



HIGHEST AND BEST USE ANALYSIS OF:

Former YMCA Facility
507 N Howard Street
Spokane, WA

DATE OF EVALUATION

October 9, 2009

DATE OF REPORT

October 30, 2009

BY

Jeffrey D. Lembeck, MAI

LEMBECK APPRAISAL & CONSULTING, INC.

111 W North River Drive, Ste. 204

Spokane, Washington 99201

(509) 326-4130

REPORT NO. 09.194

October 30, 2009



Ms. Pamela McKinzie
City of Spokane Parks and Recreation Department
808 W Spokane Falls Blvd # 5
Spokane, WA 99201-3333

RE: Former YMCA Facility
507 N Howard Street
Spokane, WA

Dear Ms. McKinzie:

At the request of Barry Russell, director of the Parks and Recreation Department at the time of engagement, I have prepared the attached consultation report concerning the Highest and Best Use of the former YMCA facility located at 507 N Howard Street in Spokane, Washington. The subject property is a former health club facility that was constructed in 1964 and contains approximately 76,093 SF on five levels. The building occupies a 39,811 SF (or 0.91-acre) site situated along the upper falls of the Spokane River, and is effectively surrounded by Riverfront Park.

As you are aware, after announcing plans to build a new joint-use facility with the YWCA at a new location at 930 N Monroe Street, the City of Spokane acquired the site via a warranty deed recorded on June 24, 2009, from the YMCA. As of the date of inspection, the YMCA had vacated the recreation portions of the facility, and the building was mostly vacant. The only occupied areas were portions of second and third floors, which are still in used by the YMCA for its administrative offices on a short-term basis.

It is my understanding that the purpose of this consultation is to assist the client in future decision-making with regard to the use of the property. Per the attached contract, the specific scope of the work is summarized as follows:

1. Develop a list of potential tenant and co-tenant types likely to lease the former Downtown YMCA.
2. Estimate likely lease terms based on a study of comparable properties and interviews with market participants.
3. Compare the financial options versus demolition of the building to create a vacant site.
4. Develop a preliminary background report on the status of building mechanical and electrical systems.

Based on my investigation and analysis, and subject to the assumptions and limiting conditions contained within this report, the following are my major findings:

- Among the legally permissible and physically possible options, the most likely use of the building would have been to redevelop the upper three floors with multi-tenant office space, comprising a total of ±50,919 SF of rentable area. The lower two levels consist of below-grade mechanical rooms and windowless space formerly occupied by the swimming pools, locker rooms, and sports courts. It would not be feasible to market these basement spaces for lease, but portions could be

marketed as additional enhancements for use by the upper floor office tenants as storage, recreation, or other utility space. The swimming pools do not currently meet code, and it would not be feasible to operate them or to undertake the substantial reinvestment to make them usable.

- Based on an analysis of tenant profiles in competitive buildings, professional offices (architects, engineers, attorneys, and the like) make up the largest segment of the market (36%), followed by the finance, insurance and real estate (FIRE) category at 34%, and government offices, which composed 23% of the market area sample. Given its water views and parkside location, coupled with its close proximity to the central business district as well as government headquarters facilities, it would be appealing to all three office user types. An analysis of tenant sizes showed that the vast majority of the area's tenants are 0 to 5,000 SF (76%), with 14% being 5,000 SF to 10,000 SF, and only 10% being larger than 10,000 SF. Although tenants at the upper end of the range would be ideal and could make use of the building's relatively large footprints, it is most likely that at least some of the floors would have to be divided among multiple users to find a sufficient pool of prospective tenants.
- Under such a redevelopment/conversion scenario, the concluded market rents were \$15/SF/Yr for the third floor, \$14/SF for the second floor, and \$12/SF for the first floor. These rates would be based on a full-service, rentable basis.
- After such a renovation, the subject would be estimated to generate \$226,256/Yr in net operating income that would presumably be available for debt service. However, due to the extensive costs it would take to correct the existing functional deficiencies in the existing mechanical and electrical systems, as well as other tenant improvements, parking, and marketing costs necessary to market the building, the costs more than offset any future positive cash flows from rents. Such a scenario was determined to result in a net *loss* of \$850,000.
- From the owner's standpoint, the highest and best use of the site would be to demolish the building, and accept available Conservation Futures Funding. This funding reportedly totals \$4.3 million, which could be used to offset the anticipated costs of roughly \$800,000 to demolish the facility and restore the land.
- Per the terms of the contract, the mechanical and electrical system assessments were developed under separate cover by Coffman Engineers. From the executive summary of the Coffman report, "The mechanical HVAC systems for the most part are original and in poor to bad condition. All of the system components are in need of some level of repair. A greater amount of remodel is recommended and probably necessary to provide acceptable levels of comfort, performance, and automatic operation of the systems." The Coffman cost estimates to undertake such necessary improvements were incorporated into the attached feasibility analysis. Under a mid-range scenario, the Coffman-recommended necessary improvements would calculate to approximately \$1.2 million to rectify problems with the outdated HVAC and electrical systems. However, additional construction costs in excess of \$1.3 million (as estimated by the appraiser) would be anticipated in order to make the space marketable under a multi-tenant office scenario, not inclusive of leasing commissions and other tenant concessions.

The data and analysis leading to these conclusions are summarized in the attached consultation report. This report was prepared in conformance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP), and those of City of Spokane Parks and Recreation Department.

Sincerely,




Jeffrey D. Lembeck, MAI

CERTIFICATION

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The consultation was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the *Uniform Standards of Professional Appraisal Practice*.
- The use of the report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the persons signing this certification.
- As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.



Jeffrey D. Lembeck, MAI
Washington State Certified General Real Estate Appraiser
No. 1100168

TABLE OF CONTENTS

CERTIFICATION	III
SUMMARY OF FACTS	6
EXTRAORDINARY ASSUMPTIONS	8
GENERAL ASSUMPTIONS AND LIMITING CONDITIONS	8
THE CONSULTATION ASSIGNMENT.....	11
IDENTIFICATION OF THE PROPERTY.....	11
LEGAL DESCRIPTION.....	11
DATE OF INSPECTION	12
DATE OF EVALUATION.....	12
DATE OF REPORT	12
PURPOSES/INTENDED USE AND USERS OF THE CONSULTING ASSIGNMENT.....	12
OWNERSHIP RIGHTS APPRAISED.....	12
DEFINITION OF HIGHEST AND BEST USE	13
DEFINITION OF MARKET VALUE	13
SCOPE OF THE ASSIGNMENT	14
APPRAISER COMPETENCY	14
THREE-YEAR OWNERSHIP AND SALES HISTORY OF THE SUBJECT	14
UNAVAILABILITY OF INFORMATION	14
REGIONAL MAP	15
AREA MAP	15
CITY MAPS.....	16
SUBJECT PHOTOGRAPHS	17
THE CONSULTATION PROBLEM.....	22
HIGHEST AND BEST USE ANALYSIS PROCESS	23
PHYSICAL ATTRIBUTES	24
SITE DESCRIPTION	24
PLAT MAP	24
LOCATION	24
SIZE AND SHAPE	24
FRONTAGE/EXPOSURE	25
ACCESS, INGRESS/EGRESS.....	25
TOPOGRAPHY/DRAINAGE	25
TOPOGRAPHIC MAP	25
EASEMENTS/ENCROACHMENTS	26
ADJACENT USES	26
SOILS/ENVIRONMENTAL	26
UTILITIES.....	26
CENSUS TRACT.....	27
FEMA FLOOD ZONE INFORMATION.....	27
FLOOD MAP	27
ZONING MAP.....	28
ZONING.....	28
SITE CONCLUSION.....	30
DESCRIPTION OF IMPROVEMENTS.....	31
PROPERTY DETAILS.....	31
CONSTRUCTION FEATURES	31
FLOOR-BY-FLOOR OVERVIEW	33
IMPROVEMENTS CONCLUSION	35
BUILDING PLANS	36
HIGHEST AND BEST USE.....	41
DEFINITION.....	41

I. LEGALLY PERMISSIBLE USES..... 42
 ZONING/COMPREHENSIVE PLAN 42
 PRIVATE/OTHER LAND USE RESTRICTIONS 44
II. PHYSICALLY POSSIBLE USES 47
III. FINANCIALLY FEASIBLE USES 51
 RESIDENTIAL CONDOMINIUMS 51
 OFFICE USE 52
 OFFICE RENTS 59
 RENT COMPARABLE MAP..... 61
 OFFICE RENT COMPARABLES DISCUSSION 82
 MARKET RENT CONCLUSIONS..... 83
 VACANCY 84
 OFFICE OPERATING EXPENSES..... 84
 SURFACE PARKING LOT EXPENSE 86
 CAPITAL IMPROVEMENT COSTS 87
 FREE RENT 89
 ABSORPTION 90
 OFFICE REDEVELOPMENT FEASIBILITY CONCLUSION 90
IV. MAXIMALLY PRODUCTIVE (HIGHEST AND BEST) USE 93
 HIGHEST AND BEST USE CONCLUSION..... 94
ADDENDA 95
 Contact List
 Letter of Engagement
 Excise Tax Affidavit – City Purchase of YMCA
 Appraiser Qualifications

SUMMARY OF FACTS

PROPERTY NAME: Former YMCA Facility

PROPERTY ADDRESS: 507 N Howard Street
Spokane, WA

CLIENT/INTENDED USER(S): City of Spokane Parks and Recreation Department

INTENDED USE: The assignment results are to be used by the client for decision-making purposes regarding the future use of the subject property.

DATE OF INSPECTION: October 9, 2009

DATE OF EVALUATION: October 9, 2009

DATE OF REPORT: October 30, 2009

CURRENT USE: Mostly vacant former health club/social services facility occupied by the YMCA.

PLANNED USE: Unknown at this time.

HIGHEST AND BEST USE: Demolition/restoration option, utilizing Spokane County Conservation Futures funding.

SITE DESCRIPTION

Land Area: 39,811 SF; 0.91 Acres

Zoning: CBD-6, City of Spokane. Current use is legal non-conforming.

Lot Orientation: Interior; public access by vehicle is only possible through two adjoining parking lots and driveways also owned by the City, but which are separate from the subject site.

Topography: Slopes downward from east to west and sharply downward along the north edge, providing views of the upper falls of the Spokane River below.

IMPROVEMENT DESCRIPTION

Improvement Type: Reinforced concrete, block, and masonry structure built as a health club/social services facility for the YMCA. Three levels below grade (daylight basement configuration), with two levels entirely above-grade.

