. Upper floors here offer good views of Downtown or the Cook Inlet. This lease in particular was on the 5th floor and had both water and city views. Note that operating expenses over the base year are passed through pro rata. Also, no parking was included in the rent, but the tenant did rent 5 spaces separately for $180/mo each. Other spaces on the 2nd and 3rd floors are available at this time for between $2.40 and $2.50/sq ft, full-service with no parking.

Rental No. R-8

This is a single tenant build-to-suit for a Native corporation. The six story building is located on the southern perimeter of the downtown CBD with direct frontage on the park strip and includes 120 onsite parking spaces. At time of lease

the improvements were in a cold shell condition. The location provides good access, exposure and more onsite parking than is typical for the CBD market. The lease called for a complete renovation including new exterior skin and lighting, roof, glazing, mechanical boilers/HVAC, electrical, plumbing, interior finish, build out (walls), bathrooms, parking lot paving and fully refurbished elevator. At completion the improvements are equivalent to newer condition, good quality Class A office product. The tenant also has a purchase option. Note that the lease was negotiated in 2011, although the renovation was completed in 2012. Also of note, rent increased irregularly during the term. Based on a an 8% discount rate the effective starting rent would calculate to approximately $2.50/sq ft with 2.5% annual escalations. Overall, this was an arms length transaction representative of market conditions at time of lease.

Market Rent

Market Rent

All of the comparable leases were done on a rentable area basis, and the subject lease (although stating a GBA figure) is similarly analyzed in this appraisal. As the subject has a modified-NNN structure, appropriate tenant expense adjustments are made to the comparables. Comparables R-1 through R-4 are new construction office projects, but they are located in midtown. In general, downtown has only slightly higher face rents than midtown. However, many leases in downtown include little or no off-street parking, resulting in the tenant bearing that additional cost. Once additional parking costs have been taken into account, the effective rents paid for Class A space in downtown have in recent years demonstrated a premium of roughly $0.75/sq ft over rents for commensurate space in midtown. Based on this reality (supporting information retained in the appraiser's work file), an upward adjustment of $0.75/sq ft is applied to the midtown comparables. Further adjustments are made to the comparables for landlord-provided finish, as the subject is essentially being delivered in warm shell condition with the lessee paying all TI costs ($7.5 million). Finally, adjustments are incorporated to account for each property's included parking relative to the subject's, based on the estimated cost of parking in each location.

Prior to adjustment, the comparables range from $2.44/sq ft to $3.33/sq ft per month, with an average of $2.87/sq ft. After adjustments, they range from $1.76/sq ft to $2.69/sq ft, with an average of $2.22/sq ft, on a modified NNN basis, delivered as warm shell, with commensurate parking. Given the data, market rent is ultimately concluded at $2.50/sq ft rentable. Clearly, this figure is well below the subject's contract rate of $4.63/sq ft (adjusted to incorporate 2% annual escalations). The reality of the subject's lease being above market, and its impact on risk in this situation, have been discussed at length.

In the discounted cash flow model, market rent is input at a beginning rate of $3.20/sq ft, which is based on the previously concluded market rent for warm shell at $2.50/sq ft adjusted up $0.70/sq ft to allow for market typical finish amortization (consistent with the adjustment grid). Market rent remains flat in the first year of the stabilized forecast (2015), and then escalates at 2% annually thereafter. For reference, the beginning contract rent of $4.63/sq ft is input as the beginning renewal rate in the market leasing assumptions, and this escalates in the same manner as market rent. In Year 10, the escalated contract rent is applied to the renewal probability (95%) while escalated market rent is applied to the

remaining probability (5%) of non-renewal.

Absorption Schedule

The subject is fully leased, and will accordingly be stabilized immediately "at completion." No absorption allowance is warranted in this situation.

Other Revenue Sources

Other

Beyond the main building, which is leased to LAA, the subject also derives minor revenue from a rooftop antenna lease. The lessee, Verizon Wireless, leases this area from January 1, 2013 through December 31, 2023 (10 years) at $1,400/month. There are also (4) 5-year renewal options, the first of which is at $1,540/month. Given Verizon's recent entrance into the Alaska market, its substantial infrastructure investment, and the importance of a downtown cellular presence, the DCF model assumes that the rooftop lease renews at the end of 2023.

Vacancy & Credit Loss

Vacancy

Regardless of occupancy status, existing or prospective periodic vacancy must be reflected in the projection of stabilized income. For direct capitalization, vacancy is accounted for by applying a single stabilized vacancy rate. For discounted cash flow analysis, vacancy is calculated automatically based on the market leasing assumptions, including the date of expiration, renewal probability and downtime upon vacancy. Given the preceding discussion regarding the Alaska Legislature as tenant, it is extremely unlikely any vacancy will be experienced during the initial 10-year term. There is a chance of some vacancy at the end of this term, although it is very small given the likelihood of LAA exercising its renewal option. The vacancy analysis and estimate are presented on the following chart.

Credit Loss

Credit loss is an allowance for the potential loss of income resulting from tenant default. It is generally a function of a tenant's financial strength. The credit loss allowance ranges from none for high quality credit tenants or where leases are dramatically below market up to 1.5% for tenants with highly speculative financial characteristics or where leases are above market. The subject's credit rating, and the impact of the above market contract rent, have been discussed at length already. The credit loss analysis and estimate are presented on the following chart.

Analysis

VACANCY ALLOWANCE FOR DIRECT CAPITALIZATION	
Market Influences on Vacancy	
Est. Historic Market Vacancy (5-Yrs.)	2-6%
Current Market Vacancy (Class A)	5.3%
Current Market Vacancy (Class A, Downtown)	2.7%
Typical Vacancy Used by Market Participants	5.0%
Property Influences on Vacancy	
Historic Vacancy (5-Yrrs.)	0.0%
Current Vacancy	0.0%
Occupancy Status (User, Leased)	Leased
Typical Lease Expiration	Long Term
Overall Risk of Vacancy	Extremely Low
Stabilized Vacancy Estimate	**0.5%**

CREDIT LOSS ALLOWANCE FOR DIRECT CAPITALIZATION	
Percentage Applied to Credit Tenants	None
Percentage Applied to Normal Risk Tenants	1.0%
Blended Credit Loss Allowance Estimate	**0.0%**

Expenses

Expense Projection

Year one expenses are projected on a fiscal year, twelve months forward into the future on a stabilized basis. A number of broad expense categories have been identified based on typical market parameters as well as the accounting in place at the subject.

Expense Structure

Market rents were estimated in accordance with the subject's actual expense structure or the common expense structure within the subject's market. Based on the subject's current occupancy and market, the expense structure is projected as follows:

MODIFIED TRIPLE NET

The subject is leased on a modified NNN basis. This expense structure is where the tenant is responsible for paying most property expenses, including professional management, utilities, minor interior maintenance, janitorial, property insurance and real estate taxes. The landlord is responsible for certain maintenance items (sprinklers, elevators, plumbing, HVAC, etc.), general liability insurance, and reserves.

Expense Comparisons

Expenses at similar properties have been identified and are presented on a following page.

Budget / Pro Forma Expenses

Because the subject will be new construction, historic income and expense information is not available. However, the developer has provided pro forma information regarding anticipated maintenance costs and liability insurance. This information appears reasonable and is given strong weight in the forecast.

