
INTRODUCTION

The Subject property consists of the proposed renovated and expanded Anchorage Legislative Information office located at 716 West 4th Avenue in downtown Anchorage. The existing Legislative Information Office (“LIO”) office consists of a leasehold occupancy of a six-story office building and adjacent two level parking structure. The office building contains a reported 45,623 sf¹ on seven levels (including a basement); the existing lease agreement includes 22,834 sf located on the 2nd through 6th floors of the building, plus basement storage space, and the entirety of the adjacent parking structure providing parking for approximately 100 cars.

Renovated and expanded, the building will contain a reported 64,048 gross square feet (“gsf”), occupying the existing six story building and basement, but with the addition of a newly-constructed elevator, lobby and lavatory core (six stories plus basement) on the (acquired) adjacent property lying to the east (712 West 4th Avenue). The existing commercial building on that site will be fully demolished and an expanded ground floor and basement will be constructed. The ground floor and basement of the renovated and expanded building will contain _____ sf per floor; and the second through sixth floors will each contain _____ sf per floor.

The renovation of the existing building will be substantial. Following demolition of the existing interior improvements and masonry walls on the west and east walls of the building, only the structural steel frame of the existing building will remain. All building surfaces, materials and systems will be new following the renovation and expansion; only the structural steel frame, foundation and footings will remain from the original 42 year old structure. None of the acquired building at 712 W. 4th Avenue will remain; it will be fully demolished and replaced. The existing parking structure lying west of the six story office tower will remain in its entirety, having only limited improvements and enhancements as part of the renovation and expansion of the LIO Building.

As contemplated under the lease extension agreement now under negotiation, the LIO offices would be relocated to temporary quarters during the course of construction and renovation; at this writing, the dates of relocation and date of completion of the renovated and expanded building have not yet been set. One additional commercial tenant now located in the building will relocate upon expiration of their lease on December 31, 2013.

The current LIO lease agreement was signed in 2004, with a scheduled expiration on May 31, 2009, and also having five one-year options for extension. The absolute expiration of the lease is May 31, 2014. Contract rent for the final extension option is \$682,356.48 per year, or \$29.88/sf/year or \$2.49/sf/month. This is a full service gross lease, with

¹ Municipality of Anchorage tax assessment records.



the landlord providing all building services for normal operations. Reportedly, the LIO occupancy in the Subject property dates originally to _____ [cite year].

Over the past several years, the Legislative Affairs Agency ("LAA"), acting on behalf of the Alaska Legislative Council, has attempted to procure alternative facilities for the Anchorage LIO office; we have reviewed Requests for Information and Requests for Proposals as early as 2002 and as recent as 2013 in which the LAA seeks to identify either new or existing office buildings that might meet the needs of the Anchorage LIO and otherwise fulfill the programmatic and cost requirements of the Legislative Council. To date, these many efforts and proposals have not met with success, approval or acceptance. These many efforts ultimately demonstrate that the collective requirements of the Legislative Council, coupled with the available inventory of existing and proposed office space in Anchorage, are sufficiently specialized that the existing inventory of office buildings, and/or new build to suite construction of a building do not or cannot meet the requirements of the Legislative Council. The inability of the Anchorage office market to fulfill these requirements - either with existing or new construction - is a significant factor in this appraisal analysis, and underlies our conclusion that the Subject property and proposed renovation and expansion should be regarded as a special purpose or limited market property.

Reportedly, idea of substantially renovating and expanding the LIO office emerged some months ago, and this proposal has been refined and under negotiation through the spring and Summer 2013. The Legislative Council has reviewed the proposed terms of the lease extension, including the nature of the expansion and renovation and has approved the project in concept, leading to the current efforts to finalize the negotiation and terms of the lease extension (described later in this report).

To date, the lease negotiation has been conducted with the expectation of the parties (landlord and tenant LAA) that the rent resulting from this negotiation would fulfill the requirements of Alaska administrative code:

Chapter 36.30. STATE PROCUREMENT CODE

Sec. 36.30.083. Lease extensions authorized.