Year Built: 1964



Building Area:

The Gross Building Area (GBA) and Rentable Square Feet (RSF) for each floor are summarized below.

BUILDING AREA SUMMARY		
	GBA*	RSF
Third Floor**	15,990	7,245
Second Floor*	25,013	24,220
First Basement (Main Floor)**	23,993	16,896
Second Basement	19,927	19,155
Third Basement*	9,167	8,577
Totals	94,090	76,093
* Excludes enclosed but unexcavated areas		
** No deduction for vertical penetrations is applied in the GBA.		

Occupancy:

Mostly vacant aside from portions of the second and third floors, which are used on a short-term basis by the YMCA for its administrative offices.



EXTRAORDINARY ASSUMPTIONS

Extraordinary Assumption (definition): an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraisers opinions or conclusions.¹

1. The subject property has historically had the use of the parking lots extending to the southwest of the subject site. Per the verbal instructions conveyed by the client, it is an extraordinary assumption of this report that any future occupants of the subject building would likewise have the use of the adjacent parking lots.

GENERAL ASSUMPTIONS AND LIMITING CONDITIONS

1. No responsibility is assumed for the legal description or matters involving legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated.
2. The property is appraised free and clear of any or all liens or encumbrances, unless otherwise stated.
3. Responsible ownership and competent management are assumed, unless otherwise stated.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. The appraiser has made no engineering survey of the property and assumes no responsibility for such matters. Any maps, plans and photographs included in this report are for illustrative purposes only.
6. It is assumed there are no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. No responsibility is assumed for such conditions or for obtaining the engineering studies that may be required to discover them. Subsurface rights, e.g. mineral or oil rights, were not considered in this report.
7. It is assumed the property is in full compliance with all applicable federal, state, and local environmental regulations and laws unless the lack of compliance is stated, described, and considered in the appraisal report.
8. It is assumed that the property conforms to all applicable zoning and use regulations and restrictions unless a nonconformity has been identified, described and considered in the appraisal report.
9. It is assumed that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

¹ The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice 2008-2009 ed*, p. U-3



10. It is assumed the utilization of the land and improvements is within the subject property boundaries and there is no encroachment or trespass unless otherwise stated.
11. Unless otherwise stated in this report, the existence of hazardous materials, which may or may not be present on the property, was not observed by the appraiser. The appraiser has no knowledge of the existence of such materials on or in the property. The appraiser, however, is not qualified to detect such substances. The presence of substances such as asbestos, urea-formaldehyde foam insulation, and other potentially hazardous materials may affect the value of the property. The value estimated is predicated on the assumption that there is no such material on or in the property that would adversely affect its use or value. No responsibility is assumed for such conditions or for any expertise or engineering knowledge required to discover them. The intended user is urged to retain an expert in this field, if desired.
12. Any allocation of total value estimated in this report between land, improvements, or any other fractional part or interest applies only under the stated program of utilization, and is invalidated if used separately or in conjunction with any other appraisal.
13. Possession of this report, or a copy thereof, does not carry with it the right of publication.
14. The appraiser, by reason of this appraisal, is not required to give further consultation or testimony or to be in attendance in court with reference to the property in question unless arrangements have been previously made.
15. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.
16. Any value estimates provided in the report apply to the entire property, and any proration or division of the total into fractional interests will invalidate the value estimate, unless such proration or division of interests has been set forth in the report.
17. Any proposed improvements are assumed to have been completed unless otherwise stipulated; any construction is assumed to conform with the building plans referenced in the report.
18. Any construction, alterations or repairs upon which the appraised value is contingent are assumed to be completed in a workmanlike manner.
19. The forecasts, projections, or operating estimates contained herein are based on current market conditions, anticipated short-term supply and demand factors, and a continued stable economy. These forecasts are, therefore, subject to changes with future conditions.
20. Disclosure of the contents of this report is governed by the Bylaws and Regulations of the Appraisal Institute.
21. The Americans with Disabilities Act became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of the subject property to determine whether it is conformity with the various detailed requirements of the ADA.



It is possible that a compliance survey of the subject property and a detailed analysis of the requirements of the ADA may reveal that the subject property is not in compliance with one or more of the requirements of the act.

22. This appraisal report is prepared for the sole and exclusive use of the appraiser's client, **City of Spokane Parks and Recreation Department**. No third parties are authorized to rely upon this report without the express written consent of the appraiser.
23. Provision of an Insurable Value by the appraiser does not change the intended user or the intended purpose of the appraisal. The appraiser assumes no liability for the Insurable Value estimate provided and does not guarantee that any estimate or opinion will result in the subject property being fully insured for any possible loss that may be sustained. The appraiser recommends that an insurance professional be consulted. The Insurable Value estimate may not be a reliable indication of replacement or reproduction cost for any date other than the effective date of this appraisal due to changing costs of labor and materials and due to changing building codes and governmental regulations and requirements.



THE CONSULTATION ASSIGNMENT

The following information is reported as a requirement of the Uniform Standards of Professional Appraisal Practice.

IDENTIFICATION OF THE PROPERTY

The property to be appraised is the former YMCA facility located at 507 N Howard Street in the city of Spokane, Washington.

LEGAL DESCRIPTION

According to the excise tax document recorded in conjunction with the City's acquisition of the property on June 18, 2009, the property can be legally described as follows:

PARCEL A:

THAT PORTION OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 18, TOWNSHIP 25 NORTH, RANGE 43 EAST, W.M., IN SPOKANE COUNTY, WASHINGTON DESCRIBED AS FOLLOWS:

*BEGINNING AT A POINT ON THE NORTH AND SOUTH CENTER LINE OF SAID SECTION, 476.59 FEET NORTH OF THE SOUTHWEST CORNER OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER;
THENCE SOUTH 87°37' EAST 24.67 FEET TO THE TRUE POINT OF BEGINNING;
THENCE NORTH 2°38' EAST 163.74 FEET;
THENCE NORTH 76°21'30" EAST 98.34 FEET;
THENCE SOUTH 50°18' EAST 21.74 FEET;
THENCE SOUTH 67°51'30" EAST, 75.71 FEET, MORE OR LESS, TO A POINT ON THE WEST LINE OF HOWARD STREET;
THENCE SOUTH 1°55' EAST ALONG THE WEST LINE OF HOWARD STREET 226.78 FEET;
THENCE NORTH 42°41' WEST 8.55 FEET;
THENCE NORTH 78°06' WEST 66.72 FEET;
THENCE NORTH 87°37' WEST, 126.52 FEET TO THE TRUE POINT OF BEGINNING;*

PARCEL B:

A TRACT OF LAND IN THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 18, TOWNSHIP 25 NORTH, RANGE 43 EAST, W.M., IN SPOKANE COUNTY, WASHINGTON DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTH-SOUTH MID-SECTION LINE OF SAID SECTION 18, WHICH POINT LIES 476.59 FEET NORTHERLY FROM THE SOUTHWEST CORNER OF THE NORTHWEST QUARTER OF



*THE SOUTHEAST QUARTER OF SAID SECTION 18; THENCE SOUTH 87°37' EAST 24.67 FEET;
THENCE NORTH 2°38' EAST, 163.74 FEET;
THENCE SOUTH 76°21'30" WEST 31.81 FEET TO A POINT ON THE NORTH-SOUTH MID SECTION LINE OF SAID SECTION 18;
THENCE ALONG SAID MID SECTION LINE SOUTH 0°29' WEST 155.04 FEET MORE OR LESS TO THE POINT OF BEGINNING.*

The subject is also known as Spokane County Assessor's Parcel No. 35184.0069. However, this only pertains to "Parcel A" as described above. Parcel B has apparently been inadvertently excluded from the assessor's maps and does not have a separate parcel number from the larger Riverfront Park Parcel (No. 35185.0041) that it should adjoin. As a result of this error, the Assessor's Office under-reports the total site area as 35,600 SF. The legal description provided above describes a combined site area of 39,811 SF, or 0.9139 acres, as calculated using both Apex® and Deed Plotter® software programs.

In addition to the subject property described above, it is also an extraordinary assumption of this report that the subject occupants would have the right to use the parking lots formerly utilized by the YMCA (lying to the southeast of the property) for both access and parking.

DATE OF INSPECTION

Jeffrey D. Lembeck last inspected the subject property on October 9, 2009 together with YMCA facilities manager Darin Hoffman, as well as representatives from Coffman Engineers.

DATE OF EVALUATION

The effective date of this analysis is as of October 9, 2009.

DATE OF REPORT

The date of the report is October 30, 2009.

PURPOSES/INTENDED USE AND USERS OF THE CONSULTING ASSIGNMENT

The intended use of the appraisal is to provide the client/intended users, City of Spokane Parks and Recreation Department, with information necessary to make decisions regarding the future use of the former YMCA facility.

OWNERSHIP RIGHTS APPRAISED

As it pertains to the ownership of the subject property, this analysis concerns the evaluation of the fee simple interest in the subject property, defined as follows.



Fee Simple Estate - *Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police powers, and escheat.*²

While it is recognized that a leased fee interest would be created in the event of the signing of any future lease involving the subject, the interest would become that of leased fee, defined as follows:

Leased Fee Interest - *An ownership interest held by a landlord with the rights of use and occupancy conveyed by lease to others. The rights of lessor (the leased fee owner) and the lessee are specified by contract terms contained within the lease.*³

In addition to the subject property described previously under the legal description, it is also assumed that the subject occupants would have the right to use the parking lots formerly utilized by the YMCA (lying to the southeast of the property) for both access and parking.

DEFINITION OF HIGHEST AND BEST USE

*The reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value.*⁴

DEFINITION OF MARKET VALUE

As it pertains to any value conclusions that are used in evaluating the Highest and Best Use of the subject, market value is defined as:

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 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; and*
- (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 sale.*⁵

² Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4th ed. 2002, pg. 113.

³ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4th ed. 2002, pg. 161.

⁴ Appraisal Institute,

⁵ Board of Governors of the Federal Reserve System (FRS), 12 CFR Part 225; Federal Deposit Insurance Corporation (FDIC), 12 CFR Part 323; National Credit Union Administration (NCUA), 12 CFR Part 722; Office of the Comptroller of the Currency (OCC), 12 CFR 34.42(f); Office of Thrift Supervision (OTS), 12 CFR 564.2(f); and the Resolution Trust Corporation (RTC), 12 CFR Part 1608. Washington, D.C.: Federal Register, Vol 55, No. 251, pages 53610-53618; Monday, December 31, 1990.