Expense Comparables Exhibit - $/Sq Ft

Expense Comparables	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7	Comp 8	Comp 9	Comp 10
ID	1894	1744	1716	1715	1712	1711	1710	1519	1401	954
City	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage
Property Type	Office	Office	Office	Office	Office	Office	Office	Office	Office	Office
Office Building Class	A	A	A	A	A	A	A	A	A	A
Stories	5	5	10	5	3	6	6	5	8 & 5	14
Year Built / Renovated	1978	2004	2001 / 2001	2004 / 2004	1985 / 1985	1982 / 1982	1976 / 1976	1977	1974/1975	2008
Approx. GBA	70,000	100,000	210,000	100,000	40,000	140,000	100,000	100,000	210,000	300,000
Expense Structure	FS	FS	FS	FS	FS	FS	FS	FS	FS + PT	FS w/ PT
	$/SF	**$/SF**	**$/SF**	**$/SF**	**$/SF**	**$/SF**	**$/SF**	**$/SF**	**$/SF**	**$/SF**
Management	$1.26	$1.53	$1.63	$1.87	$0.97	$1.08	$1.30	$1.40	$1.41	$1.55
(as % of EGI):	*4.0%*	*4.6%*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*5.0%*	*4.8%*	*5.3%*
Total Utilities	$2.78	$2.65	$2.55	$2.52	$2.89	$2.37	$2.65	$2.75	$2.71	$1.80
Repairs and Maintenance	$1.13	$1.70	$3.98	$2.33	$1.53	$1.34	$1.54	$1.70	$1.70	$0.38
Cleaning	$0.71	$1.10	$1.84	$1.12	$1.12	$1.28	$0.94	$1.10	$1.03	$0.97
Grounds	$0.65	$1.20	$0.71	$0.69	$0.56	$0.63	$0.29	$0.65	$0.62	$0.71
General Operating	$0.57	$0.49	---	---	$0.17	$0.15	$0.12	$0.33	$0.32	$0.15
Insurance	$0.65	$0.29	$0.08	$0.47	$0.40	$0.22	$0.79	$0.62	$0.61	$0.65
Taxes	$2.98	$3.17	$3.50	$3.37	$2.48	$2.41	$2.94	$2.72	$2.66	$2.75
Reserves	$0.47	---	---	---	---	---	---	$0.56	$0.56	---
Ground Rent	$3.22	---	---	---	---	---	---	---	---	---
Expenses Total	**$11.22**	**$12.13**	**$14.29**	**$12.37**	**$10.12**	**$9.48**	**$10.51**	**$11.83**	**$11.62**	**$8.96**

Repair & Maintenance Repairs and maintenance are annual ongoing expenses consisting of non-capital items associated with keeping the property in a condition consistent with its peers. This expense also includes maintenance and repairs for items such as HVAC, elevator, life and safety, lighting, doors and other systems. Costs can vary widely from year-to-year, and care must be taken to estimate average expense for a typical year. This expense is typically lower for new construction or properties with minimal build-out, and higher for older construction or properties with significant build-out. In this case, given the landlord's responsibilities and the fact that the subject will be new, it is forecast at $1.00/sq ft of GBA at completion. This forecast is consistent with the lower middle of the expense comparable range.

General Operating This expense covers minor administrative, miscellaneous and other incurred expenses associated with non-management operations of the property. It is forecast at a nominal $0.05/sq ft of GBA, at the low end of the comparables, which is reasonable given the modified NNN tenant expense arrangement.

Insurance This expense will cover only general liability insurance, per the lease agreement. Although a formal insurance quote was not available at the time of this appraisal, based on discussions with the developer the stabilized expense is forecast at $5,000/year, which would equate to $0.08/sq ft of GBA for reference purposes.

Reserves Reserves are an annual expense that is set aside for the periodic replacement of short-lived capital items such as parking lot, roof, carpet and paint, and certain mechanical components such as boilers, HVAC units and elevators. They are theoretical in nature, since the actual annual expenditure on capital improvements may vary widely from year to year. Therefore, the reserve estimate is intended to reflect an annual average over time. Within the subject's market, most market participants incorporate reserves as an above the line expense. Reserves are a function of property type, construction type, age / condition and other factors. Investor surveys indicate that for a property similar to the subject reserves are typically $0.10/sq ft to $0.50 /sq ft of building area. Investors also consider reserves as a percentage of EGI, typically ranging from 0.5% to 2%. In this analysis, given the subject's various characteristics, this expense is forecast at $0.30/sq ft of GBA. For reference, this equates to 0.6% of EGI - a figure skewed downward by the subject's high rent revenue.

Current Investment Parameters

Clarification of Terms For direct capitalization, the single stabilized rate is often referred to as a going-in rate, Ro, or overall annual rate (OAR). In this appraisal, the term OAR is used. For yield capitalization, the rate is often referred to as a yield rate, discount rate, or internal rate of return (IRR). In this appraisal, the term yield rate is used.

RERC & PwC (formerly Korpacz) Real Estate Investor Surveys These are detailed reports that are published four times a year. They are designed to provide accurate information in regard to current investment parameters for a variety of property types and markets. These reports are derived from a survey of highly knowledgeable market participants. Regional investment survey participants are leaders in their respective real estate market, comprising local or regional brokers, developers, managers, appraisers, consultants, owners, buyers, lenders, financial institutions, private firms, local jurisdictions, and planners. These key real estate professionals have first-hand knowledge of local investment

conditions in major metropolitan markets. Each quarter, survey participants report on which local and regional markets are affected by national trends reported by institutional investors and lenders. They also report on city specific IRR and on cap rates by property type and tier. In addition, each market survey contains information per property type on anticipated rent and value growth, buy-sell-hold recommendations, investment conditions, risk of overbuilding, overall performance, and investor's insights in each of their respective markets. These reports are two of the pre-eminent studies of the investment climate within the real estate industry.

NATIONAL INVESTOR SURVEY RESULTS

Property Type	**Ntl. Secondary Office Mkt**	**Ntl. CBD Office Market**	**Ntl. CBD Office Market**
Source	**PwC**	**PwC**	**RERC**
Quarter	**3rd Quarter 2013**	**3rd Quarter 2013**	**1st Quarter 2013**
Discount Rates (IRR):			
Low / High	6.5% 14.0%	4.8% 11.0%	6.0% 11.0%
Average	9.5%	8.1%	8.0%
Overall Cap Rates (OAR):			
Low / High	4.0% 11.0%	4.0% 10.0%	5.0% 8.0%
Average	8.0%	6.6%	6.2%

Local Market Investment Parameters Exhibit

Local Investment Comps	Comp 1	Comp 2	Comp 3	Comp 4	Comp 5	Comp 6	Comp 7	Comp 8	Comp 9
ID	822	1918	1822	1402	1302	952	825	823	812
Date	2008	2013	2011	2011	2011	2008	2006	2007	2010
City	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage	Anchorage
Property Type	Office	Office	Retail	Office	Industrial	Office	Office	Office	Office
GBA	80,000 Sq Ft	140,000 Sq Ft	90,000 Sq Ft	210,000 Sq Ft	60,000 Sq Ft	30,000 Sq Ft	50,000 Sq Ft	80,000 Sq Ft	40,000 Sq Ft
Basic Parameters									
Holding Period	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.	10 Yrs.
Vacancy and Credit Loss	1.0%	2.0%	5.0%	5.0%	3.1%	1.0%	5.0%	5.0%	1.7%
Reserves Allowance	$0.20	$0.02	$0.10	$0.56	$0.25	$0.20	$0.37	$0.15	$0.25
Marketing Time (mos.)	6	0	6	4	0	6	4	6	0
Sale Costs	3.0%	2.0%	3.0%	3.0%	4.0%	3.0%	4.0%	3.0%	3.0%
Growth Parameters									
Revenue Growth	3.0%	4.0%	3.0%	3.0%	3.0%	0.0%	3.0%	3.0%	3.0%
Expense Growth	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Income Growth	Flat	Increasing	Stable	Stable	Stable	Flat	Increasing	Increasing	Increasing
Renewal Parameters									
Renewal Probability	85%	75%	0%	75%	75%	90%	75%	70%	80%
3Yr Rollover %	0%	75%	0%	80%	59%	0%	30%	26%	11%
TIs - New	$15.00	$20.00	$10.00	$15.00	$10.00	$15.00	$12.00	$12.50	$12.50
TIs - Renewal	$15.00	$5.00	$0.00	$2.50	$2.50	$15.00	$2.00	$2.50	$5.00
Commissions - New	5%	5%	6%	5%	5%	5%	5%	5%	4%
Commissions - Renewal	3%	3%	3%	3%	3%	3%	3%	3%	2%
Risk Parameters									
Assured Income %	33%	19%	50%	15%	22%	30%	20%	26%	30%
Credit Tenant %	100%	81%	50%	50%	56%	100%	20%	40%	100%
Rent as % Market	100%	89%	80%	100%	100%	100%	77%	98%	87%
Risk Profile	Lower Risk	Lower Risk	Lower Risk	Average Risk	Lower Risk	Lower Risk	Average Risk	Average Risk	Lower Risk
Rates									
Going in OAR	8.88%	7.40%	7.80%	8.60%	7.20%	9.00%	8.50%	7.40%	7.10%
Reversion OAR	9.00%	8.50%	9.00%	9.50%	8.25%	9.00%	9.25%	8.75%	8.25%
Discount Rate	8.50%	10.40%	9.60%	11.70%	7.88%	8.50%	8.75%	9.00%	9.00%
Rate Spreads									
OAR vs. Discount	-0.38%	3.00%	1.80%	3.10%	0.68%	-0.50%	0.25%	1.60%	1.90%
Going-in vs. Reversion	0.12%	1.10%	1.20%	0.90%	1.05%	0.00%	0.75%	1.35%	1.15%