(a) Notwithstanding any other provision of this chapter, the department, the Board of Regents of the University of Alaska, the legislative council, or the court system may extend a real property lease that is entered into under this chapter for up to 10 years if a minimum cost savings of at least 10 percent below the market rental value of the real property at the time of the extension would be achieved on the rent due under the lease. The market rental value must be established by a real estate broker's opinion of the rental value or by an appraisal of the rental value. (our emphasis)

Thus the primary purpose of this appraisal analysis and report is to fulfill the mandate of Sec. 36.30.083 to, in effect, perform a test as to



whether or not the proposed rent for the lease extension as negotiated at this time would or would not be “at least 10 percent below the existing market rent value” at the time the lease agreement would “achieved” (effective) under the extended lease agreement.

At this writing, and described in greater detail in this report, the proposed rent for the expanded and renovated building would be an estimated \$252,765 per month or \$3,033,180 per year, on a modified net basis for a reported 64,048 gsf building. This is a rental rate of \$47.36/gsf/year or \$3.95/gsf/month. Under the terms of the lease extension, the tenant would bear the expense of operating utilities, insurance and property taxes, and certain light maintenance, while the landlord has specific obligations for the maintenance, repair and replacement of specified building systems and surfaces.

We note that the building improvements contemplated in these negotiations include a number of specialized building systems and tenant improvements that are part of the programmatic requirements of the Legislative Council, and which are different from or exceed the capabilities of most good quality office buildings located in Anchorage; thus we can say that, as contemplated by the lease extension agreement now under negotiation, the building has “over-standard” tenant improvements. These requirements may, in part, explain why the prior efforts of the LAA to procure alternative quarters have not been successful. Further, the Anchorage stock of privately-owned office buildings has evolved in a manner that results in the amount of space required by the Anchorage LIO (60,000 gsf +/-) or in a location that meets their mandate to remain located in the Anchorage central business district, along with many other federal, state and municipal agencies and offices.

Consequently, this appraisal analysis and report seeks to estimate a market rent for the Subject property as contemplated by the landlord and tenant, under the specific terms and conditions of a lease now in negotiation, for an office building and specialized office occupancy which we regard (collectively) as special purpose or limited market and which contains building improvements, systems and features that are also specialized and beyond the tenant improvements and building amenities typically found in a good quality Class A Anchorage office buildings.

Our client, AHFC, has advised us that, in conjunction with this valuation, it is the interpretation of the LAA agency council that the rental value estimate is to take into account all of the special terms and conditions and provisions of the lease agreement and that the rental value estimate should reflect the rental value of “this building and this transaction.”

Waronzof has also been asked to estimate a purchase price for the building under the terms of a purchase option that would be incorporated into the lease extension agreement.

Waronzof has been engaged by the Alaska Housing Finance Corporation (“AHFC”) through its agent First Southwest Corporation, AHFC’s



financial advisor. AHFC is serving the Alaska Legislative Council as an advisor and tenant representative in the negotiations with the landlord, 716 West Fourth Avenue, LLC. The designated individual at AHFC is Michael Buller, Deputy Director. The designated agent on behalf of landlord is Mark Pfeffer of Pfeffer Development. Overseeing the negotiation on behalf of the Alaska Legislative Council is Council Chair Representative Michael Hawker.

The intended users of this appraisal analysis and report are AHFC and its agent, First Southwest, the Alaska Legislative Council and the LAA as the administrative agent for the Legislative Council. No other use of this appraisal is anticipated or authorized by Waronzof without its express written permission.

The Appraisal Analysis and Report

This analysis and report is presented in a summary format and has been organized into several sections. These sections include an Introduction, which contains background information regarding the Subject property and definitions used in the appraisal; the Property Description section, which contains descriptions of the Subject property; the Market Analysis section, which includes information regarding current market conditions; a brief discussion of the Highest and Best Use of the property and finally our Property Valuation analysis sections, which contain the methodology and valuation analyses used in this assignment, leading to our conclusions of rental value and a purchase price under a proposed purchase option.