SCOPE OF THE ASSIGNMENT

The scope of the assignment included:

- Inspection of the subject property, subject neighborhood and all comparable properties used in the report;
- review and analysis of all subject information included in the report and addenda;
- research, confirmation and analysis of rent comparables with the aid of County records, TRW Real Estate Information Services, and other sources;
- review of the mechanical and electrical engineers' report conducted by Coffman Engineering in conjunction with this assignment; and
- preparing this written consultation report.

APPRAISER COMPETENCY

No actions were necessary to comply with the competency provision of USPAP.

THREE-YEAR OWNERSHIP AND SALES HISTORY OF THE SUBJECT

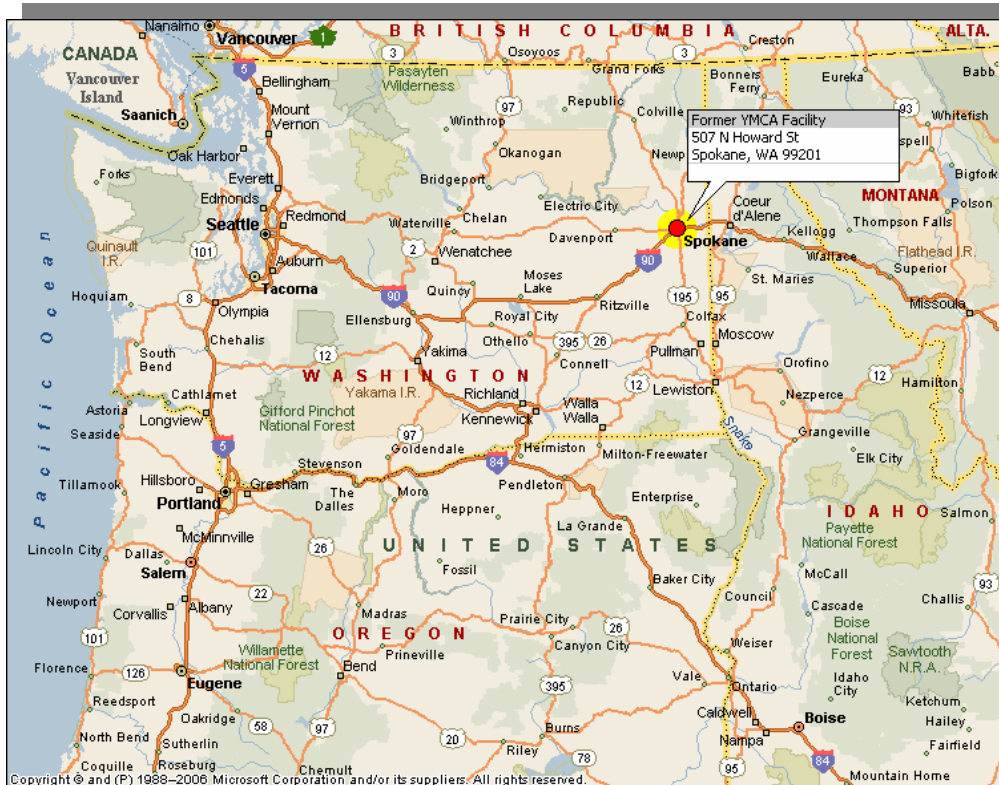
According to County records, the subject is currently owned by the City of Spokane. The last transaction involving the subject was its purchased from the YMCA of the Inland Northwest for a price of \$5,230,000 recorded on June 18, 2009. The YMCA had acquired the property via a donation from Ray Barton and Washington Water Power prior to construction, which began in 1962.

Prior to the sale to the City, the YMCA had decided to develop a new facility together with the YWCA on North Monroe, and to sell the existing facility as part of the fund-raising efforts to finance the new property. It then entered into a contract with developer Mark Pinch in 2006, who announced that he intended to acquire the site and develop it with a \$50 million, 14-story residential condominium facility, with up to 80 units. The Spokane Park Board then exercised a right of first refusal option to match the price, and the City of Spokane acquired the site via a warranty deed recorded on June 24, 2009, at a recorded price of \$5,390,000. I am aware of no other sales, listings, or offers within the past three years.

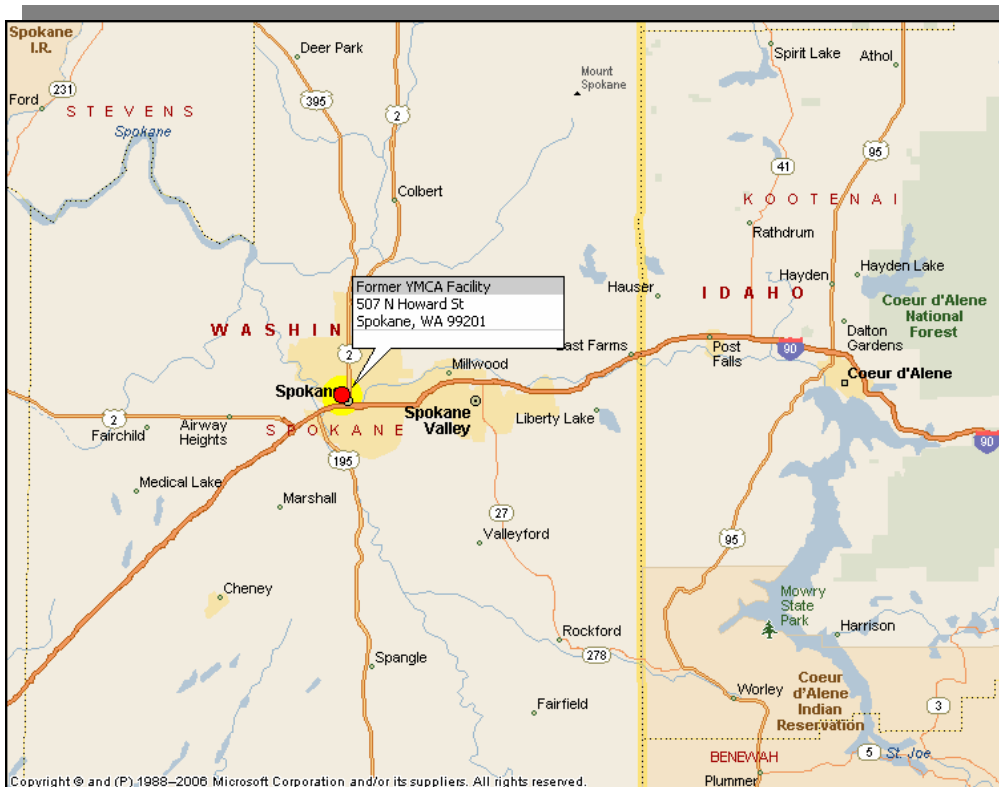
UNAVAILABILITY OF INFORMATION

Sufficient information necessary to form a reliable analysis was believed to be available. However, if additional information becomes available after the date of this appraisal regarding these or other items, the right is reserved to re-analyze the property, and to potentially revise the conclusions stated herein. Such analysis may be at an additional fee.



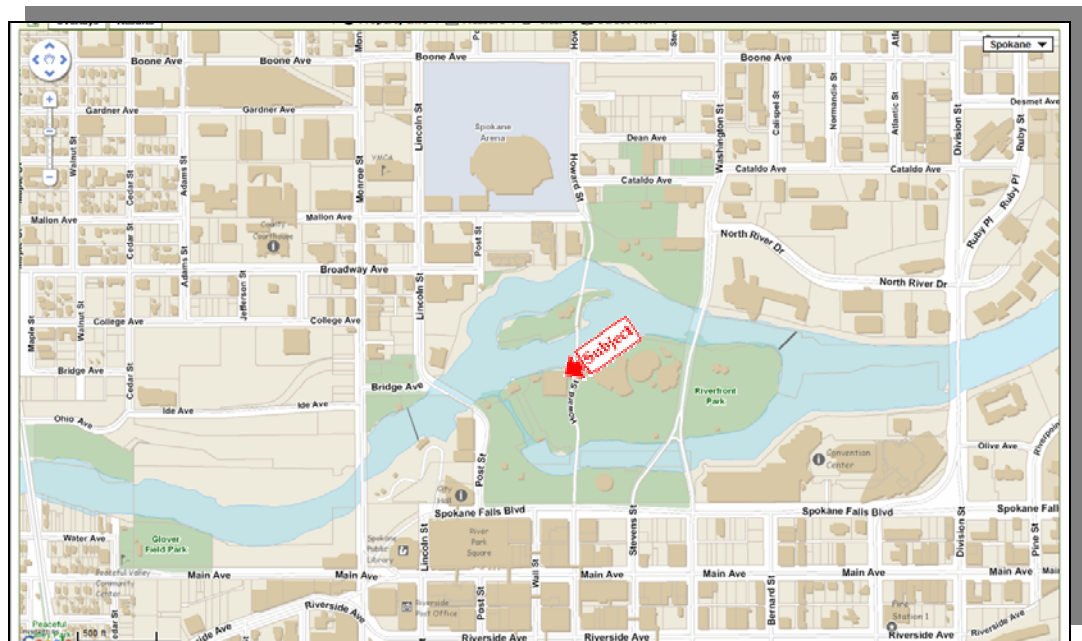
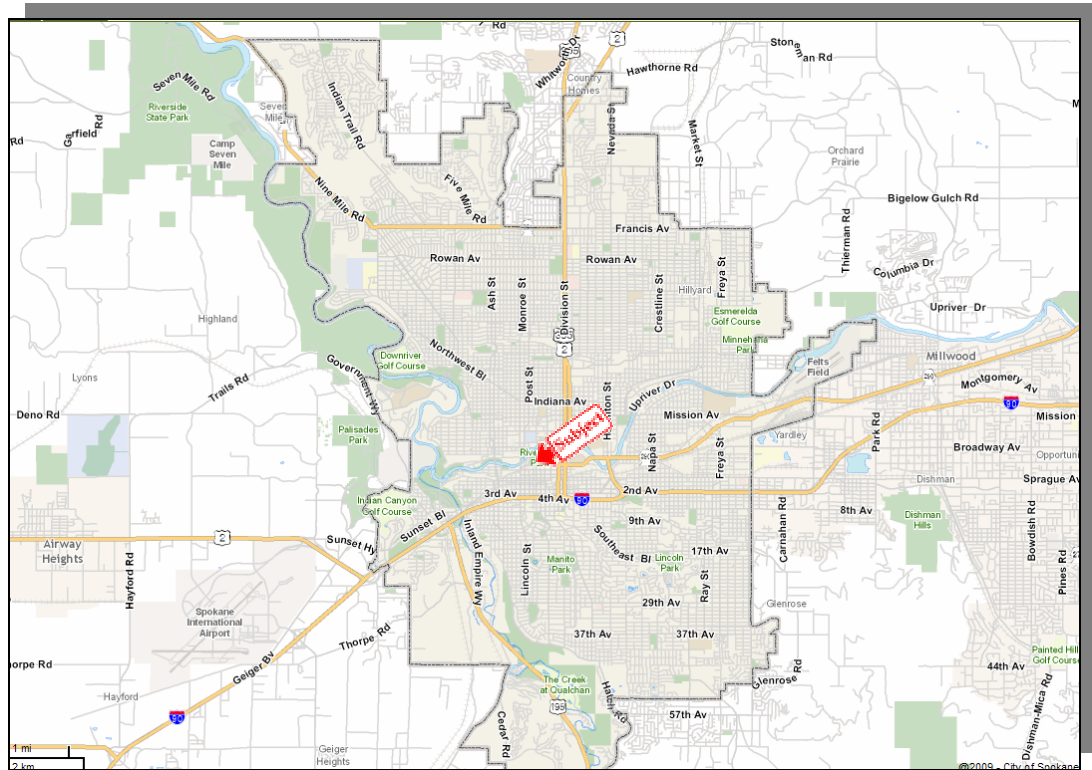