Current Investment Parameters – RERC Investment Survey

RERC Required Return Expectations[1] by Property Type – 1Q 2013

	Office		Industrial			Retail			Apartment	Hotel	Average All Types	RERC Portfolio Index
	CBD	Suburban	Ware-house	R&D	Flex	Regional Mall	Power Center	Neigh/ Comm				
Pre-tax Yield Rate (IRR) (%)												
Range	6.0 - 11.0	7.0 - 12.0	6.0 - 11.0	7.0 - 11.0	7.0 - 12.0	6.3 - 9.0	7.0 - 11.0	6.0 - 11.0	6.0 - 10.0	9.0 - 12.0	6.0 - 12.0	6.0 - 12.0
Average[2]	8.0	9.0	8.2	8.8	9.1	8.1	8.8	8.4	7.7	10.0	8.6	8.2
Weighted Average[3]	8.5			8.3			8.3					
BPS Change[4]	0	0	10	0	-30	30	40	20	30	-20	10	10
	-10			0			30					
Going-In Cap Rate (%)												
Range	5.0 - 8.0	5.5 - 10.0	5.0 - 8.3	6.0 - 10.0	6.0 - 11.0	5.0 - 9.0	6.0 - 9.5	5.0 - 11.0	4.0 - 6.0	6.0 - 10.0	4.0 - 11.0	4.0 - 11.0
Average[2]	6.2	7.3	6.6	7.5	7.7	6.4	7.3	6.8	5.3	8.0	6.9	6.4
Weighted Average[3]	6.7			6.7			6.6					
BPS Change[4]	0	-10	-10	0	-20	-20	10	0	-20	-10	-10	-10
	-20			-10			-10					
Terminal Cap Rate (%)												
Range	5.5 - 8.0	6.5 - 10.0	6.0 - 8.5	6.8 - 10.0	6.5 - 10.0	6.0 - 9.0	7.0 - 9.5	6.0 - 10.0	4.3 - 7.0	7.5 - 10.5	4.3 - 10.5	4.3 - 10.5
Average[2]	6.8	8.0	7.1	8.2	8.3	6.9	8.1	7.3	6.0	8.8	7.5	7.0
Weighted Average[3]	7.3			7.3			7.2					
BPS Change[4]	10	20	-10	20	-10	-10	40	-10	-10	10	0	0
	-10			0			0					
Rental Growth Rate (%)												
Range	0.0 - 5.0	0.0 - 3.0	1.0 - 4.0	1.0 - 4.0	0.0 - 4.0	0.0 - 4.0	0.0 - 3.0	0.0 - 3.0	2.0 - 4.0	2.0 - 6.0	0.0 - 6.0	0.0 - 6.0
Average[2]	2.9	2.2	2.8	2.7	2.4	2.3	2.1	2.4	3.2	3.9	2.7	2.7
BPS Change[4]	-30	-20	0	20	10	-10	-20	-20	0	0	-10	-10
Expense Growth Rate (%)												
Range	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	1.0 - 3.5	2.0 - 3.0	1.0 - 3.5	1.0 - 3.5
Average[2]	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	2.8	2.8
BPS Change[4]	-10	0	0	10	20	0	0	-10	-10	0	0	0

[1] This survey was conducted in January, February, and March 2013 and reflects expected returns for First Quarter 2013 investments.
[2] Ranges and other data reflect the central tendencies of respondents; unusually high and low responses have been eliminated.
[3] Weighting based upon 1Q13 NCREIF Portfolio market values.
[4] Change (+/-) in basis points (BPS) from quarter immediately preceding current rate.
Source: RERC Investment Survey

Current Investment Parameters – PwC Investment Survey

Table SEC-1
NATIONAL SECONDARY OFFICE MARKET
Third Quarter 2013

	CURRENT	LAST QUARTER	YEAR AGO
DISCOUNT RATE (IRR)[a]			
Range	6.50% – 14.00%	6.75% – 14.00%	6.75% – 14.00%
Average	9.54%	9.63%	9.53%
Change (Basis Points)		– 9	+ 1
OVERALL CAP RATE (OAR)[a]			
Range	4.00% – 11.00%	4.00% – 11.00%	4.00% – 11.00%
Average	8.01%	8.01%	8.11%
Change (Basis Points)		0	– 10
RESIDUAL CAP RATE			
Range	4.50% – 10.00%	6.00% – 10.00%	6.00% – 10.50%
Average	8.11%	8.17%	8.30%
Change (Basis Points)		– 6	– 19
MARKET RENT CHANGE[b]			
Range	0.00% – 10.00%	0.00% – 10.00%	0.00% – 12.00%
Average	3.15%	3.24%	2.88%
Change (Basis Points)		– 9	+ 27
EXPENSE CHANGE[b]			
Range	2.00% – 3.00%	2.00% – 3.00%	2.00% – 3.00%
Average	2.52%	2.52%	2.54%
Change (Basis Points)		0	– 2
MARKETING TIME[c]			
Range	2 – 12	2 – 12	2 – 12
Average	6.1	6.3	6.3
Change (▼, ▲, =)		▼	▼

a. Rate on unleveraged, all-cash transactions b. Initial rate of change c. In months

Due to its location, quality of the assets and reduced availability of capital, Alaska has historically had higher return requirements than indicated by national investor surveys. In recent years, this "premium" has been very limited for first tier properties.

Sale Comparisons

Rates of returns indicated by the local sale comparables included in this report are presented in the following table:

LOCAL SALE RETURN REQUIREMENTS

Comp	Name	Year Built / Renovated	Date	Buyer Type	Income Growth	Risk Profile	OAR
I-1	Diplomacy Building - 2011	1985 / 1985	Jun-13	Owner-User	Stable	Lower Risk	5.8%
I-2	KeyBank Center - 1891	1978 / Periodic	Dec-12	Investor	Increasing	Lower Risk	7.3%
I-3	DEA Building - 788	2000 / 2000	Feb-12	Investor	Flat	Lower Risk	7.8%
I-4	Tatitlek Building- 1393	2003 / 2003	Jul-11	Owner-User	Stable	Average Risk	8.0%
I-5	AHFC Building - 512	1984 / 1984	Mar-11	Owner-User	Stable	Average Risk	8.6%
I-6	Inuit Office Bldg. - 564	1996 / 1996	Oct-10	Partial User	Increasing	Lower Risk	7.1%
I-7	FBI Bldg. - 151	1994 / 1994	Feb-08	Investor	Flat	Lower Risk	8.5%
					Low		5.8%
					High		8.6%
					Average		7.6%

Band of Investment

A band of investment analysis is performed based on current equity dividend rates required by investors and available terms of market financing. This method responds very quickly to changes in interest rates and can be a leading indicator of the direction OARs are heading. Current equity dividends or "cash-on-cash" returns vary widely depending on the specific characteristics of the property. For reference, both the developer and the loan officer were interviewed regarding likely financing scenarios for the subject, and the information was incorporated into the analysis.

Moreover, it is understood that a bond offering may be held in the amount of the construction loan. This would essentially be considered as a State of Alaska bond, with weight given to the lease itself and the lessee's excellent credit rating - as opposed to the real estate collateral itself. It is understood that preliminary responses from the bond issuing authority suggests that the bonds would have a 10-year term, 25-year amortization, 4%-4.25% interest, which would clearly decrease the results of the band of investment analysis assuming the equity return component was unchanged. That said, a more traditional, conventional leasing scenario has been developed in the following table for analysis purposes given the speculative nature of this potential bond offering at present.

BAND OF INVESTMENT ANALYSIS					
Current Typical Investment and Finance Parameters					
Interest Rate (1)					5.68%
Loan Ammortization (1)					25
Loan to Value Ratio (1)					75%
Equity Cap Rate (2)	6.0%		to		8.0%
Ro Based on Equity Dividend of:	**6.0%**				
Return on Mortgage (Rm)	75%	X	0.0749	=	0.0562
Return on Equity (Re)	25%	X	0.0600	=	0.0150
Indicated Overall Annual Rate (OAR)					**7.1%**
Ro Based on Equity Dividend of:	**8.0%**				
Return on Mortgage (Rm)	75%	X	0.0749	=	0.0562
Return on Equity (Re)	25%	X	0.0800	=	0.0200
Indicated Overall Annual Rate (OAR)					**7.6%**

(1) Assuming AIDEA participating loan, maximum amount $20M.

