EXECUTIVE SUMMARY

Subject Property:	An expanded and renovated 64,068 gross sf six story special purpose office building leased for ten years to the Alaska Legislative Affairs Agency on behalf of the Alaska Legislative Council, serving as the Anchorage Legislative Information Office.
Location:	716 & 712 W. 4th Avenue, Anchorage, Alaska 99501
Property Owner:	716 West Fourth Avenue, LLC or affiliate
Property Rights Appraised:	Leasehold interest, subject to specific terms and conditions of a lease extension agreement now under negotiation.
Date of Value:	June 1, 2014; the effective date of the lease extension.
Hypothetical Conditions:	Completion of the building and availability for occupancy on or about the lease extension date.
Extraordinary Assumptions:	Estimate of Market Rent expressed solely in the context of the lease extension agreement now under negotiation.
Site Description:	31,129 sf corner site, zoned B2-B
Existing Building Improvements	Existing six story office building containing 45,623 sf Existing commercial building containing 11,630 sf Existing approximately 100 space two level parking structure, containing approximately 40,000 sf.
Proposed Building Improvements	Six story office building with basement, containing 64,048 sf
Highest and Best Use	
If Vacant:	Office, Hotel, Retail or Commercial Development
As Improved as Proposed:	Special purpose occupancy by state agency.
Valuation Analysis	
Market Rent – Project Cost & Rate of Return	$3,614,000 per year (Year One of a ten year lease)
Direct Rent Comparison	$3,525,000 per year (Year One of a ten year lease)
Conclusion of Market Rent	$3,614,000 per year (Year One of a ten year lease)

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Rate of Return – Direct Indication of Return on Cost

Two of our cost comparisons provide enough information to allow us to relate the rent payment to the cost of the project; the triple net lease agreement for the 909 Building and the rents paid by master tenant Alaska National Guard to AIDEA for the Camp Denali Readiness Center.

While the specific details of the true cost and the actual rent at the 909 Building remain confidential, we are able to report that we are able to attribute a rate or return on project cost of 6.52% from the lease transaction. This cost represents the year one rent compared to project cost. The lease, however, has an atypically high rate of annual escalation over its twelve year term. Annual escalations are 3% per year for the first seven years and 5% per year thereafter. Consequently, we can say that a 6.52% return on cost is a strong lower limit of return on cost, and that were we to take into account the strong annual escalation of later years, the return would approach 7%.

The Camp Denali Readiness Center lease is based upon a level amortization schedule; we understand at the end of the lease, the ANG will either own the improvements, or have a nominal buy-out. The level rent is based upon a 20 year amortization at an interest rate of 7%. The annual rent rate (return on cost) is then .09304 or 9.304%. The return portion of this rent is 7%; the amortization portion is 2.304%.

Rate of Return – Indications of Market Cap Rate, Bank of Investment and Direct Return on Cost

Our analysis clearly puts the rate of return in the vicinity of 7%. Our market cap rate indication is from 7% to 7.5%; our band of investment analysis suggest 7.135%, and our two direct return on cost indications are at 6.52% and 7%. We conclude to the middle indication, based on our band of investment analysis, at 7.135%, in the belief that it represents a very real-world debt and equity approach, Alaska-based financing terms, yet assumes financially capable and competitive investors who are expected to make a substantial equity investment in the property.

Our three indications of market rate of return suggest a rent of:

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.135%
Indicated Market Rent	$3,461,695

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Equity returns at ten years and twenty years are slightly higher, but do not exceed 11%.

Our benchmark for the suitability of these property and equity returns is the NCREIF Index, a 30 + year index of the performance of institutional real estate investment. In their 1st Quarter 2013 Property Performance Monitor, RREEF provides the following summary of NCREIF performance:

Returns by Property Type and Region

	Annual Returns								Standard Deviation	
		1 Year		3 Years	5 years	10 Years	20 Years	Since Inception[2]	20 Years	Since Inception[2]
Property Type	**Total**	**Income**	**Appr.**							
Apartment	11.0%	5.4%	5.4%	15.7%	3.3%	8.3%	9.9%	10.6%	9.0%	8.1%
Industrial	10.5%	6.2%	4.1%	12.2%	1.7%	7.8%	9.2%	9.3%	8.6%	7.9%
Office	9.0%	5.6%	3.3%	12.0%	0.9%	7.9%	8.5%	8.3%	9.8%	10.2%
Retail	12.6%	6.1%	6.2%	13.6%	4.5%	10.6%	9.3%	9.6%	8.1%	6.9%
Total Index	**10.5%**	**5.8%**	**4.5%**	**13.3%**	**2.3%**	**8.5%**	**8.9%**	**9.1%**	**8.6%**	**8.1%**