REGIONAL MAP



AREA MAP



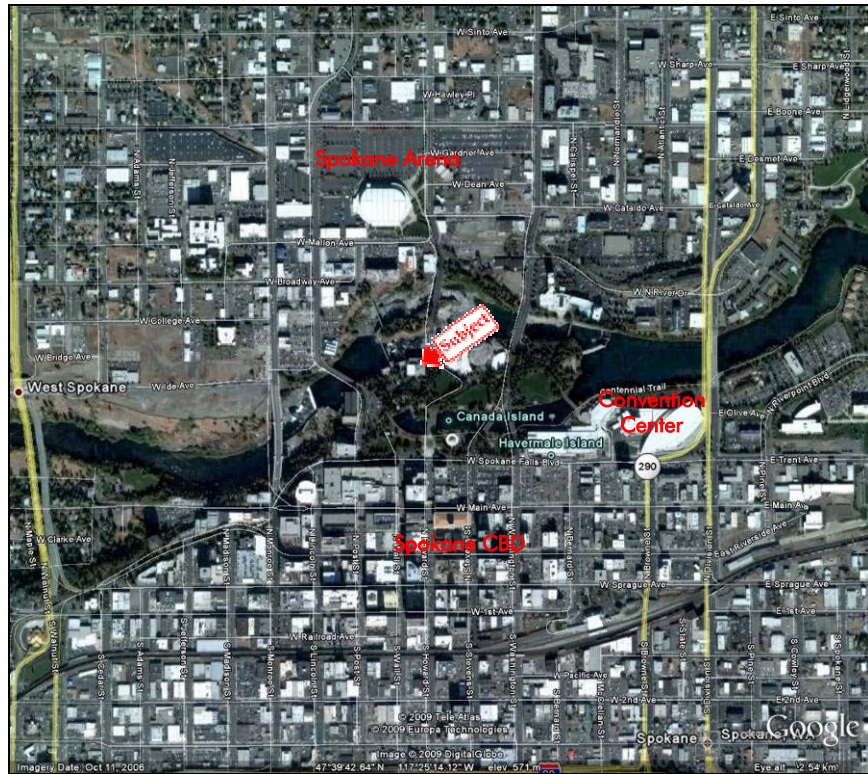


CITY MAPS



SUBJECT PHOTOGRAPHS

1. Satellite Image of the subject.



2. The subject's location along the Spokane River provides excellent views of the upper falls. It is also located in the heart of Riverfront Park, with two of the park's major attractions (the Imax Theater and the Pavilion) lying to its east, and leased parking lots lying to the southwest.



SUBJECT PHOTOGRAPHS

3. *The subject's north elevation, facing southwest.*



4. *The subject's south elevation, facing northeast. The main entry to the former YMCA is shown, which leads into the first floor (also known as Basement 1 of three basement levels).*



SUBJECT PHOTOGRAPHS

5. Basement 3 photographs. This level consists mainly of mechanical rooms and pumps and filter equipment for the swimming pools on Basement 2.



6. Basement 2 includes men's and women's locker rooms, two swimming pools, and three racquetball/handball courts.



SUBJECT PHOTOGRAPHS

5. The first floor (known as Basement 1 on some floorplans) includes the former YMCA reception desk and was predominantly used for childcare areas. The windows along the north wall offer exceptional views of the Upper Falls of the Spokane River.



6. Second floor photos, clockwise from upper left:

- Gymnasium on west side of building.
- Former exercise room in northwest corner of the building
- Commercial kitchen adjacent to the exercise room.
- Office space (east side).



SUBJECT PHOTOGRAPHS

7. The third floor currently serves as corporate office space for the YMCA. Offices are located on the north side of the building, while the south side is open to the roof.



THE CONSULTATION PURPOSE

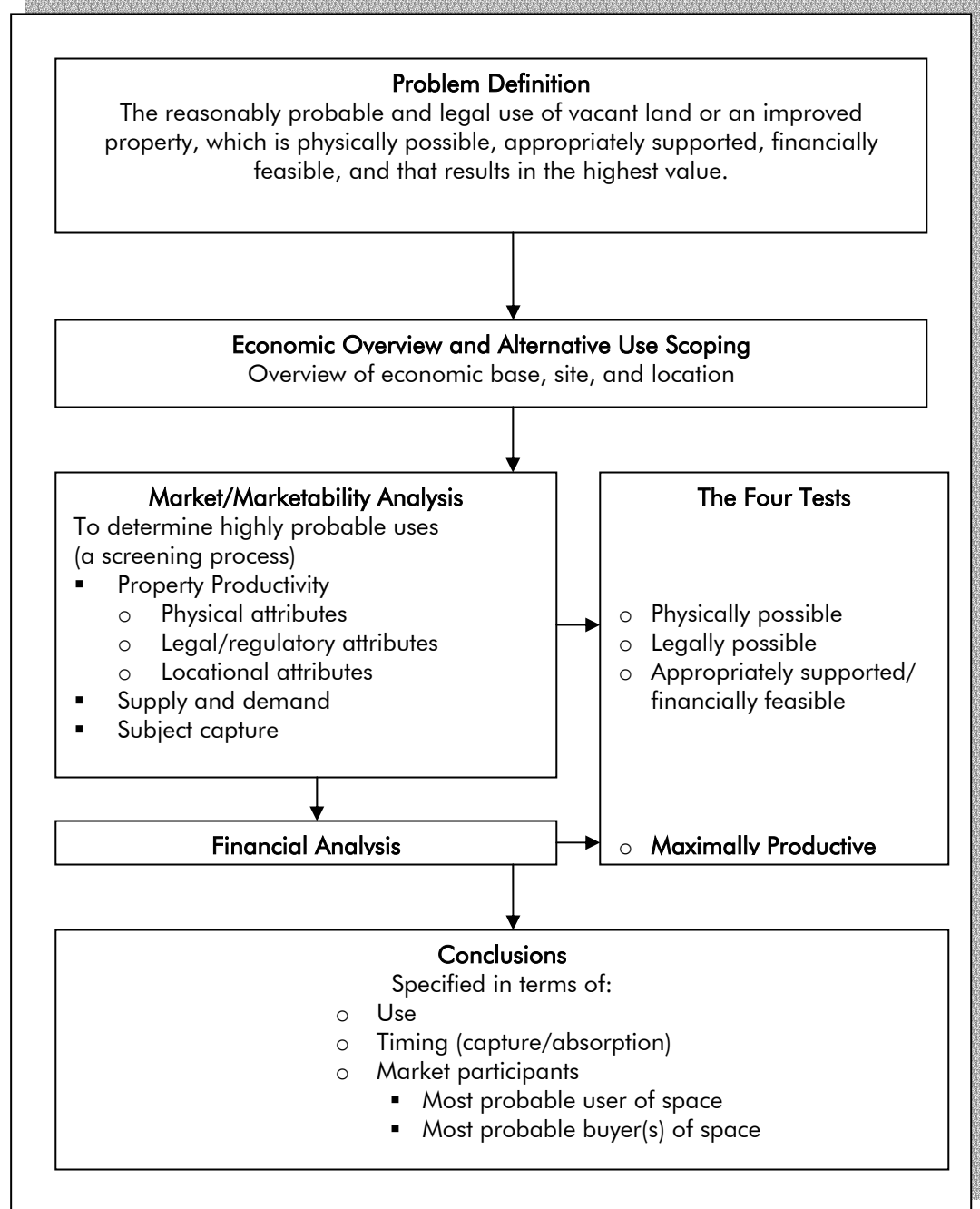
Essentially, the issue to be resolved is to determine the highest and best use of the property. In doing so, the focus of this consultation will provide market evident to support conclusions for the following issues:

1. Develop a list of potential tenant and co-tenant types likely to lease the former Downtown YMCA.
2. Estimate likely lease terms based on a study of comparable properties and interviews with market participants.
3. Compare the financial options versus demolition of the building to create a vacant site.
4. Develop a preliminary background report on the status of building mechanical and electrical systems.

The table on the following page essentially summarizes the process that will be undertaken in this analysis to address items number 1 through 3 in the preceding list. Item number 4 will be addressed in an engineering report under separate cover.