(2) Based on market survey of investors & market participants.

Alternative Investment Analysis

A long-term lease has many of the same characteristics of a long-term bond, in that it requires an initial investment, it provides fixed income, and it is eventually recovered at the end of a holding period. 10-year US Treasury bonds, corporate bonds, real estate debt instruments, and stocks are continuously traded on the open market and return data for these investments is readily available. Therefore, by examining the yield rates of alternate investments, an appropriate discount rate can be selected. RERC summarizes recent alternative investments in the following table:

Required Real Estate Yields vis-à-vis Capital Market Returns – 1Q 2013						
	1Q 2013	4Q 2012	1Q 2012	1Q 2011	1Q 2010	1Q 2009
Real Estate Yield (%)	8.6	8.5	8.7	9.6	10.1	8.3
Moody's Baa Corporate (%)	4.8	4.6	5.2	6.3	6.3	6.7
Moody's Aaa Corporate (%)	3.8	3.5	3.9	5.3	5.2	5.6
10-Year Treasurys (%)	1.9	1.7	2.0	3.8	3.4	3.8
Yield Spread (percentage points)						
Moody's Baa Corporate (%)	3.8	3.9	3.5	3.3	3.8	1.6
Moody's Aaa Corporate (%)	4.8	5.0	4.8	4.3	4.9	2.7
10-Year Treasurys (%)	6.7	6.8	6.7	5.8	6.7	4.5

Sources: RERC Investment Survey, Federal Reserve, Moody's

Investors and market participants traditionally have indicated that real estate yield rates traditionally reflect a risk premium of approximately 250 to 300 basis points over similarly rated bonds, though downward pressure on prices and increased perceptions of real estate risk have more recently increased the spread to a range of 350 to 450 basis points.

In this case, the subject will be 100% leased to the State of Alaska Legislature, via its administrative arm (the Legislative Affairs Agency). As discussed at the beginning of this chapter, and demonstrated by the ratings agency reports included in the Addenda, the State holds the highest available credit rating of AAA/Aa by

all three ratings entities. At present, the Yahoo! Finance website shows a Corporate AAA bond index at 3.48% yield, and Bloomberg shows an index yield of 3.17%. Yahoo! shows a current Municipal AAA index yield of 2.53%, while Bloomberg's comparable 10-year bond index is similarly at 2.49%.

Given a bond yield of approximately 3% and a premium of 500 basis points (given real estate's illiquidity and additional risk, as well as the subject's Alaskan location), a yield rate is suggested for the subject 8%.

Rate Selection Weighting Summary

The relative weight placed on each of the various OAR sources is summarized in the following table:

		Weight	
Method Used	**Performed**	**OAR**	**Yield**
Investor Surveys	Yes	Primary	Primary
Sale Comparisons	Yes	Primary	Secondary
Band of Investment	Yes	Secondary	
Alternative Investment Analysis	Yes		Secondary
Final Selected Rate		**7.25%**	**8.25%**

Property Specific Influences on Risk & Rate

Upward Influences

- Although Anchorage is a fairly well established market, the subject's Alaskan location can increase the perception of risk - as fewer investors are knowledgeable of, and comfortable with, this type of geographic location.
- There continues to be some degree of uncertainty surrounding future economic conditions nationally, which has increased the perceived risk in investment real estate to some degree. While Alaska has weathered the recession and protracted recovery very well, it has not been wholly immune.
- The lease is flat during the initial 10-year term. However, the impact of this reality is mitigated somewhat by the fact that the lease has a modified-NNN structure, which insulates the owner to a degree from NOI erosion often resulting from increases in operating expenses.

Downward Influences

- The property is well located in the downtown CBD, offering good access and exposure, along with proximity to state and federal courthouses, a number of government agencies, and various legal and petroleum companies among others. Moreover, the site affords structured parking - a clear amenity downtown.
- The subject will effectively be new at completion, which will limit risk of significant capital infusion requirements over the assumed hold for the owner.
- The subject is 100% leased to a high quality, fully credit tenant. As a branch of state government, and given that Anchorage is home to the bulk of the state's population, the Legislature will have long term need for space here. There are no indications of any reductions in space needs for the foreseeable future - which would be moot during the initial term anyway but which would potentially have an impact at the

time of renewal in Year 10. In any event, the property is not expected experience any vacancy during the initial term.

Summary

A summary of the subject's risk profile is presented below.

RISK PROFILE SUMMARY

Characteristic	Subject	Risk Rating Relative to Market
Overall Quality:	Class A	Average
Overall Condition of Assset:	New	Below Average
% Occupancy by Credit Tenants:	100%	Significantly Below Average
% of Value Distribution from Assured Income:	50%	Below Average
% Lease Rollover During Year 1-4:	0%	Significantly Below Average
% Lease Rollover by Year 10:	100%	Average
Average Annual Rate of Rent Change:	0.0%	Above Average
Expense Structure:	NNN	Below Average
Overall Risk Rating		**Below Average**

Selection of Rate

Overall Annual Rate (OAR)

Given the available data, the subject's going-in OAR is concluded at 7.25%. The direct capitalization exhibit follows.

Selection of Yield Rate

After careful consideration, in light of the available data and the subject's particulars, the subject's yield rate is concluded at 8.25%. The resulting cash flows and prospective present values are presented on the following pages.

Direct Capitalization Exhibit

SUMMARY OF DIRECT CAPITALIZATION

STABILIZED REVENUE

Tenant	Space Type	Forecast Type	Sq Ft	$/Sq Ft/Mo.	$/Sq Ft/Yr.	FY
Legis. Affairs	Office	Contract	56,442	$4.99	$59.88	$3,379,656
Rental Revenue			56,442	$4.99	$59.88	$3,379,656
Rooftop Antenna						$16,800
Potential Gross Revenue						**$3,396,456**
Less: Vacancy and Credit Loss @			0.5%			($16,982)
Effective Gross Revenue						**$3,379,474**

STABILIZED EXPENSES

	$/Sq Ft/Yr. of GBA	% of EGI	FY
Repairs and Maintenance	$1.00	-1.9%	($64,200)
General Operating	$0.05	-0.1%	($3,200)
Insurance	$0.08	-0.1%	($5,000)
Reserves	$0.30	-0.6%	($19,300)
Total Expenses	**$1.43**	**-2.7%**	**($91,700)**
STABILIZED NET OPERATING INCOME	**$58.25**	**97.3%**	**$3,287,774**

STABILIZED VALUE	
Stabilized Net Operating Income	$3,287,774
Capitalized At:	7.25%
Stabilized Value	**$45,348,603**
Rounded	**$45,350,000**
Less: Cost to Complete (Incl. Developer's Profit, but Excl. $7.5M Lessee TIs)	($27,500,000)
Indicated As Is Value	**$17,850,000**

Discounted Cash Flow Analysis

Argus Cash Flow Model

The discounted cash flow model is created using ARGUS, which is industry standard cash flow modeling software that allows for lease-by-lease analysis, the creation of detailed reimbursement structures for multiple tenant, multiple market leasing assumptions, and line item income and expense growth rates. Tenant rollover assumptions, below market options, and other factors directly input into the model. The ARGUS cash flow and value outputs (printouts) are presented in this section, while the supporting schedules are in the Addendum.