		1 Year		3 Years	5 years	10 Years	20 Years	Since Inception[2]	20 Years	Since Inception[2]
Region	**Total**	**Income**	**Appr.**							
East	9.0%	5.5%	3.4%	13.3%	1.9%	8.8%	9.4%	10.3%	9.2%	9.9%
Midwest	9.7%	6.4%	3.1%	11.3%	2.5%	6.9%	7.5%	7.9%	6.8%	6.2%
South	11.4%	6.2%	5.0%	12.8%	3.2%	8.2%	8.5%	8.1%	7.6%	7.1%
West	11.7%	5.6%	5.8%	14.2%	2.3%	9.0%	9.6%	9.5%	9.5%	8.9%
Total Index	**10.5%**	**5.8%**	**4.5%**	**13.3%**	**2.3%**	**8.5%**	**8.9%**	**9.1%**	**8.6%**	**8.1%**

[2] Index returns start in 1978, equivalent to a 35 year calculation.
Source: NCREIF Property Index.
As of March 31, 2013.

Source: RREEF Property Performance Monitor, 1st Quarter 2013

We see in the above table the ten, twenty and "since inception" level returns in the 8.5% to 9.1% range. We note, as well, the one year income returns, with a national average of 5.8%. This compares favorably with our earlier identification of a market rate of return – based on cap rates – of from 7% to 7.5%. Our selection would impute an "Alaska investment" premium of 120 to 170 basis points (comfortably in that 100 to 200 basis point range we discussed).

From this review of total return, we see that our rent selection of 7.135%, based upon a band of investment method of estimating the market rate of return results in total property-level returns that are in a reasonable range – 7.8% to 8.4%, and that our examination of equity-level returns, in the range of 10% to 11% is also suitable and competitive, particularly for a long-term lease in a government agency occupied building.

We conclude to a market rate of return at 7.135% based on the foregoing. The resulting indication of market rent is then $3,461,695 per year, on an escalating rent basis, as shown below:

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Comment [1]: The actual amount is 7.82 (see prior page) but was incorrectly characterized as 7.3% (7.28% rounded to a single digit).

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Comment [2]: Note to Doc and Mike; this gap (7.135% versus 7.8 to 8.4% is OK because we are saying that a 7.135% rent factor (cap rate) produces an "OK" total return of from 7.8 to 8.4%.

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Indication of Market Rent (NNN Basis)

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.135%
Indicated Market Rent	$3,461,695

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Indication of Market Rent (Modified NNN Basis)

In the lease terms under negotiation, the landlord has specific obligations that are specified for certain service and maintenance obligations related to the building. In the dialogue between landlord and tenant, this structure of expense obligation was referred to as a "modified triple net lease".

The provisions from the lease are:

a. ***LESSOR'S RESPONSIBILITY AND COSTS:***

1. *The installation and maintenance of all structural components, core components, roof membrane/surface, and building systems that are incorporated into the Premises, including but not limited to: HVAC, elevators, plumbing, electrical, and fire suppression systems.*

2. *Providing connections to city water and sewer, electric service, and other public utility service to the Premises.*

3. *Parking lot repair, striping, work required to maintain conformance with ADA or other accessibility issues.*

4. *Any/all work required to maintain conformance with ADA or other accessibility issues.*
5. *Extraordinary maintenance – replacing worn carpeting, painting interior walls, replacing damaged casework, every 10 years, or sooner if reasonably required.*

6. *Exterior light fixture repair/replacement.*

7. *Interior light fixture repair/replacement.*

8. *Plumbing fixture repair/replacement.*

9. *Elevator inspection/repair/replacement.*

10. *HVAC inspection/maintenance/repair/replacement.*

11. *Fire suppression system inspection/maintenance/replacement.*

12. *The payment of any/all pending or levied assessments.*

13. Other services or maintenance as may be agreed by the parties.

Waronzof has analyzed these costs, and has reviewed a budget prepared by Pfeffer Development for these costs, and has concluded that the annual costs associated with providing these services are an estimated $152,241 per year, as shown below:

Lease Section	Item	Cost	Frequency	Annual Cost
Sec 4.a.3	Parking Lot Striping	$1,000	Annual	$1,000
Sec 4.a.4	ADA Signage; Future Liability	FV=$30000	Ann + One Time	$2,740
Sec 4.a.5	Extraordinary Maintenance	FV=$943,135	Reserve in 10 Yrs	$86,133
4.a.6	Exterior Lights	$1,000	Annual	$1,000
4.a.7	Interior Lights	$1,500	Annual	$1,500
4.a.8	Plumbing fixtures	$1,000	Annual	$1,000
4.a.9	Elevator	$20,740	Annual	$20,740
4.a.10	HVAC	$26,000	Annual	$26,000
4.a.11	Fire Suppression	$3,500	Annual	$3,500
Sec 4.a.5	Outdoor Area Major Maintenance	$8,628	Annual	$8,628
				$152,241

Source: Waronzof; Pfeffer Development

Thus, our conclusion of modified triple net (escalating) rent is then:

Project Cost, Market Based:	$48,515,685
Market Rate of Return:	7.135%
Indicated Market Rent	$3,461,695
Add: Landlord Service Obligations:	$152,241
Modified Triple Net Rent:	$3,613,936

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Indication of Market Rent – Level Rent Premise

Use present value analysis, we can convert the expected stream of escalating rent (rising at 2% per year) into a level stream of rent payments of equivalent financial value. This is a two step process: (1) first forecasting the escalating rent stream and determining the net present value of that stream of rent, and (2) determining the level annual amount necessary to create that same present value. In this form of analysis, the discount rate is the same for determining the net present value as well as the level annual installment.

The following is a schedule of escalating and level annual equivalent rent:

Comparable	1	2	3	4	5	6
Building Name	Conoco Phillips	909 9th Ave	JL Tower	Doyon Ltd. Bldg	Glenn Olds Hall Addition	Camp Denali Readiness Center
Location	700 G Street	909 9th Ave	Midtown	South Anchorage	APU Campus	JBER
Lessor	Conoco Phillips	Pfeffer Dev.	JL Properties	CIRI	APU	AIDEA
Lessee	Asking	NANA Regional Corp.	Chugach Alaska Corp.	Doyon Corporation	GSA/USGS	Alaska National Guard
Leased Area	24,000 RA	52,589 GBA	82,719 RA	37,750 RA	19,650 RA	27,770 GBA
Lease Date	2011	2012	2012	2011	2012	2014
Lease Rate	$30.60		$36.24	$36.60	$39.96	$50.25
Lease Term	5 to 7 years	12 Years	5-7 years	8-10 years	11 Yrs +	20 Years
Lease Structure	FSG	NNN	FSG	FSG	FSG	NNN
Escalation	CPI	CPI ++	Fixed $.10/sf increases	CPI	1.5% per year	Level Rent
Age & Condition	31 yrs/V. Good	Fully renovated	New	New	New	New
Type of Parking	Surface	Surface	Surface	Surface	Surface	Surface
Tenant Improvement Allowance	$15/sf	$92/sf	$20/sf	$35/sf	None- fully finished.	None- fully finished.
Comments	22 Story Class A office building	Fully renovated six story office building; single tenant BTS. Contract rent is confidential.	Renewal of anchor tenant lease.	New suburban office building. Single tenant occupancy.	New suburban office building as addition to existing government office. Single tenant occupancy.	New suburban office building as addition to existing government facility. Two tenant occupancy for USCG & ANG.
Adjustments						
Location	0%	10%	20%	20%	20%	20%
Time	3%	0%	0%	3%	0%	0%
Age & Condition	20%	0%	5%	0%	0%	0%
Other	0%	10%	0%	0%	0%	-10%
Net to Gross Adjust	-10%	0%	-10%	-5%	-5%	0%
Operating Expense	($7.50)	$2.50	($7.50)	($6.50)	($6.50)	($4.50)
Subtotal Adjusted	$27.08		$34.18	$36.69	$39.45	$50.78
Rent Adjustment for Subject Specialties	$1.75	$1.75	$1.75	$1.75	$1.75	$0.00
Rent Adjustment for Subject TI Cost	$6.42	$2.00	$5.71	$6.06	$5.71	$0.00
Subtotal Adjusted	$35.25		$41.63	$44.50	$46.91	$50.78
Rent Adjustment for Other Provisions						
Structured Parking	$7.05	$7.05	$7.05	$7.05	$7.05	$7.05
Demolition & Temporary Relocation	$5.21	$5.21	$5.21	$5.21	$5.21	$5.21
Indicated Equivalent Rent	**$47.51**		**$53.89**	**$56.76**	**$59.17**	**$63.04**