HIGHEST AND BEST USE ANALYSIS PROCESS⁶

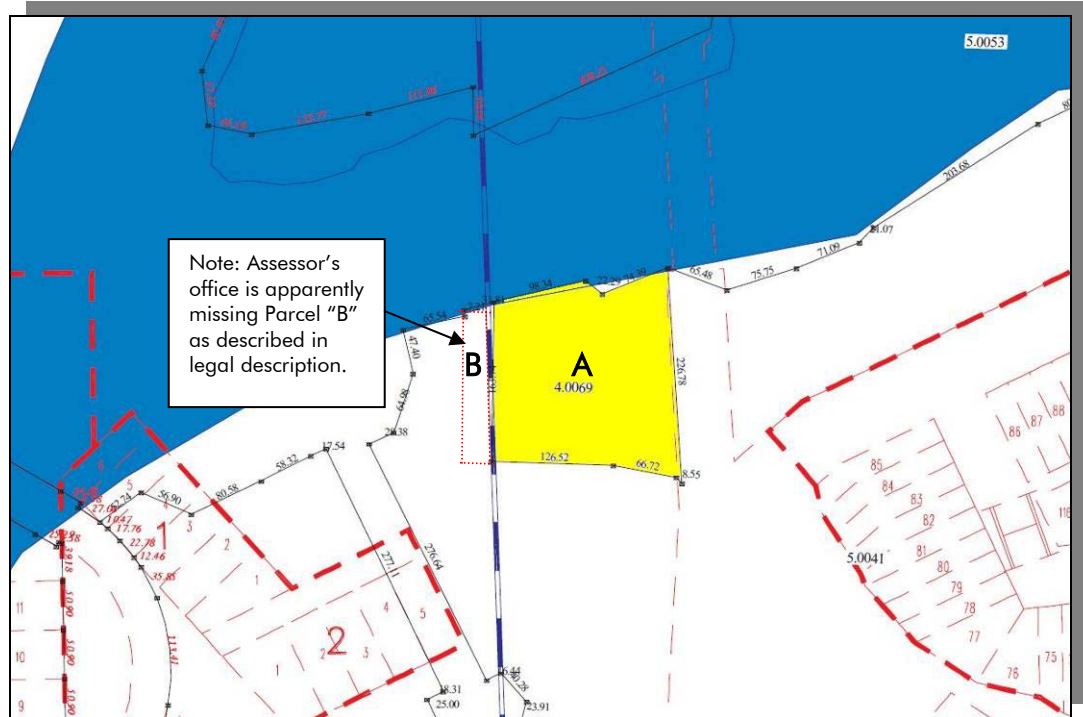


⁶ The Appraisal Institute, *Market Analysis for Valuation Appraisals*, p. 346.



PHYSICAL ATTRIBUTES

SITE DESCRIPTION



PLAT MAP

LOCATION

The subject site is located along the south side of the Spokane River, and is surrounded to the south, east, and west by Spokane's Riverfront Park. The street address is 507 N Howard Street, Spokane, Washington.

SIZE AND SHAPE

The subject's legal description describes two parcels. However, the assessor's map includes only one of the town, shown in yell as parcel "A" above. Parcel "B" is sketched in above (not to scale). The collective site is roughly trapezoidal. Spokane County Assessor's records report a site area of 35,600 SF, but this applies only to Parcel A. The legal descriptions of both parcels describe a combined site area of 39,811 SF (0.91 AC), broken down as follows:

Parcel A:	35,400 SF
Parcel B:	+ 4,411 SF
Total Site Area:	39,811 SF

No survey or title report was available for use in this analysis, and a site area of 39,811 SF, or 0.91 Acres, is used in this analysis.

FRONTAGE/EXPOSURE

The site is effectively landlocked, and has no direct exposure to any operating roadways, limiting its exposure.

ACCESS, INGRESS/EGRESS

The site originally had vehicular access from Howard Street, a secondary arterial that formerly provided access through the CBD. However, this right of way was closed in conjunction with Riverfront Park as part of EXPO 74. In exchange for the loss of access, the City reportedly reached an agreement with the YMCA to allow public vehicular access through two adjoining parking lots extending to Post Street to the west. It is an assumption of this analysis that the subject will continue to have access to Post Street. Post Street is a paved, secondary arterial with one lane in each direction, which is also serves as one of four bridges that span directly from the CBD across the river to the north (the others being Division Street, Washington Street, and Monroe Street).

TOPOGRAPHY/DRAINAGE

The site slopes gently downward from southeast to northwest through most of the parcel. The total elevation changes from roughly 1,870 feet at the southeast corner to 1,840 feet at the northwest corner. Beyond the subject's north boundary, the topography slopes severely downward to the river, providing excellent territorial and water views of the upper falls below. No drainage or flooding problems were apparent during the inspection.



TOPOGRAPHIC MAP

EASEMENTS/ENCROACHMENTS

As stated, not title report or survey was provided for use in this analysis. Typical utility easements are presumed to exist. The subject parcel appears to be effectively landlocked. Its original vehicle access was via Howard Street, which was vacated as a public street when Riverfront Park was developed in conjunction with the Expo '74 World's Fair. However, the YMCA apparently struck a deal with the City to allow continued vehicular access to the site through its parking lots along Post Street. As stated previously, it is an extraordinary assumption of this appraisal that this access will be continued (as will the availability of parking in these lots) for any future users that might occupy the building.

The subject does appear to encroach slightly near its northwest corner, where the assessor's sketch shows the upper floors to extend over the northerly lot line. Because the northerly lot abuts the Spokane River, however, it does not affect any private ownership as a result of this encroachment, and would presumably be allowed to persist.

ADJACENT USES

North:	Upper falls in the middle channel of the Spokane River. Beyond this lies Canada Island.
South:	Riverfront Park, the south channel of the Spokane River, and Spokane Falls Boulevard.
East:	Riverfront Park/former Howard Street right of way which now functions as a paved pathway and serves as a portion of the Centennial Trail. Beyond this lies the Imax Theater and Pavilion features of the park.
West:	A city-owned building currently used as office/storage space, Riverfront park, a pathway leading to a footbridge that crosses the Spokane River to Canada Island and that overlooks the upper falls, beyond which lies the Washington Water Power (now Avista) upper power house.

SOILS/ENVIRONMENTAL

A Phase I environmental site assessment, prepared by TechCon, Inc. in April 2007, was provided for use in this report. According to their report, "This assessment did not discover any current or continuing recognized environmental conditions on the subject site." As such, the property is presumed to have no adverse environmental issues that would adversely affect the future use or value of the building or site.

UTILITIES

As shown below, all typical utilities are available to the subject site.



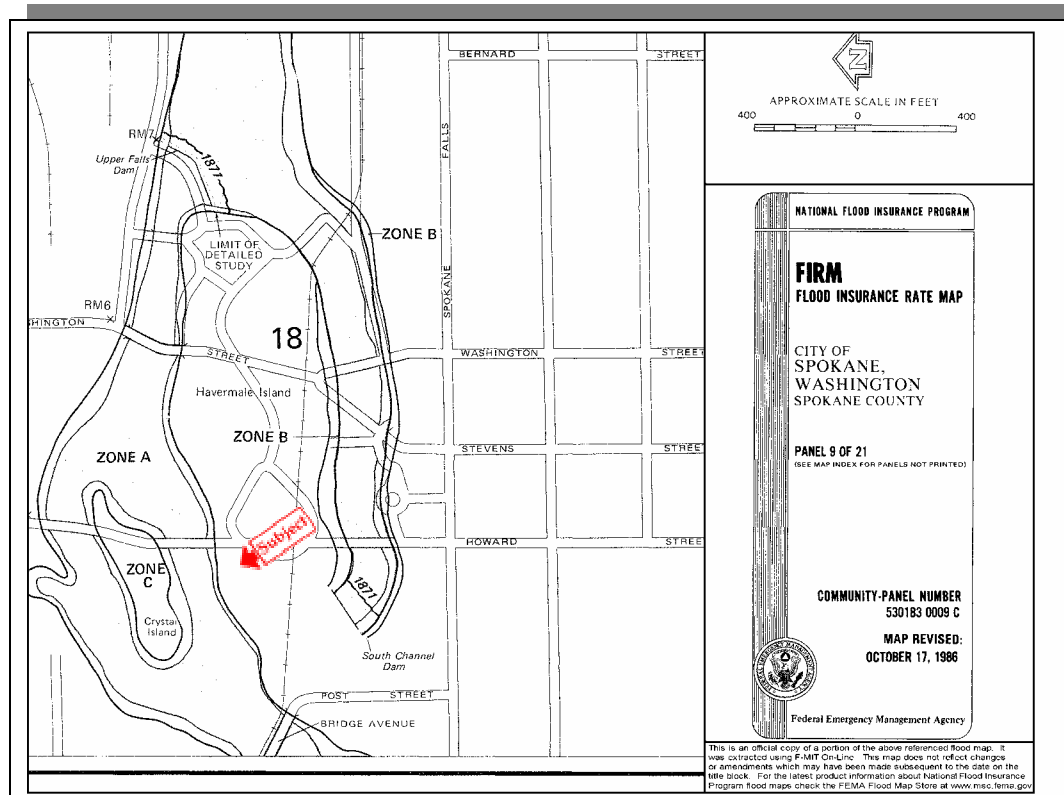
Utility	Purveyor	Contact
Water:	City of Spokane	509-625-6000
Storm Sewer:	City of Spokane	509-625-6000
Sanitary Sewer:	City of Spokane	509-625-6000
Electricity:	Avista Utilities	509-489-0500
Telephone:	Qwest Communications	800-603-6000
Natural Gas:	Avista Utilities	509-489-0500

CENSUS TRACT

The subject is in census tract 35, Block Group 2.

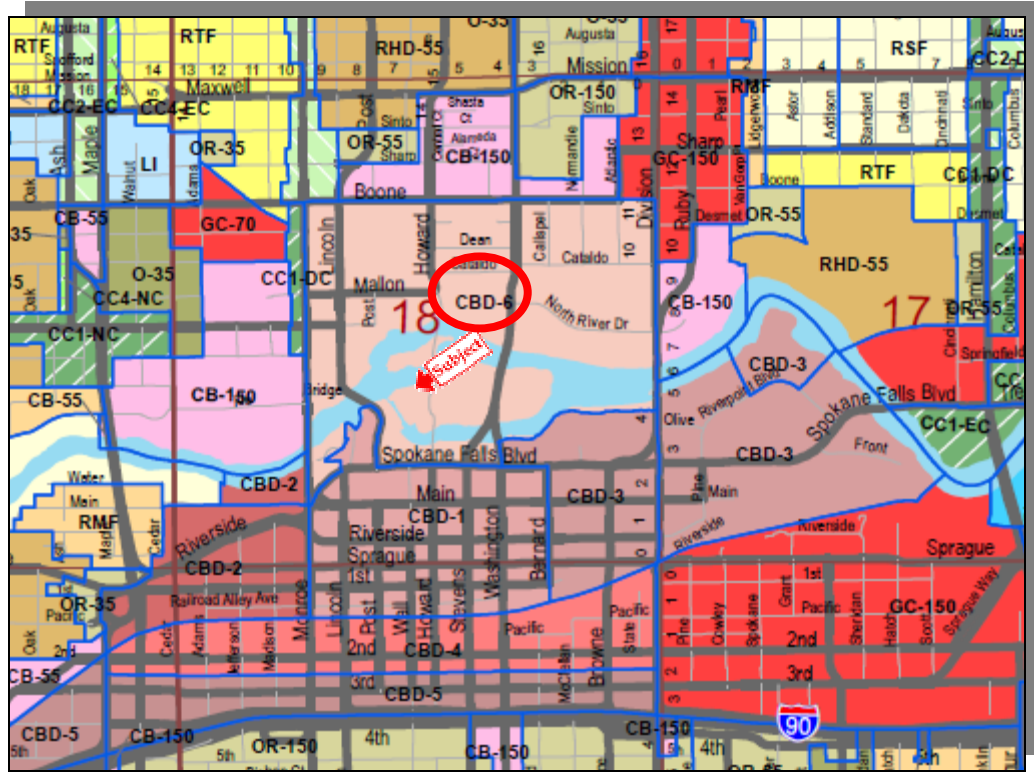
FEMA FLOOD ZONE INFORMATION

Community Panel No.: 530183 0009 C
 Dated: October 17, 1986
 Zone Classification: Zone B (Per the FEMA definition: "Areas outside the 1-percent annual chance floodplain, areas of 1% annual chance sheet flow flooding where average depths are less than 1 foot, areas of 1% annual chance stream flooding where the contributing drainage area is less than 1 square mile, or areas protected from the 1% annual chance flood by levees. No Base Flood Elevations or depths are shown within this zone. Insurance purchase is not required in these zones.")