Projection Period

Typical holding periods reported by investment surveys are currently between 7 and 10 years. For valuation purposes, most market participants perform discounted cash flow analysis based on a 10-year projection period with the reversion calculated based on the following year NOI. In choosing the projection

	period, care must be taken to make sure that the year of reversion is more or less stabilized and not subject to abnormally high (or low) vacancy. In this case, the stabilized analysis incorporates a standard 10-year holding period with reversion calculated by capitalizing the following year income. Given the subject's lease term and construction phase, however, the "as is" analysis incorporates a slightly longer 11-year hold, with reversion similarly calculated based on following year reversion. Note that, in the "as is" model only, the remaining cost to complete the project of $27,500,000 is included as a capital expense item during Year 1, while interim rent ($56,863/mo for LAA and $1,400/mo for Verizon Wireless) are included as offsetting revenues. The expenses associated with servicing the existing LAA lease during the interim are not deducted in the model, as they are already allowed for in the development cost figure ($1 million line item for alternative space during construction).	
Absorption of Vacancy	The subject is fully leased and no absorption is required.	
Analysis Start Dates	As Is:	11/1/2013
	At Stabilization:	1/1/2015
Growth Factors	General Inflation:	0% through 2015, 3.0% thereafter
	Market Rent:	0% through 2015, 2.0% thereafter
	Other Income:	N/A
	Consumer Price Index:	(see General Inflation)
	Expenses:	(see General Inflation)
Vacancy & Credit Loss / Downtime between Leases	Downtime Upon Vacancy:	6 Months
	Downtime of Current Vacancy:	N/A
	Global Vacancy Rate:	None
	Exclusions:	None
	Credit Loss:	None
	Exclusions:	None
Turnover Parameters	Lease Term:	5 Years
	Escalations:	None
	Concessions:	None
	Tenant Improvement Allowance:	$20/sq ft (new), $10/sq ft (renew)
	Leasing Commissions:	5.0% (new), 0% (renew)
	Renewal Probability:	95% (LAA initial term), 70% thereafter
Market Rent	Market Rent:	$3.20/sq ft/mo
	Renewal Rent (LAA):	$4.63/sq ft/mo
Reversion Parameters	Reversionary Cap Rate:	7.75%
	Cost of Sale:	3.0%

Discounted Cash Flow Exhibit– As Is

For the Years Ending	Year 1 Oct-2014	Year 2 Oct-2015	Year 3 Oct-2016	Year 4 Oct-2017	Year 5 Oct-2018	Year 6 Oct-2019	Year 7 Oct-2020	Year 8 Oct-2021	Year 9 Oct-2022	Year 10 Oct-2023	Year 11 Oct-2024	Year 12 Oct-2025
Potential Gross Revenue												
Base Rental Revenue	$682,356	$2,930,106	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,508,898	$3,689,837
Scheduled Base Rental Revenue	682,356	2,930,106	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,508,898	3,689,837
CPI & Other Adjustment Revenue												46,123
Verizon Rooftop Antenna	16,800	16,800	16,800	16,800	16,800	16,800	16,800	16,800	16,800	16,800	18,200	18,480
Total Potential Gross Revenue	699,156	2,946,906	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,527,098	3,754,440
Effective Gross Revenue	699,156	2,946,906	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,527,098	3,754,440
Operating Expenses												
Repairs & Maintenance		53,488	65,793	67,766	69,799	71,893	74,050	76,272	78,560	80,917	83,344	85,844
General Operating		2,677	3,290	3,388	3,490	3,595	3,703	3,814	3,928	4,046	4,167	4,292
Liability Insurance		4,167	5,125	5,279	5,437	5,600	5,768	5,941	6,120	6,303	6,492	6,687
Reserves		16,047	19,738	20,330	20,940	21,568	22,215	22,882	23,568	24,275	25,003	25,753
Total Operating Expenses		76,379	93,946	96,763	99,666	102,656	105,736	108,909	112,176	115,541	119,006	122,576
Net Operating Income	699,156	2,870,527	3,302,510	3,299,693	3,296,790	3,293,800	3,290,720	3,287,547	3,284,280	3,280,915	3,408,092	3,631,864
Leasing & Capital Costs												
Tenant Improvements											773,262	
Leasing Commissions											46,123	
Remaining Cost to Complete	27,500,000											
Total Leasing & Capital Costs	27,500,000										819,385	
Cash Flow Before Debt Service & Taxes	(26,800,844)	$2,870,527	$3,302,510	$3,299,693	$3,296,790	$3,293,800	$3,290,720	$3,287,547	$3,284,280	$3,280,915	$2,588,707	$3,631,864

Prospective Present Value Exhibit– As Is

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 7.75%	P.V. of Cash Flow @ 8.00%	P.V. of Cash Flow @ 8.25%	P.V. of Cash Flow @ 8.50%	P.V. of Cash Flow @ 8.75%
Year 1	Oct-2014	($26,800,844)	($24,873,173)	($24,815,596)	**($24,758,285)**	($24,701,239)	($24,644,454)
Year 2	Oct-2015	2,870,527	2,472,447	2,461,014	**$2,449,660**	2,438,385	2,427,186
Year 3	Oct-2016	3,302,510	2,639,930	2,621,639	**$2,603,517**	2,585,561	2,567,771
Year 4	Oct-2017	3,299,693	2,447,960	2,425,373	**$2,403,045**	2,380,974	2,359,155
Year 5	Oct-2018	3,296,790	2,269,891	2,243,740	**$2,217,950**	2,192,515	2,167,430
Year 6	Oct-2019	3,293,800	2,104,716	2,075,652	**$2,047,056**	2,018,919	1,991,231
Year 7	Oct-2020	3,290,720	1,951,506	1,920,104	**$1,889,277**	1,859,014	1,829,304
Year 8	Oct-2021	3,287,547	1,809,397	1,776,159	**$1,743,607**	1,711,725	1,680,498
Year 9	Oct-2022	3,284,280	1,677,585	1,642,958	**$1,609,123**	1,576,060	1,543,749
Year 10	Oct-2023	3,280,915	1,555,329	1,519,698	**$1,484,964**	1,451,101	1,418,085
Year 11	Oct-2024	2,588,707	1,138,919	1,110,252	**$1,082,370**	1,055,251	1,028,871
Total Cash Flow		4,994,645	(4,805,493)	(5,019,007)	**($5,227,716)**	(5,431,734)	(5,631,174)
Property Resale @ 7.75% Cap		45,456,878	19,999,058	19,495,676	**$19,006,084**	18,529,875	18,066,652
Total Property Present Value			$15,193,565	$14,476,669	**$13,778,368**	$13,098,141	$12,435,478
Rounded			$15,190,000	$14,480,000	**$13,780,000**	$13,100,000	$12,440,000

Discounted Cash Flow Exhibit– At Stabilization

For the Years Ending	Year 1 Dec-2015	Year 2 Dec-2016	Year 3 Dec-2017	Year 4 Dec-2018	Year 5 Dec-2019	Year 6 Dec-2020	Year 7 Dec-2021	Year 8 Dec-2022	Year 9 Dec-2023	Year 10 Dec-2024	Year 11 Dec-2025
Potential Gross Revenue											
Base Rental Revenue	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,379,656	$3,560,594	$3,689,837
Scheduled Base Rental Revenue	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,379,656	3,560,594	3,689,837
CPI & Other Adjustment Revenue											64,573
Verizon Rooftop Antenna	16,800	16,800	16,800	16,800	16,800	16,800	16,800	16,800	16,800	18,480	18,480
Total Potential Gross Revenue	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,579,074	3,772,890
Effective Gross Revenue	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,396,456	3,579,074	3,772,890
Operating Expenses											
Repairs & Maintenance	64,188	66,114	68,096	70,141	72,243	74,411	76,644	78,944	81,311	83,751	86,263
General Operating	3,210	3,306	3,404	3,508	3,611	3,722	3,832	3,948	4,065	4,187	4,313
Liability Insurance	5,001	5,149	5,305	5,463	5,628	5,796	5,971	6,148	6,335	6,524	6,719
Reserves	19,257	19,834	20,428	21,042	21,674	22,323	22,994	23,684	24,393	25,125	25,879
Total Operating Expenses	91,656	94,403	97,233	100,154	103,156	106,252	109,441	112,724	116,104	119,587	123,174
Net Operating Income	3,304,800	3,302,053	3,299,223	3,296,302	3,293,300	3,290,204	3,287,015	3,283,732	3,280,352	3,459,487	3,649,716
Leasing & Capital Costs											
Tenant Improvements										773,262	
Leasing Commissions										46,123	
Remaining Cost to Complete											
Total Leasing & Capital Costs										819,385	
Cash Flow Before Debt Service & Taxes	$3,304,800	$3,302,053	$3,299,223	$3,296,302	$3,293,300	$3,290,204	$3,287,015	$3,283,732	$3,280,352	$2,640,102	$3,649,716