Source: Waronzof, Reliant Advisors

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Comparable	
Building Name	Conoco Ph
Location	700 G S
Lessor	Conoco Ph
Lessee	As
Leased Area	24,00
Lease Date	
Lease Rate	$
Lease Term	5 to 7
Lease Structure	
Escalation	
Age & Condition	31 yrs/V. (
Type of Parking	Su
Tenant Improvement Allowance	$
Comments	22 Story Cl office buil
Adjustments	
Location	
Time	
Age & Condition	
Other	
Net to Gross Adjust	
Operating Expense	($
Subtotal Adjusted	$
Rent Adjustment for Subject Specialties	
Rent Adjustment for Subject TI Cost	
Subtotal Adjusted	$
Rent Adjustment for Other Provisions	
Structured Parking	
Demolition & Temporary Relocation	
Indicated Equivalent Rent	$

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<u>Application of Adjustments</u>

As evident above, we have adjusted the comparables for a variety of differences between themselves and the Subject property. The following is a brief discussion of the basis for our adjustments.

Location – We have made adjustments for location based solely on the difference in location as it relates to the costs of land at each of the comparables. Our Subject property, located in downtown Anchorage, has high land costs. We have made percentage adjustments to rent to simulate this difference. Comparable 1, located downtown near the Subject, receives no adjustment (because it's location is similar) while

Comparables 4-6 receive 20% upward adjustments because their suburban locations permit much lower overall land costs.

Time – We have made very modest adjustments for time, applying a 3% adjustment to those rent comparables reported in 2011, and applying no adjustment to 2012 or later transactions.

Age & Condition – Our Subject property will be effectively new upon completion, and we have applied modest adjustments, most notably a 20% age and condition adjustment to the Conoco Phillips building, now some 31 years old.

Other Adjustments & Gross to Rentable Adjustment – Our analysis takes into account, where necessary, other adjustments, such as for Comparable 2, where the very substantial renovation project did not result in brand new ground floor construction or a completely new curtainwall system, or for Comparable 6, which is a level lease over the twenty year term of the lease (with resulting reversion of the property to tenant at lease end). Our gross to net adjustment compensates for the differences among leases – whether the leased area is based on rentable area or gross building area. Our analysis assumes an average 10% gross to rentable difference.

Operating Expense – The adjustment is based on the premise that the average Class A office building in Anchorage has a $10/sf/year operating expense cost and that this cost is included in a full service gross lease. Our Subject property, with its modified triple net lease, will have estimated landlord costs of $2.37/sf/year, which we have rounded to $2.50/sf/year. Suburban buildings are assumed to have a lower operating cost, primarily because of the lower property tax expense associated with lower land and building costs (in suburban settings).

Adjustment for Specialties and Tenant Improvements – We adjust all of our comparables except #6 for the costs of special features of the Subject. This includes hearing room improvements, freight elevator, custom casework, emergency generator, the outdoor area and CATV wiring. These items have a scheduled cost of $1.194 million, which translates to a rent adjustment of $1.80/sf/year. Our tenant improvements adjustment is based on the premise that TI costs at the Subject property will be $120/sf, and that new, generic office building (first generation) TI costs are $60/sf. Our adjustment is based upon the difference between the imputed cost/worth of TI's at the comparable building versus the Subject property.[21]

Adjustment for Other Provisions; Structured Parking, Demolition and Temporary Relocation – Our adjustment is based on the cost of these attributes times the 7.135% rate of return. Parking structure adjustment is based upon the depreciated cost of the garage only, not including land cost. Demolition and temporary relocation costs are adjusted at cost,

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[21] For example, Comparable #1 reports a $15/sf TI allowance. Our adjustment for this comparable assumes that, with a $15/sf allowance, in place TI's will have a $30/sf value upon completion. Subject cost is $120/sf. The difference is $90/sf. $90/sf X our market rate of return of 7.135% is $6.42/sf/year.

times the market rate of return. None of the comparables provide structured parking or include the demolition cost and temporary relocation costs of the Subject, so the adjustments are common across all comparables.