FLOOD MAP





ZONING MAP

ZONING

As shown in the preceding map, the subject lies in zone CBD-6 under the jurisdiction of the City of Spokane. According to the City of Spokane Municipal Code, "The CBD-6 category is applied to the North Bank, the area immediately north of the Spokane River. This is a mixed-use residential, commercial, hotel, recreation and entertainment area. Generally all uses are allowed, except auto-oriented and industrial."

The following table summarizes current zoning requirements.



CBD-6 ZONING REQUIREMENTS

Regulation	Standards	Subject
Allowed Uses:	Mixed-use residential, commercial, hotel, recreation, and entertainment. Generally all uses are allowed except auto-oriented and industrial.	Former health club (recreation), now used for some administrative offices.
Height Requirements:	150' Maximum	<150' (two stories above grade)
Minimum Gross Floor Area:	No Minimum	±94,090
Maximum Gross Floor Area:	Six times the lot area, excluding: 1. Space devoted to residential uses; 2. 50% of ground floor retail in mixed-use buildings; 3. 50% of parking in a mixed use building; 4. Hotel uses in a building with at least 25% residential uses.	±94,090
Residential Density:	No minimum or maximum number of units per acre.	N/Ap
Parcel Coverage:	No minimum or maximum parcel coverage.	24,975 SF footprint ÷ 39,811 SF Site = 62.7%
Setbacks:	No front-yard setback requirements, except: 1. If first floor is non-residential and facing a Type I Green Street (the Howard Street pedestrian path through Riverfront Park is classified as such), 75% of the first floor must meet the property line, although up to 4' setback may be allowed if landscaped or pedestrian-oriented; 2. Alternatively, 100% of the line may be recessed up to 12' for an arcade if the second floor extends to the property line.	Front yard (west side): 8' to 36' Rear yard: 18' Side Yard (N): ±0' to 20' Side Yard (S): 18' to 20'+
Façade Surface:	New developments, or those that would increase the building footprint or square footage, must meet specific window and recessed area requirements.	Varies.
Parking:	Off-street parking is not required for any use in this zone. Parking for any use may be provided within a structure or on a surface lot, up to a maximum of two times the parking requirement set forth for that use in S 11.19.640-.658	No on-site parking.

With respect to zoning, the subject appears to conform to all requirements except with respect to setback requirements along a Type I Green Street. If built today, the majority of the building would have to extend to the street. Additionally, because the subject lies within 200' of the Spokane River Shoreline, it is also affected by the Shoreline Master Program of the City, in conjunction with the Department of Ecology. If vacant today, no new construction could occur within 50' of the shoreline. This policy is currently under review, and could potentially be extended to 150'. The subject is considered a legal, non-conforming use with respect to these issues.



SITE CONCLUSION

Positive attributes of the site include its stunning views of the upper falls of the Spokane River, the fact that Riverfront Park is located immediately outside its entries, the availability of all necessary utilities, and its close proximity to the CBD core. Adverse factors include its lack of visibility, circuitous and limited access, and the lack of site area to support sufficient parking for its improvements.



DESCRIPTION OF IMPROVEMENTS

The subject is a former YMCA athletic club facility originally constructed in 1964. The building is of reinforced concrete construction with two stories above grade and three "basement" levels (the first of which is effectively a daylight basement). It contains a full gymnasium, swimming pool, and sports courts, each of which penetrates two stories. Floor areas vary, and are summarized at right.

BUILDING AREA SUMMARY		
	GBA*	RSF
Third Floor**	15,990	7,245
Second Floor*	25,013	24,220
First Basement (Main Floor)**	23,993	16,896
Second Basement	19,927	19,155
Third Basement*	9,167	8,577
Totals	94,090	76,093
* Excludes enclosed but unexcavated areas		
** No deduction for vertical penetrations is applied in the GBA.		

The YMCA left this facility earlier in the spring of 2009 when it moved into a newly constructed 80,000 SF facility it shares with the YWCA. At the time of this analysis, the facility is used only for some remaining administrative offices for the YMCA, though none of the recreational facilities are still in use.

PROPERTY DETAILS

Gross Building Area:	94,090 SF
Net Rentable Area:	76,093 SF
Lot Coverage:	±65%
Number of floors:	Five (two of which are entirely above grade, the remainder are basement or daylight basement)
Year Built:	1964
Improvement Age:	
Actual Age:	45 Years
Effective Age:	45 Years
Total Economic Life:	45 Years
Remaining Economic Life:	0 Years

CONSTRUCTION FEATURES

Foundation:	Concrete footings and foundation
Basic Construction:	Reinforced concrete
Exterior Walls:	Brick and enameled steel panel exterior
Roof:	Flat roof on concrete deck with built-up, 3-ply asphalt and gravel surface. Last resurfaced as part of a larger systems upgrade in 1998.



Stairs: Numerous stairwells are found throughout the building. The primary fire stairwells are wide, return-style concrete enclosed stairways at the northwest corner and at the south-central and north-central portions of the building. Other straight runs of stairs have been installed after construction on some floors, such as near the sport courts. Some stairwells shown on the building plans, such as those near the kitchen on the third floor, have been removed and replaced with storage areas.

Story Height: Varies from 8' to 12' in most single-story areas. The gymnasium ceiling has a 24'10" ceiling, and the natatorium ceiling over the large pool is 18'6". The sport courts have a 20' ceiling height.

Interior Finish

Floor Covering: Varies throughout. Resilient vinyl tile in most corridors and common areas; wall-to-wall commercial grade carpet in offices; ceramic tile in restrooms, locker rooms, pool and spa areas; hardwood flooring in gymnasium and sports courts; sealed concrete floors in mechanical and storage areas.

Interior Walls: Typically gypsum wallboard with vinyl baseboard.

Ceiling Finish: Typically suspended acoustic tile.

Lighting: Typically recessed fluorescent fixtures.

Windows: Single-pane windows with aluminum frames; combination of stationary and opening casement windows. Some upper floor offices have vertical or horizontal blind window coverings. A broker familiar with the building in dealing with a prior occupant (United Way) reported that many of the windows leaked substantially around their frames.

Doors: Double swinging glass door entry vestibules at main entries on south and east sides, with some single glass doors at other entries. Most exterior manway doors are steel. Interior doors vary, with steel doors in some areas, and hollow core wood doors in some areas. Some of the better quality offices have solid-core wooden doors in wood frames.

Mechanical and Equipment

Heating, Ventilation, and Air Conditioning: A gas-fired boiler supplies hot water heat to perimeter radiators. Some supplemental packaged HVAC systems have been installed in the former office/daycare areas.

Plumbing: According to the engineering assessment prepared by Coffman Engineers, the facility is served by domestic hot and cold water piped to water closets, urinals, lavatories, and other fixtures throughout the building. There are also



three water heaters adjacent to the gym with a recirculation system, pump, gauges, valves and expansion tanks. Roof drains exist but do not meet current code in that they do not have overflow drains. The swimming pool equipment was reportedly believed to be operational, though the pool itself would require upgrading to meet new Federal regulations regarding the drain system, which has reportedly been estimated by Pool World to cost \$40,000 to cure. They also remarked verbally that the ventilation system serving the pool has historically been problematic, and the pool has often lacked adequate ventilation to prevent steam and condensation in the natatorium. He observed that the ventilation system was still deficient and in need of attention if the pool use is to be resumed.

Fire Sprinkler System: Wet fire systems serve Basements 2 and 3; none on upper levels.

Elevator: A single, hydraulic elevator is located in the northeast quadrant of the building.

Other

Parking: As will be discussed in greater detail later in the report, the subject has no dedicated off-street parking, aside from some unimproved parking on site. The facility has historically relied upon the lease of two contiguous parking lots, totaling 62 paved stalls, that lie to the south and west for both parking and access.

FLOOR-BY-FLOOR OVERVIEW

Third Basement: As measured by the outside walls, this level would contain a gross building area of approximately 22,627 SF. However, the majority of the east side is unexcavated, and only $\pm 9,167$ SF has actual floor area. An underground spring surfaces in the unexcavated area, flowing under the north walkway and reappearing on the riverbank below. The southwest area of Basement 3 is dominated by the foundation walls for the large and small swimming pools located on Basement 2. Lying adjacent to the north of the large pool deck is the pool pump and filtering equipment. Across the hallway from the pool equipment area is a mechanical and boiler room. On the east end of the hallway are two low-quality office/storage areas and the elevator machinery room. This floor has a 9'5" ceiling height, concrete and drywall partitions, open ceiling, and sealed or painted concrete floors.

Second Basement: This windowless floor houses a natatorium with a 25' x 75' swimming pool, a 20' x 36' smaller pool, and a Jacuzzi on the west end of the building, surrounded by separate locker rooms and shower facilities for men and women, which are extensively divided. The central portion is dominated by two racquetball courts and a smaller former handball court (which has been carpeted and used for a children's play area for the former daycare facilities above). The west end of this floor was formerly used as a free weight facility. The Gross Floor Area is $\pm 19,927$ SF, with a rentable area of $\pm 19,155$ SF, after



deductions for vertical penetrations (stairwells and elevator). Floor cover is generally worn vinyl tile in most walkways and offices, ceramic tile in the locker rooms and pool areas. Walls are of gypsum wallboard and most areas have a suspended acoustical tile ceiling with fluorescent fixtures.