Prospective Present Exhibit Value – At Stabilization

Analysis Period	For the Year Ending	Annual Cash Flow	P.V. of Cash Flow @ 7.75%	P.V. of Cash Flow @ 8.00%	P.V. of Cash Flow @ 8.25%	P.V. of Cash Flow @ 8.50%	P.V. of Cash Flow @ 8.75%
Year 1	Dec-2015	$3,304,800	$3,067,100	$3,060,000	**$3,052,933**	$3,045,899	$3,038,897
Year 2	Dec-2016	3,302,053	2,844,130	2,830,978	**2,817,917**	2,804,946	2,792,065
Year 3	Dec-2017	3,299,223	2,637,302	2,619,030	**2,600,926**	2,582,988	2,565,216
Year 4	Dec-2018	3,296,302	2,445,445	2,422,880	**2,400,576**	2,378,527	2,356,731
Year 5	Dec-2019	3,293,300	2,267,487	2,241,365	**2,215,602**	2,190,194	2,165,135
Year 6	Dec-2020	3,290,204	2,102,418	2,073,387	**2,044,821**	2,016,714	1,989,057
Year 7	Dec-2021	3,287,015	1,949,309	1,917,942	**1,887,150**	1,856,921	1,827,245
Year 8	Dec-2022	3,283,732	1,807,297	1,774,098	**1,741,584**	1,709,739	1,678,547
Year 9	Dec-2023	3,280,352	1,675,579	1,640,993	**1,607,198**	1,574,174	1,541,903
Year 10	Dec-2024	2,640,102	1,251,549	1,222,878	**1,194,928**	1,167,679	1,141,111
Total Cash Flow		32,277,083	22,047,616	21,803,551	**21,563,635**	21,327,781	21,095,907
Property Resale @ 7.75% Cap		45,680,317	21,654,907	21,158,825	**20,675,216**	20,203,738	19,744,060
Total Property Present Value			$43,702,523	$42,962,376	**$42,238,851**	$41,531,519	$40,839,967
Rounded to Thousands			$43,700,000	$42,960,000	**$42,240,000**	$41,530,000	$40,840,000
Per SqFt			774.29	761.18	**748.36**	735.83	723.57

Reconciliation & Final Value Estimate

Summary of Value Estimates

The approaches to value utilized in this report have indicated the following values for the subject:

VALUATION SUMMARY		
Legislative Affairs Building		
Property Rights	**Leased Fee**	**Leased Fee**
Condition	**As Is**	**At Completion/Stabilized**
Effective Date of Appraisal	**October 28, 2013**	**December 31, 2014**
Land Valuation	$3,890,000	$3,890,000
Cost Approach	$11,270,000	$38,770,000
Sales Comparison Approach		
Physical Comparison	Not Concluded	Not Concluded
Economic Comparison	$14,830,000	$42,330,000
Income Capitalization Approach		
Direct Capitalization	$17,850,000	$45,350,000
Discounted Cash Flow	$13,780,000	$42,240,000
Final Market Value Estimate	**$16,500,000**	**$44,000,000**

Reconciliation

Overview

Reconciliation is the final phase in the assignment and is where two or more value indications derived from market data are resolved into a final value estimate. USPAP requires that the appraiser reconcile the quality and quantity of data available and analyzed within the approaches used. Furthermore, the applicability and relevance of the approaches, methods and techniques must also be reconciled. A discussion of the applicability of the various approaches is presented below.

Cost Approach

This approach is normally a strong indicator of value when there is reliable data from which to estimate replacement cost and accrued depreciation. This approach is highly applicable for special purpose properties, new construction and when there are limited sales or rental activity (resulting in less reliable value indications by sales comparison and income capitalization). It is less applicable for older properties that exhibit significant amounts of depreciation. For non-special purpose properties, this approach is often considered by market participants but not given primary weight. Investors primarily use this approach to determine the feasibility of a proposed development. Owner-users often consider this approach when making decisions on whether to buy an existing building or pursue new construction.

Sales Comparison Approach

This approach is normally a strong indicator of value when adequate current sales data are available. Like the Income Capitalization Approach, this approach responds quickly to changes in the marketplace. In user markets, the Sales Comparison Approach is given primary weight. Investors use this approach primarily as an indicator of current rates of return and subsequently give this

approach secondary weight.

Income Capitalization Approach

The Income Capitalization Approach is generally considered a strong indicator of value for income-producing properties. The primary strength of the Income Capitalization Approach is income and operating levels respond quickly, if not immediately, to conditions in the market and changes in the property. This approach is given primary weight by investors and secondary weight by owner-users. Direct capitalization is the most common method of income capitalization used within the market and is highly applicable when a property is physically or economically stabilized. Discounted cash flow analysis is used by market participants for investment grade properties and is highly applicable when there are changing market conditions, a property is not physically or economically stabilized, the timing of cash flows is irregular, or the income pattern is different than what is typical of the market.

Final Value Estimate

The value indications from all three approaches are reasonably supportive of one another, suggesting adequate market data and reliable analysis of that data. That said, there have been no recent sales of properties similar to the subject and so physical comparison was not possible through the Sales Comparison Approach. Instead, economic comparison was utilized primarily as a test of reasonableness. As a long-term leased asset, the Income Capitalization Approach clearly indicates the most reliable market value for the subject in this case and so is given the most weight. In light of the property's economic characteristics and leasing status, and given likely buyers' reliance on both methods, direct capitalization and discounted cash flow analysis are given roughly equal weight. The Cost Approach is given little weight, although it is useful for ascertaining financial feasibility. Finally, the estimate of remaining cost to complete is deducted from the concluded "at completion / stabilization" value for an indication of "as is" value. The reader should be aware that the "as is" value is strongly influenced in this case by the pending development project and the in-place lease for the property at completion. After careful consideration, the final market value estimates for the subject are as follows:

FINAL MARKET VALUE ESTIMATE		
Legislative Affairs Building		
Property Rights	**Leased Fee**	**Leased Fee**
Condition	**As Is**	**At Completion/Stabilized**
Effective Date of Appraisal	**October 28, 2013**	**December 31, 2014**
Final Market Value Estimate	**$16,500,000**	**$44,000,000**

Exposure Period

National investor surveys indicate exposure periods for properties within the subject's market classification ranging from 2 to 18 months and averaging 6 to 8 months. Local sales comparable data similarly shows exposure periods of 12 months or less, assuming appropriate pricing and marketing efforts. At the reconciled market value, an exposure period of 12 months is concluded.

Marketing Time

Based on current market trends the marketing time should be similar to the exposure period. At the reconciled value, the estimated marketing time for the subject is concluded at 12 months.

General Assumptions & Limiting Conditions

1. **Applicable to All Assignments:** Unless explicitly stated to the contrary, the following General Assumptions & Limiting Conditions apply to all assignments:

2. **Acceptance of Report/Limit of Liability:** The client's acceptance and/or use of this report also establishes the complete acceptance of all contingencies, assumptions, limiting conditions, etc., as stated within the report. The client is responsible to become familiar with these assumptions and limiting conditions. If placed in the possession of anyone other than the client, the client shall make such party aware of these assumptions and limiting conditions. The appraiser(s) assume no liability for the client or third party's lack of familiarization and comprehension of the same. The appraiser(s) has no responsibility or liability to correct any deficiencies of any type in the property, or any costs incurred to correct such deficiencies whether legal, physical, or financial.

3. **Post Appraisal Services:** The contract for appraisal, consultation, or other service is fulfilled upon completion of the assignment. The appraiser(s) or others assisting in this report will not be required to provide testimony in court or other hearing, and will not participate in post appraisal services other than routine questions with the client or third parties so designated by the client without a separate engagement and for an additional fee. If testimony or deposition is required due to subpoena, the client shall become responsible for the incursion of fees and charges for any additional time, regardless of the party.

4. **Duplication and Dissemination of Report or Report Contents:** This appraisal has been completed for the client's specific use and the appraiser(s) has no liability, accountability, or obligation to any third party. The appraiser(s) retain copyright of the data, discussions, and conclusions contained herein. Possession of this report does not constitute the right of publication either in whole or in part. The client may only disseminate complete final copies to third parties engaged in the course of underwriting and loan securitization. Duplication and dissemination of selected sections of this report to third parties without express written consent of the signatories of the report are prohibited. This report in whole or in part may not be distributed to the general public by use of advertising media, public relations, new outlets, etc. without the written consent of the signatories. Exemptions from this restriction include duplication for the client's internal use, dissemination to accountants, attorneys, or advisors of the client. The exemption also extends to any court, governmental authority, or regulatory agency that has jurisdiction or subpoena power over the individuals or parties for whom the appraisal has been prepared or for ethics enforcement, provided that the report will not be published in whole or in part in any public document or medium. This report shall not be advertised to the public to make a "sale" or any "security" as defined by the Securities Act of 1933.

5. **Appraisal Institute Use Restrictions:** Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.