Scope of the Valuation

Waronzof's scope of work in this assignment has been determined based upon our consideration of:

Scope of Work Assignment Elements

i) the client and any other intended user

ii) the intended use of the appraiser's opinions and conclusions

iii) the type and definition of market value

iv) the effective date of the appraiser's opinions and conclusions

v) the subject of the assignment and its relevant characteristics

Appraiser Response

AHFC, the Alaska Legislative Council and the Legislative Affairs Agency, as administrative agent for the Legislative Council.

To estimate the rental value of the office space contemplated by a draft lease extension agreement to be effective June 1, 2014 as well as a purchase option price under the terms of an option agreement to be incorporated into the lease extension agreement.

Market value, in exchange

June 1, 2014

A substantially renovated and expanded office building located in downtown

Anchorage under the terms of a single-tenant lease extension agreement.

vi) assignment conditions

Lease terms and conditions as reflected in a lease extension agreement now under negotiation.

Waronzof's scope of work is then a reflection of the above assignment elements and our response to these elements.

Our scope of work has included:

- We inspected the neighborhood surrounding the Subject property to identify development trends and to identify the character of existing development.
- We inspected the Subject property to evaluate its history, physical characteristics and linkages to surrounding properties and the nearby community.
- We have reviewed the plans, outline specifications and proposed costs of the renovated and expanded building, as well as the terms and conditions of a lease extension agreement now under negotiation.
- We have evaluated the programmatic requirements of the tenant and its occupancy incidental to our evaluation of local good-quality office buildings to meet these requirements now and in the future. We have reviewed the procurement history of this occupancy, including efforts to solicit proposals for lease or build-to-suit occupancy over several years from 2002 to 2013.
- We consulted with various knowledgeable market sources and used published information to assess present market conditions influencing similar properties in this market.
- We have carefully reviewed the proposed costs of the renovated and expanded office building in order to both understand the scope of work and capability of the completed building, as well as to identify other recent projects for public and private tenants, in order to validate the construction costs and occupancy costs proposed by landlord.
- Field research was performed to identify sales (and current offerings) and leases (and current offerings) of improved properties, and to identify sales (and current offerings) of vacant office buildings in the Subject's market area.
- We obtained rental rates in the Subject's market area for our Income Approach analysis, and completed an analysis of historic operating expenses for the Subject property.

- We consulted several sources of investor rate of return requirements for comparable investments. These rates were analyzed in order to select appropriate capitalization rates in our rental value analysis and estimate of purchase option price.
- We completed a survey of comparable sales of improved retail properties and vacant land to support our rental value estimate.
- We applied the above to form our opinion of the rental value of the Subject property, completed as contemplated as of June 1, 2014.
- We have separately evaluated the purchase option price of the Subject property under the contemplated terms of the lease extension agreement now under negotiation.

We believe that our valuation analysis provides a credible and reliable estimate of market value and that our scope of work is both sufficient and clearly described. No relevant approach to value has been excluded. It is our intention that this valuation report conforms to USPAP standards as described for a summary appraisal report. Timothy R. Lowe, MAI, CRE, FRICS and Brian Gross comply with the competency provisions of USPAP as a consequence of their formal education, real estate appraisal education and training, and prior experience in the valuation and analysis of like and similar properties. We want to acknowledge the assistance of our client, the Legislative Council leadership and staff and Pfeffer Development in the assembly of information necessary for our review and completion of this assignment. We also want to acknowledge the assistance in data gathering of Per Bjorn Rolli, MAI of Reliant Advisors and Steve Carlson, MAI of Black-Smith, Bethard & Carlson, both of Anchorage.