Impact of the Adjustments

- The average contract rent of our six comparables is $36.62/sf/year.

- The average adjusted rent for typical characteristics (location, time, age & conditions, etc.,) is $36.99, a net upwards adjustment of 1.02%. The dollar amount of the change is +$.37/sf/year.

- The average adjusted rent following adjustments for special features and tenant improvements is $42.77/sf/year, a net upwards adjustment of 15.6%. The dollar amount of the change is +$5.78/sf/year.

- The average adjusted rent following adjustments for structured parking, demolition and temporary relocation is $55.03/sf/year, a net upwards adjustment of 28.7%. The dollar amount of the adjustment is $12.26/sf/year.

Following these adjustments, the indications of rent for the Subject property range from a low of $48.51/sf/year to a high of $63.04/sf/year. The average of the six indications is $55.03/sf/year. Rent for the Subject property at $55.03/sf/year would be $3,524,530. This can be compared with our conclusion of rental value (escalating rent) via the market rate of return and project cost method of $3,613,936, a variance of 2.5%.

Conclusion of Rental Value via Direct Comparison

We've described this analysis as a "hybrid" as it attempts to estimate rent for a special purpose property by starting with rents from generic buildings and then making adjustments for the differences in property attributes between Subject and comparable. Key to this analysis is the idea that, because the LIO is a specialized user, and the Subject property has special features to meet these special needs, all of the characteristics of the Subject property have worth and value to the specialized user.

The benefit of this direct comparison analysis is that it builds a bridge of understanding between generic office rents observed in the marketplace and the rents that result from the need for these special features and attributes. This is the essence of a special purpose property appraisal and the resulting estimate a rental value – that generic buildings in the local marketplace cannot meet the needs of the user, and the user must then bear the cost of those special features and attributes – either in the form of the cost of construction or purchase, or in the form of rent.

We conclude to a rental value for the Subject property of $3,525,000 per year, assuming an escalating lease structure, based on this direct comparison analysis, as of June 1, 2014.

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Reconciliation and Estimate of Rental Value

Our analysis has resulted in the following indications of rental value, as of June 1, 2014:

Project Cost & Market Rate of Return:	$3,613,936 per year
Direct Comparison:	$3,525,000 per year

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Our analysis of rental value is grounded in the conclusion that the Subject property is a special purpose property and must be valued as such. Accordingly, we have completed an analysis that reflects the worth and utility of the specialized property to the specialized user – the Legislative Information Office and its administrator, the Legislative Affairs Agency. When all is said and done, the inherent presumption of this and any other special purpose property market value or rental value estimate is that the user needs these special features and capabilities, and that the costs of those features and capabilities is fair and appropriate.

Our analysis has gone to substantial detail to evaluate the costs of the developer and of other relevant projects in the local marketplace to evaluate the appropriateness of project costs and to consider not just the developer's proposed costs, but also the costs of the project as we believe the marketplace would view them – most specifically, the hypothetical investor who would be developing and leasing the specialized property to the user. We've presented what we believe is rather compelling information about the range of market rate of return that our hypothetical investor would apply to this investment; the range of rates is narrow and there is much consistence across these indications of market rate of return. Therefore, our Project Cost & Market Rate of Return analysis indicates a market rent that we believe is reliable and credible and which fully reflects the worth of the features and attributes of the renovated and expanded office building.

Our direct comparison analysis allows the reader (and the analyst) to understand both the range of rents for generic buildings in the Anchorage marketplace as well as the impact upon rent of the special features and attributes of the building. We've characterized this as a hybrid indication of value, beginning with rent indications of generic buildings and moving towards the special purpose building standard through application of adjustments. The development and leasing of the 909 Building and the Camp Denali Readiness Center provide important and relevant indications of project cost and rental value, and they have influenced our conclusions of market rent.