6. **Unauthorized User:** The report has been prepared for the client and the client's intended use. The appraiser(s) has no liability to any third party. Any authorized user of this document who provides a copy of this document to, or permits reliance thereon by, any person or entity not authorized by Reliant, LLC in writing to use or rely thereon, hereby agrees to indemnify and hold Reliant, LLC, its affiliates and their respective shareholders, directors, officers, and employee's harmless from and against all damages, expenses, claims and costs, including attorney's fees, incurred in investigating and defending any claim

arising from or in any way connected to the use of, or reliance upon, the document by any such unauthorized person or entity.

7. **Reliability of Information Used:** Through the course of this assignment the appraiser(s) collected data from numerous sources deemed reliable, but not guaranteed. No liability is assumed for the inaccuracies of data supplied by the various sources either public or private. Data relied upon in this report has been confirmed with primary or secondary sources considered reliable and/or reasonable, and appropriate for inclusion in the analysis. Although there were no reasons to doubt the general accuracy of such data, unimpeachable verification or affidavits of all data is an impractical and an uneconomic expenditure of time and resources and/or may involve legal or confidentiality issues.

8. **Right to Amend Report:** The appraiser(s) reserves the right to amend, modify, alter, or correct any and all statements, analyses, and conclusions of the value indications in the event that incorrect data was supplied, withheld, altered, or that any other pertinent data unknown, not disclosed, or revealed to the appraiser(s), whether intentionally or unintentionally, during the course of this assignment subsequently becomes available. Examples of such data that could impact the opinions of market value include but are not limited to: street addresses, Assessor's Parcel Numbers, site area, site dimensions, gross building area, net rentable area, usable area, common area, number of units, number of room, rent rolls, historical operating statements and budgets, sales data, etc.

9. **Obligation of User to Report Errors:** Any authorized user is required immediately contact the appraiser(s) and report errors, discrepancies, or alterations to the proposed properties or land parcels to determine the impact on the opinion(s) of market value.

10. **Integrated Analysis.** The individual components of the analysis contained herein are highly interrelated and subject-specific. As such, individual items such as rent, vacancy allowance, expenses, and rate of return cannot be viewed individually without the context of the whole analysis. Moreover, conclusions or individual components from this specific analysis cannot and should not be extracted for application to other properties and/or situations.

11. **Market Dynamic and Valuation Fluctuations:** The opinions of market value expressed within the report are subject to change over time as a result of market dynamics. Market values are highly susceptible to both macro and micro economic forces that influence the property. Such forces include but are not limited to: exposure on the market, length of time, marketing efforts, motivations and preferences of market participants, productivity of the property, the property's market appeal, changes in investor requirements regarding income and yields, etc. The opinions of market value are made as of the report date and subject to fluctuations over time as a result of natural market forces.

12. **Date of Value, Dollar Values, and Purchasing Power:** The date of the report and the effective date of the market value opinions are stated in the letter of transmittal or with the appropriate sections of the report. All dollar amounts are based on the purchasing power of the United States Dollar (USD). The analyses and conclusions of the appraisal are based upon the known market conditions as of the date of report. Changes in market conditions or purchasing power may warrant a new appraisal assignment. The appraiser(s) is available for consultations regarding changes in the economic conditions.

13. **Fixtures, Furniture, and Equipment (FF&E) and Business Concerns:** Personal property, FF&E, intangibles, going concerns, etc., unless specifically stated as a component of the real estate, are excluded from the market value estimates.

14. **Non-Viewed Units/Spaces:** In certain instances, due to current occupancy or lack of access, portions of the subject's units/spaces are not available to be viewed during the walk through. Unless otherwise stated in the report, in these cases the person accompanying the appraiser on the walk through has represented that the condition and quality of these units/spaces are similar to that of the property (viewed areas) as a whole. It is a general assumption of this assignment that the units/spaces that were not viewed are commensurate condition and quality with those viewed by the appraiser during the walk through.

15. **Proposed Improvements, Renovations, and Repairs:** For the purposes of this analysis, the proposed improvements, renovations, and/or repairs are presumed to be completed in a workman-like manner, and according to the detail, plans, and specifications supplied to the appraiser(s). The market value opinions for such construction, renovations, and repairs are subject to an inspection of the improvements to determine completion as per plans and specifications.
16. **Date of Completion Value:** The actual delivery date of proposed product may vary widely from the anticipated date of delivery due to weather and other variables. If proposed or under construction, it is an ordinary assumption of this assignment that the subject is completed as of the at completion date, which has been developed based on discussions with ownership, contractors, architects and typical market derived construction deliveries.
17. **Limitations of Competency:** The appraiser is competent in the valuation of real estate, which is a subset of the field of economics. The appraiser is not competent in the fields of law, engineering, construction, architecture, surveying or other areas of expertise. Clients bear the responsibility of consulting and retaining experts outside the appraisal profession as required by the situation.
18. **Lease Verification / Validation:** Where applicable, the scope of lease verification was generally limited to their economic characteristics and legal aspects of the leases were not reviewed or analyzed. It is assumed that all of the leases are valid, legally binding documents.
19. **Divisions or Fractional Interests:** The opinions of market value apply to the entire property unless specifically identified and established within the conclusions and analyses of the report. Division of fractional interests by the client or third party will render this report invalid.
20. **Component Values:** The distribution of total valuation between the land and the building improvements in this report are applicable only under the existing program or utilization of the property. The component values between land and building are not intended, nor are they to be used in conjunction with any other appraisal assignment, and are rendered invalid if used.
21. **Survey:** Site plans, sketches, or other illustrations are not surveys unless specifically identified as an exhibit from a licensed survey. Surveys of the site boundaries were not completed, nor does the appraiser(s) imply such expertise. Dimensions and areas of the site were obtained from sources deemed reliable but not guaranteed. Additionally, it is further assumed that no encroachments exist.
22. **Exhibits:** Maps, plats, sketches, photographs, and other exhibits are intended for illustration, visualization, and assistance in describing and analyzing the property in full context. Such exhibits may not be removed, reproduced, or separately used beyond this report.
23. **Building Area:** Reliant, LLC makes no warranty or certification relating to building area. In instances when building area is not provided and is either partially or entirely unknown the appraiser may be required to measure the property to provide an indication of building area. Measurements by the appraiser may be made onsite or be made from property drawings, sketches, or actual architectural plans. The user(s) of this assignment are cautioned not to view the appraisers building area estimate as having the same degree of accuracy as a building area study performed by an appropriately qualified/certified individual such as an architect or engineer and are recommended to engage such individuals for this type of information.
24. **Clear Title:** It is specifically assumed, unless otherwise indicated, that the title to the property is clear and marketable, that there are no recorded, unrecorded, or potential liens, defaults, encumbrances, etc. that would adversely affect the marketability and transfer of ownership. Unless otherwise stated, all applicable property taxes are assumed to be paid current. The appraiser(s) does not imply expertise in determining defects in the title, nor has the appraiser(s) been informed of such adversities. Specific questions regarding the title, including title insurance should be directed to a well qualified real estate title company. The legal description provided by title report, surveyor, government records, etc. is assumed to be correct.

25. **Subsurface Rights, Avigation Easements, and Transferable Development Rights (TDR's):** The market value opinion(s) specifically assume that there are no mineral deposit rights or other subsurface rights, avigation easements, or transferable development rights associated with the property unless explicitly stated within the report.

26. **Private Deed Restrictions:** The appraiser(s) makes the explicit assumption that there are no private deed restrictions that in any way limit the use of the subject property.

27. **Americans with Disabilities Act (ADA):** The ADA became effective on January 26, 1992. The appraiser(s) does not imply expertise in the interpretation of the ADA, nor has a compliance survey been completed. The potential exists that if a compliance survey is completed combined with a detailed analysis of the ADA requirements, deficiencies may be revealed that could adversely impact the market value conclusion(s). No specific information regarding any non-compliance issues have been provided to the appraiser(s) and the possibility of non-compliance was not considered in the developing the opinions of value contained herein. Specific compliance questions should be directed to the appropriate governing jurisdictional agency.

28. **Zoning Ordinances:** It is assumed that no changes to the current zoning code/ordinances or other regulations regarding the use of the property, density of development, construction components and/or quality of components, etc. are imminent or under consideration by the jurisdictional governing body, unless otherwise noted in the report. The property is appraised under the assumption that the improvements are approved, that certificates of occupancy or permits have been or will be issued, and that all other applicable national, state, local, or other administrative requirements have successfully been, or will be obtained or renewed for any use considered in the opinion(s) of market value.