Identification of the Property

716 West Fourth Avenue and 712 West Fourth Avenue, Anchorage, Alaska

The property comprising Assessor Parcel Numbers 002-105-26 and -49 located in the Municipality of Anchorage.

History & Ownership of the Property

No property purchase or sale transactions have been reported in the last five years. Landlord 716 Fourth Avenue, LLC has owned the Subject property (716 W. Fourth Avenue) since before the existing lease agreement was initiated in June 2004.

At this writing, the existing commercial building at 712 West Fourth Avenue is under contract for sale to Pfeffer Development Corporation for a reported purchase price of \$2,850,000, with closing scheduled on or about September 23, 2013. This transaction is directly related to the proposed renovation and expansion of the LIO Office Building.

Purpose of the Valuation

To estimate the rental value of the Subject property as contemplated under the proposed renovation and expansion plan for the building and the proposed terms and conditions of a lease extension agreement now under negotiation, with an effective date of June 1, 2014.

Prior Service

Neither Timothy Lowe nor Waronzo has valued the property that is subject of this appraisal at any point in the past.

Relevant Dates

Effective Date of the Valuation Analysis

June 1, 2014

Property Inspection Date(s)

The Subject property was inspected by Timothy Lowe on September 3, 2013.

Report Preparation Period

September 2013

Property Rights Valued

Leasehold interest - rental value under the terms of a proposed lease extension now under negotiation.

Definitions

Market Value

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer



and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their own best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale².

Limiting Conditions & Assumptions

1. The title to the Subject property is assumed to be marketable, and the Subject property is assumed to be free and clear of all liens and encumbrances.
2. No liability is assumed for matters that are legal or environmental in nature.
3. Ownership and management are assumed to be in competent and responsible hands.
4. No architectural or engineering study, property survey, soil study, or environmental investigation has been made, and no liability is assumed in connection with such matters. The described physical condition of any improvements is based on visual inspection only, and it is assumed that there are no hidden or unapparent physical conditions affecting value. Dimensions and areas supplied by others, or based upon field measurements, are subject to survey by qualified professional surveyors or architects.
5. Any improvements are assumed to be in accordance with local zoning and building ordinances as well as all applicable federal, state, and local laws and regulations, except as noted. Any plans, diagrams or drawings provided are intended solely to facilitate understanding and are not meant to be used as reference in matters of survey. The legal description furnished should be verified with the aid of competent legal counsel.
6. The valuation will be prepared for the specific objective stated and shall not be used for any other purposes without the written permission of Waronzof Associates.

² Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C - Appraisals, 34.42 Definitions [f]

7. The signatories shall not be required to give further consultation or testimony, or appear in court or at any public hearing with reference to the property appraised, unless prior arrangements have been made by the Client with Waronzof Associates.
8. Unless otherwise stated, no responsibility is assumed for any damages sustained in connection with actual or potential deficiencies or hazards such as, but not limited to, inadequacies or defects in the structure, design, mechanical equipment or utility services associated with the improvements, air or water pollution, noise, flooding, storms or wind, traffic and other neighborhood hazards, radon gas, asbestos, natural or artificial radiation, or hazardous materials or toxic substances of any description, whether on or off the property appraised.
9. This report is intended to be read and used as a whole and not in parts. Separation of any section or page from the main body of the report is expressly forbidden and invalidates the report.
10. Any projections of future rents, expenses, net operating income, mortgage debt service, capital outlays, cash flows, inflation, capitalization rates, yield rates or interest rates are intended solely for analytical purposes and are not to be construed as predictions of the appraisers. They represent only the judgment of the authors as to the assumptions likely to be used by purchasers and sellers active in the market place, and their accuracy is in no way guaranteed.
11. It is assumed that all necessary licenses, agreements, etc. remain in full force and effect in order to continue the operations of the Subject property as a going concern throughout the financial analysis period of this appraisal, unless otherwise noted.
12. Possession of this report does not carry with it the right of publication. It shall be used for its intended purpose only and by the parties to whom it is addressed. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent or approval of the author. This applies particularly to value conclusions, the identity of the appraiser or firm with which it is connected, and any reference to the Appraisal Institute or MAI designation.
13. Property values are influenced by a large number of external factors. The information contained in the report comprises the pertinent data considered necessary to support the value estimate. We have not knowingly withheld any pertinent facts, but we do not guarantee that we have knowledge of all factors that might influence the value of the Subject property. Due to rapid changes in external factors, the value estimate is considered reliable only as of the effective date of the appraisal.