First Basement (Main Floor): This level is a daylight basement that formerly served as the main reception entry for the YMCA health club, via a covered vestibule entry on the south side of the building. The southwest corner houses the upper level of the natatorium and is not accessible from this level. The central portion serves as the upper level of the racquetball and handball courts that extend upward from the second basement, with glass viewing areas for these courts extending along the east side of the central hallway. The east and north sides of this building formerly served as childcare areas, with numerous children's restrooms and play areas built out along these perimeter walls. The north wall is windowed, and has excellent views of the falls below. The east and west walls are windowless, and, although some windows exist along the north wall and do provide some natural daylight, they generally view into a below-grade excavated area. The gross area of this floor is $\pm 23,993$ SF, but after deductions for vertical penetrations from the second basement (natatorium, racquetball and handball courts) as well as the numerous stairwells and the elevator, the net rentable area is reduced to $\pm 16,896$ SF. Finish is similar to the second basement, dominated by worn sheet vinyl or vinyl tile flooring, some low quality carpets in daycare and office areas, drywall partitions, suspended ceiling to 7'10", and fluorescent fixtures.

Second Floor: The west end of this floor is dominated by a full size gymnasium with 24'10" ceiling height, which is built over the natatorium below. The northwest corner (listed as the "all purpose room" on the plans) formerly housed the aerobic and nautilus equipment workout room for the YMCA, and a commercial kitchen adjoins the east side of this area. The remainder of the north perimeter wall is built out with multiple business offices, as is the central portion and southeast corner. The east-central portion was an extension of the daycare below. A large conference room is located at the northeast corner. The north and south walls are heavily windowed with single-pane glass windows, and provide exceptional views of the upper falls and the park, respectively. This area contains a gross floor area of $\pm 25,013$ SF, and $\pm 24,220$ SF of rentable area. Most offices and meeting rooms have low cost carpeting in average to good condition, while most hallways and common areas have vinyl tile flooring. The gymnasium has a hardwood floor in reasonably good condition.

Third Floor: The top floor is only a partial floor, dominated by the YMCA administrative offices along the south and east perimeter walls. The west side is dominated by the upper vault of the gymnasium, and is not accessible from this level. The north side of the building is rooftop area that is accessible from the building offices, but is not designed for use except as outside access to the rooms housing the boilers and HVAC systems. The offices have good territorial views to the north (though the offices are set back from the north edge of the building and do not have views of the falls below). The south-facing offices have good views of the park and the central business district. The gross building area for this floor is $\pm 15,990$ SF (as measured from the outside walls of the building). However, after deducting for vertical penetrations (most notably the gymnasium), as well as for vertical penetrations and the HVAC and boiler rooms that serve the greater building, the rentable area is reduced to 7,245 SF. This floor has the highest quality finish. It has mostly commercial grade carpet in average to good condition in office areas, and some offices have additional wood trim and good quality window coverings.

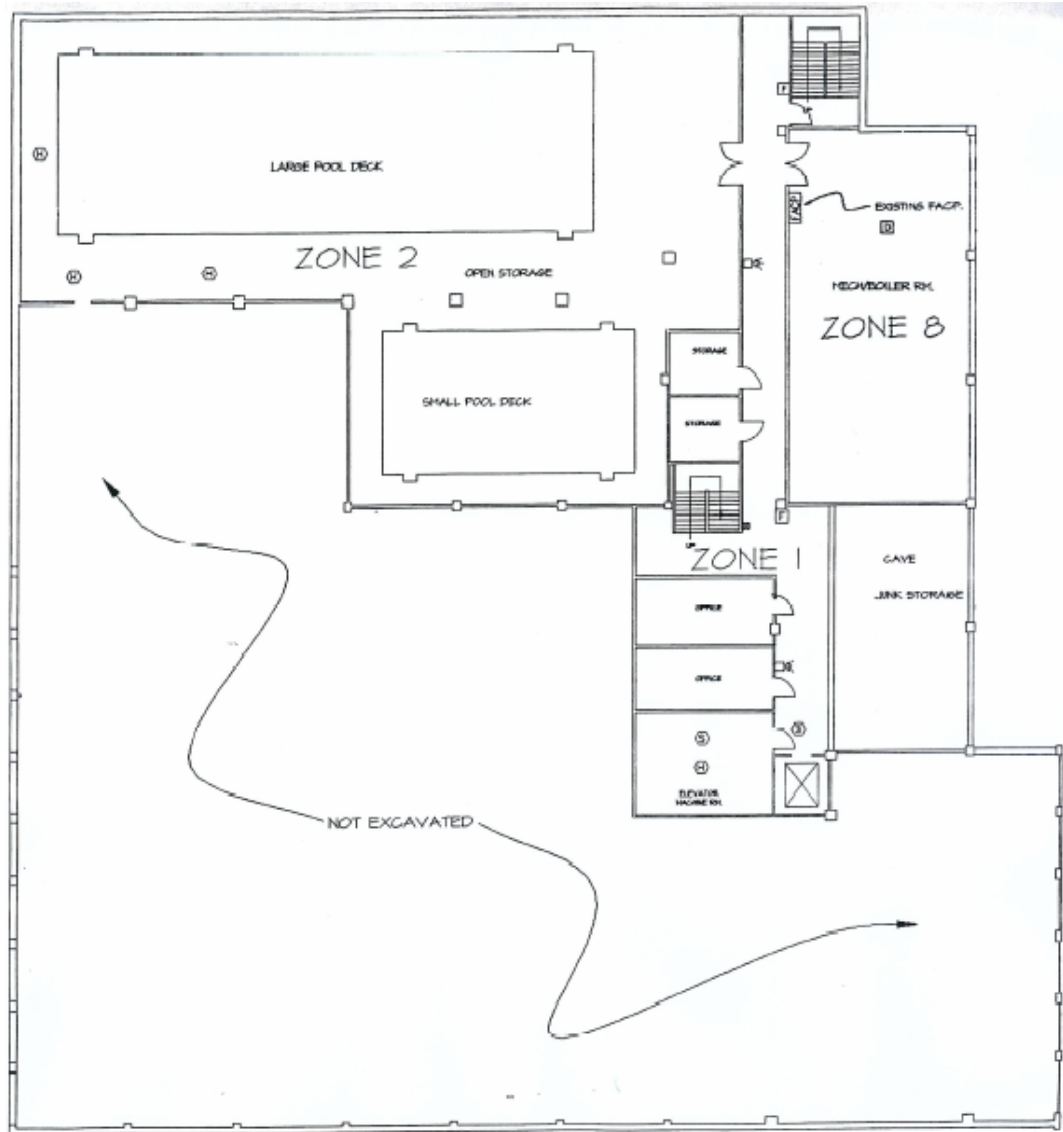


IMPROVEMENTS CONCLUSION

The subject represents a large former health club and social services facility originally developed for the YMCA in 1964. The building is contained on five levels, three of which are at least partially below grade. The building has an austere, dated appearance and is built of reinforced concrete construction with a brick and steel panel exterior, and single pane glass windows. Although the building is structurally sound, the engineers who inspected the facility reported that the majority of the HVAC components have reached the end of their useful life and are in need of substantial upgrading in order to facilitate any future occupancy. The interior finish is also very dated, with low ceilings, worn carpet and VCT floor cover, and poor lighting. The building would need substantial upgrading in order to be marketable for any long term future use.