29. **Adverse Governmental Controls:** Unless otherwise stated, the appraiser(s) is unaware of any governmental controls on the property, public initiative issues, rent or price controls, or any other adverse governmental or public controls contemplated regarding the legal use of the property.

30. **Property Compliance:** The appraiser(s) expresses no opinions or warranties that may require legal expertise or specialized investigations beyond the methods and investigations typically employed by real estate appraisers. Market value opinion(s) and conclusions contained within the report assume that the property is compliant with all environmental and government regulations such as building permits, fire department approvals, occupancy permits, building codes, licenses, etc. If the appraiser(s) has not been supplied with a termite inspection, occupancy permit, etc., no responsibility or representation is assumed for correction costs associated with obtained those items or deficiencies discovered before or after they were obtained. The appraiser(s) assumes no responsibility for costs incurred to obtain flood hazard determination, flood hazard insurance, or consequences arising for failure to obtain flood hazard insurance. Although the appraiser(s) has searched publicly available FEMA maps, a flood certification should be obtained from a qualified agent for the Federal Flood Insurance Program.

31. **Structural Integrity and System Components:** No advice or warranty of any kind are expressed or implied regarding the condition or adequacy of the mechanical systems, structural integrity of the improvements, soils, settlements, drainage, or other factors regarding the integrity and adequacy of the component systems of the improvements. The appraiser(s) is not a qualified engineer, nor is expertise implied with respect to engineering matters. Client may desire to retain the services of a qualified licensed contractor, civil engineer, structural engineer, architect, or other expert in determining the quality, condition, and adequacy of the improvements prior to the disbursement of funds. It is assumed that the existing improvements are structurally sound and constructed to the applicable federal, state, and local building codes and ordinances. That assumption includes, but is not limited to: the superstructure, roofing, electrical, plumbing, mechanical, HVAC, elevator, etc. The opinion(s) of market value are based upon no hidden or unapparent adverse conditions of the improvements, the site, or the subsoil, which would cause a loss in value. No responsibility or liability is assumed for any adverse conditions or for the expertise and retention of experts in discovery, detection, and cost to cure. In the event that professional

consultations or reports reveal negative factors that would create a loss in value, the appraiser(s) reserves the right to amend the opinion(s) of market value and other conclusions contained herein.

32. **Environmental Hazards:** Unless specifically stated, the appraiser(s) has no knowledge regarding the presence or absence of toxic materials including but not limited to: asbestos, urea-formaldehyde insulation, leaking underground storage tanks, contaminated groundwater, or other potentially hazardous materials and substances that would adversely affect the market value and marketability of the property. The appraiser(s) does not imply expertise and no liability is assumed for the detection or remediation of such materials or substances, whether above or below the ground surface. Although a perfunctory observation was made during the walk-through, the client is referred to an environmental expert for further details, if so desired. If environmental hazards are discovered, the market value opinion(s) may be negatively affected, requiring a re-appraisal of the property for an additional fee.

33. **Environmental Compliance:** Unless otherwise noted, the appraiser(s) makes the assumption that the property is in compliance with all applicable national, state, or local environmental regulations.

34. **Competent Property Management:** It is assumed that the subject property analyzed currently is, or will be under efficient and competent management and that said management is not, or will not be, inefficient or super-efficient.

35. **Ongoing Operations.** In the event that the subject is a special purpose property or going concern, ongoing business operations are assumed unless otherwise stated in the body of the report.

36. **Financial Documentation:** Historic income and expenses may have been provided by ownership, a lender, property manager, real estate agent or other third party. The financial information is assumed to reflect actual income and expenses at the subject using Generally Accepted Accounting Principles (GAAP). This information is assumed to be accurate and it has not been audited in any way.

37. **Cash Flow Projections:** The cash flow projections presented in this report are forecasts of future performance characteristics based upon the macro and micro economic data detailed in the analysis. The income, vacancy, expenses, and general economic conditions presented are not to be construed as predictions of the future, but rather reasonable expectations of future performance based on market modeling practices. Unless otherwise stated, the cash flow modeling is intended to reflect the opinions and practices of market participants and is not the analyst's forecast of what will actually occur. Actual results will vary, and are affected by fluctuating economic conditions and efficiency of management. The appraiser makes no warranty, express or implied, that the forecasts will occur as outlined. Additionally, future economic projections may be adversely affected by unforeseen circumstances and economic repercussions beyond the realm of knowledge or control, such as the events of September 11, 2001.

38. **Asset Recommendations and Consultations:** No statements contained within the report shall constitute recommendations with regard to the acquisition, disposition, or holding of the asset at the stated market value indication(s). Such decisions warrant significant research and strategy, with specific investment questions requiring additional consultations and financial analysis. Any user should consider this document as only one factor together with its independent investment considerations and underwriting criteria, in its overall investment decision. The assignment is not intended to be either a positive or a negative indication, nor endorsement, of the soundness of an investment or underwriting decision.

39. **Agreement to Mediation and Binding Arbitration:** If a dispute arises out of or relates to this assignment and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable procedures. Any controversy or claim arising out of or relating to this assignment that cannot be resolved through said mediation shall be settled by binding arbitration administered by the American Arbitration Association under its applicable rules and binding judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

40. **Property Specific Assumptions, Limiting Conditions and Hypothetical Conditions:** The user is

directed to the Assignment Overview section of this report for a listing of Extraordinary Assumptions and Hypothetical Conditions specific to this assignment. The user is specifically cautioned to understand each of the items listed and their impact on the property and scope of this assignment.

41. **Dissemination to Assessor:** The user(s) of this report may not provide a copy of this appraisal to any assessment office or agency without the prior written consent of Reliant LLC, as redaction of certain market and/or property level information may be required prior to submission for confidentiality reasons.

Terms & Definitions

As Is Value[7]	*The estimate of the market value of real property in its current physical condition, use and zoning as of the appraisal date.*
Prospective Value[8]	*A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.*
Retrospective Value[9]	*A value opinion effective as of a specified historical date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific prior date. Value as of a historical date is frequently south in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., "retrospective market value opinion."*
At Completion Value[10]	*The market value at the effective date construction is completed or the certificate of occupancy is issued.*
At Stabilization Value[11]	*The concept of value at stabilization is based on stabilized occupancy. Stabilized occupancy is defined as occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property.*
Aggregate of Retail Values[12]	*The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. Also called the sum of the retail values, aggregate retail value, or aggregate retail selling price.*
Value in Use (Use Value)[13]	*The value of a specific property for a specific use.*
Business Value[14]	*The market value of a going concern, including real property, personal property, and the intangible assets of the business.*
Going Concern Value[15]	*The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern. Or the value of an operating business*

[7] Source: The Dictionary of Real Estate Appraisal, Fifth Edition, Chicago: Appraisal Institute, 2010.
[8] Source: The Dictionary of Real Estate Appraisal, Fifth Edition, Chicago: Appraisal Institute, 2010.
[9] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[10] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.
[11] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.
[12] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[13] Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [f].
[14] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[15] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

	enterprise. Goodwill may be separately measured but is an integral component of going-concern value when it exists and is recognizable.
Client[16]	*The party or parties who engage, by employment or contract, an appraiser in a specific assignment.*
Intended Use[17]	*The use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.*
Intended User[18]	*The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.*
Fee Simple Estate[19]	*Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.*
Leased Fee Interest[20]	*A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship.*
Leasehold Interest[21]	*The tenant's possessory interest created by a lease.*
Real Property[22]	*The interest, benefits, and rights inherent in the ownership of real estate.*
Personal Property[23]	*Identifiable tangible objects that are considered by the general public as being "personal" - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate. Or, Consists of every kind of property that is not real property; movable without damage to itself or the real estate; subdivided into tangible and intangible.*
Fixture[24]	*An article that was once personal property, but has since been installed or attached to the land or building in a rather permanent manner so that it is regarded in law as part of the real estate.*
Intangible Property[25]	*Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.*
Extraordinary Assumption[26]	*An assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or*

[16] Source: Uniform Standards of Professional Appraisal Practice 2012-2013 Edition, The Appraisal Foundation.
[17] Source: Uniform Standards of Professional Appraisal Practice 2012-2013 Edition, The Appraisal Foundation.
[18] Source: Uniform Standards of Professional Appraisal Practice 2012-2013 Edition, The Appraisal Foundation.
[19] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[20] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[21] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[22] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[23] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[24] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[25] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[26] Source: Uniform Standards of Professional Appraisal Practice 2012-2013 Edition, The Appraisal Foundation.