14. The appraisers reserve the right to make such adjustments to the analyses, opinions, and conclusions set forth in this report as may be required by consideration of additional data or more reliable data which may become available.
15. The date of value to which the conclusions and opinions expressed in this report apply is set forth in the letter of transmittal and the appraisal document. The dollar amount of any value opinion rendered in this report is based upon the purchase power of the U.S. dollar existing on that date.
16. This appraisal report or valuation shall not be used in any matters pertaining to any real estate or other securities offering, registration, or exemption with any state or with the federal Securities and Exchange Commission.
17. If this report is placed in the hands of anyone other than the Client, the Client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way to be responsible for any cost incurred to discover or correct any deficiencies of any type present in the Subject property, physically, financially, and/or legally. The Client also agrees that in case of lawsuit (brought by lender, partner or part owner in any form of ownership, tenancy or any other part), Client will hold appraiser completely harmless from and against any liability, loss, cost or expense incurred or suffered by appraiser in such action, regardless of its outcome.
18. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
19. The Americans with Disabilities Act (ADA) became effective January 26, 1992. Waranzof Associates has not made a specific compliance survey and analysis of the Subject property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the Subject property, together with a detailed analysis of the requirements of the ADA, could reveal that the Subject property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the Subject property. Since Waranzof Associates has no direct evidence relating to this issue, Waranzof Associates did not consider possible noncompliance with the requirements of the ADA in estimating the value of the Subject property.

Special Assumptions & Conditions

Hypothetical Conditions - “that which is contrary to what exists but is supposed for purposes of the analysis”.

- This appraisal analysis and report assumes that, as of the prospective valuation date of June 1, 2014, the renovated and expanded Subject property is completed pursuant to the renderings, building plans, cost estimates and other information about the condition, quality and appearance of the Subject property upon completion of renovation and expansion.

Extraordinary Assumptions - “an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions”.

- This appraisal analysis and report expresses its opinion of market rent solely in the context of the terms and conditions of the lease extension agreement now under negotiation, including information about these terms and conditions conveyed to us by AHFC and the Alaska Legislative Council. If the terms and conditions of the proposed lease extension agreement are materially changed, our opinion of rental value may change.

Draft - For Discussion Purposes Only



Certification of the Appraiser

The undersigned hereby certify, except as otherwise noted in this report, that to the best of our knowledge and belief:

The statements of fact contained in this report are true and correct.

The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal unbiased professional analyses, opinions, and conclusions. No matters affecting the value conclusion have been knowingly withheld or omitted.

This report sets forth all of the limiting conditions (imposed by the terms of our assignment or by the undersigned) affecting the analyses, opinions and conclusions contained in this report.

We have no present or prospective interest in the Subject property, and we have no personal interest or bias with respect to the parties involved.

Our compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in, or the use of, this report, including a minimum value, specific value or loan approval.

Our analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation and the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

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

In the past five years, Timothy Lowe, MAI, CRE, FRICS has not performed an appraisal of the Subject property or otherwise consulted on the Subject property.

As of the date of this report, Timothy R. Lowe, MAI, CRE, FRICS has completed the requirements of the continuing education program of the Appraisal Institute.

Mr. Lowe has inspected the Subject property.

This appraisal report summarizes the investigation, analysis, and conclusions of Waronzof Associates.

Timothy R. Lowe, MAI, CRE, FRICS