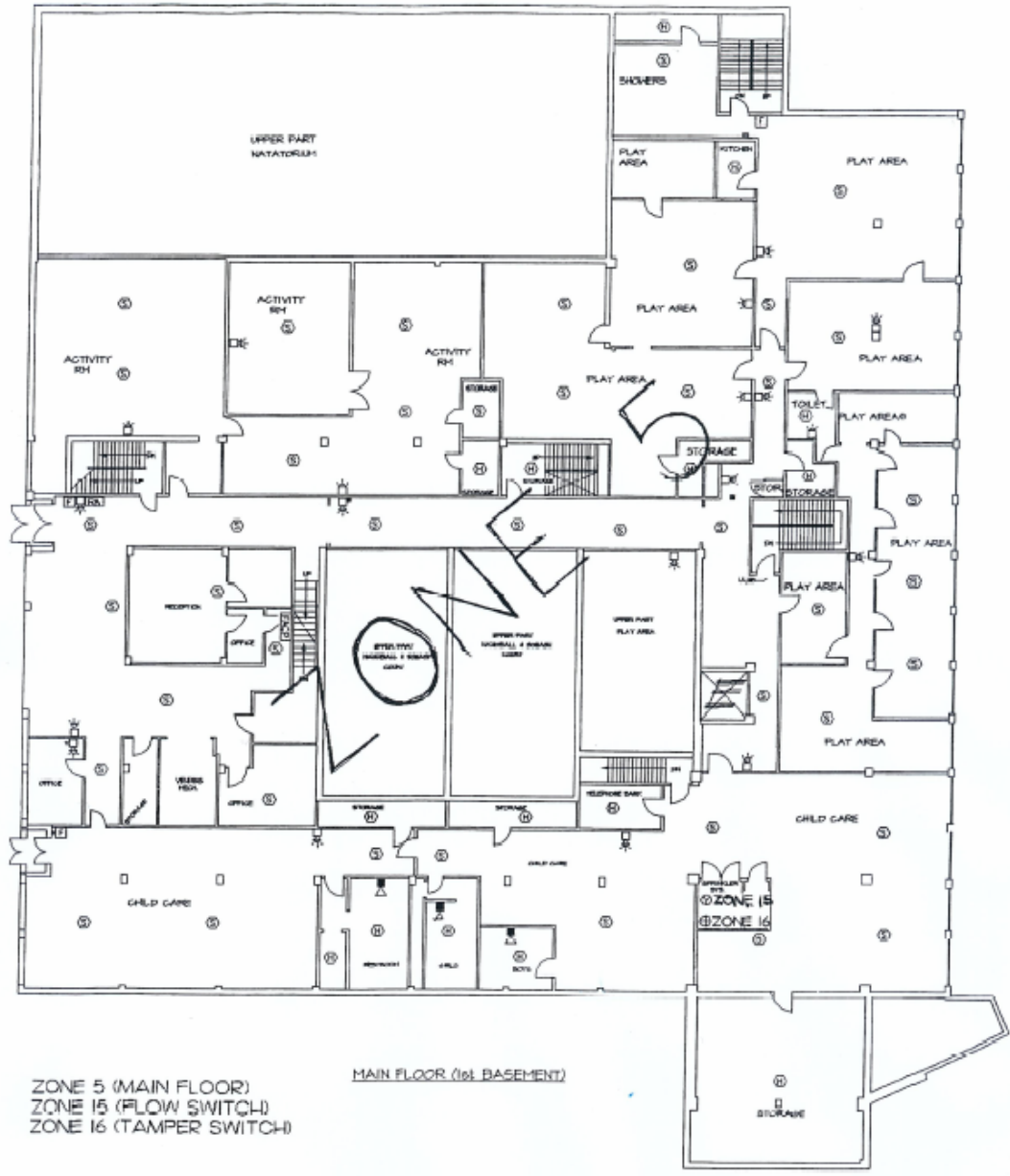
BUILDING PLANS

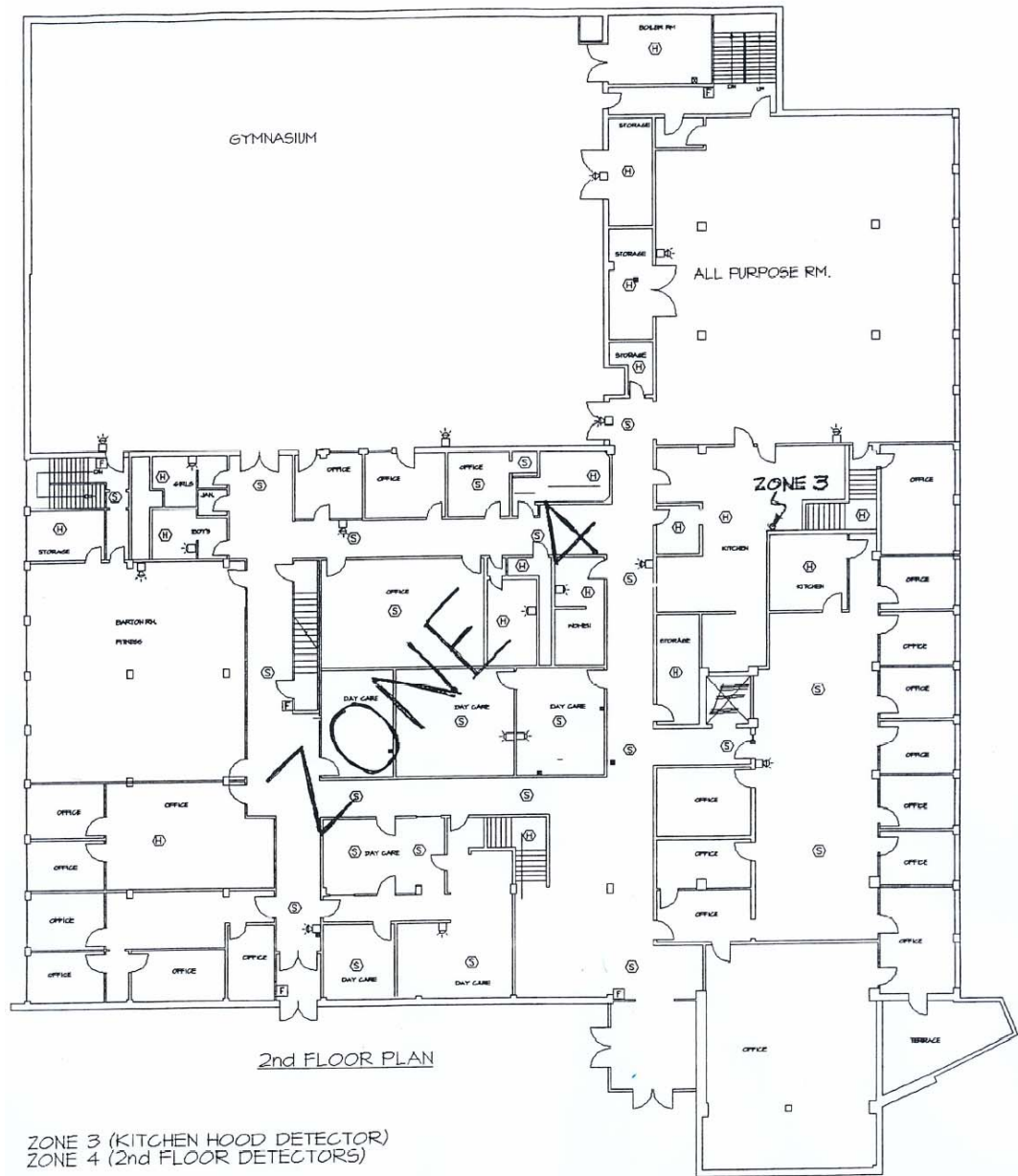


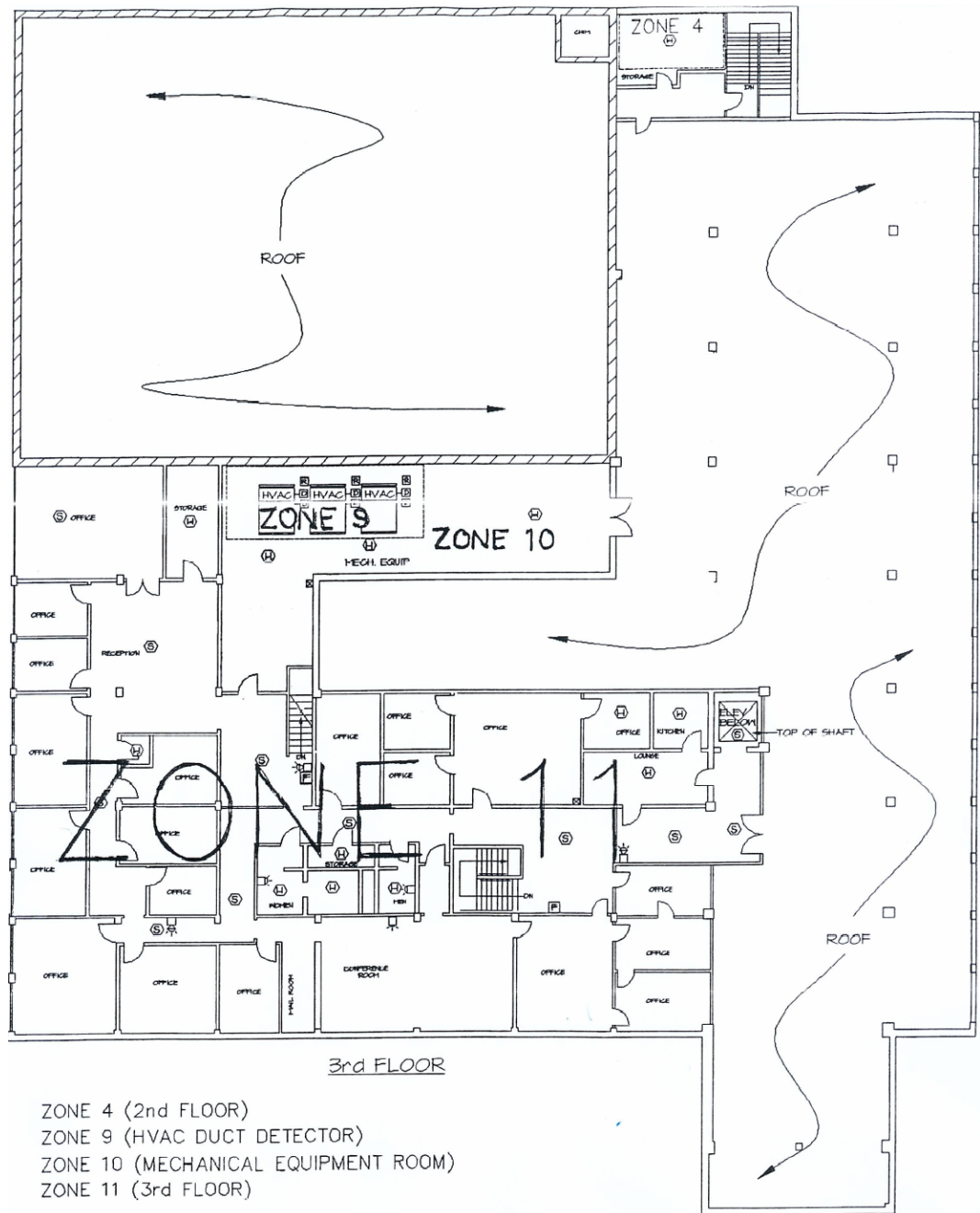
3rd BASEMENT

ZONE 1 (SMOKE DETECTORS)
ZONE 2 (HEAT & PULL)
ZONE 8 (DUCT DETECTOR)









HIGHEST AND BEST USE

DEFINITION

Highest and Best Use is defined as *"The reasonably probable and legal use of vacant land or an improved property, which 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."*⁷

In determining the highest and best use of the subject, these four tests are commonly considered a sequential screening process, and are performed in the following order:

1. Legally permissible: those uses which would be legally allowed on the site.
2. Physically possible: among the legally permissible uses, those that are the most likely are selected based on consideration to the physical characteristics of the location, site, and improvements.
3. Financially feasible: among the most likely uses of the property given its legal restrictions and physical characteristics, this analysis eliminates some uses from consideration. The analysis of financial feasibility will focus on which potential uses are likely to produce an income (or return) equal to or greater than the amount needed to satisfy operating expenses and financial obligations of the investment. Analysis of supply and demand and of location are needed to identify those uses that are financially feasible and, ultimately, the use that is maximally productive.
4. Maximally productive: The test of maximum productivity is applied to the uses that have passed the first three tests. Among the financially feasible uses, the highest and best use is the use that that use which results in the highest net present value.

Highest and best use of an improved property pertains to the use that should be made of an improved property in light of the existing improvements. With any improved property there are essentially three possibilities that must be considered:

1. Continue the existing use;
2. Modify the existing use; or
3. Demolish the existing improvements and redevelop the site.

The subject is predominantly vacant, and continuation of the existing use is not a viable option. In the analysis that follows, the possibility of modifying the use will be considered relative to the four sequential criteria determined in the first list above. After determining whether there is some possible feasible modification of the property that could be undertaken, the "demolition" option will be considered relative to the feasibility of redevelopment.

⁷ Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 4th ed. 2002.

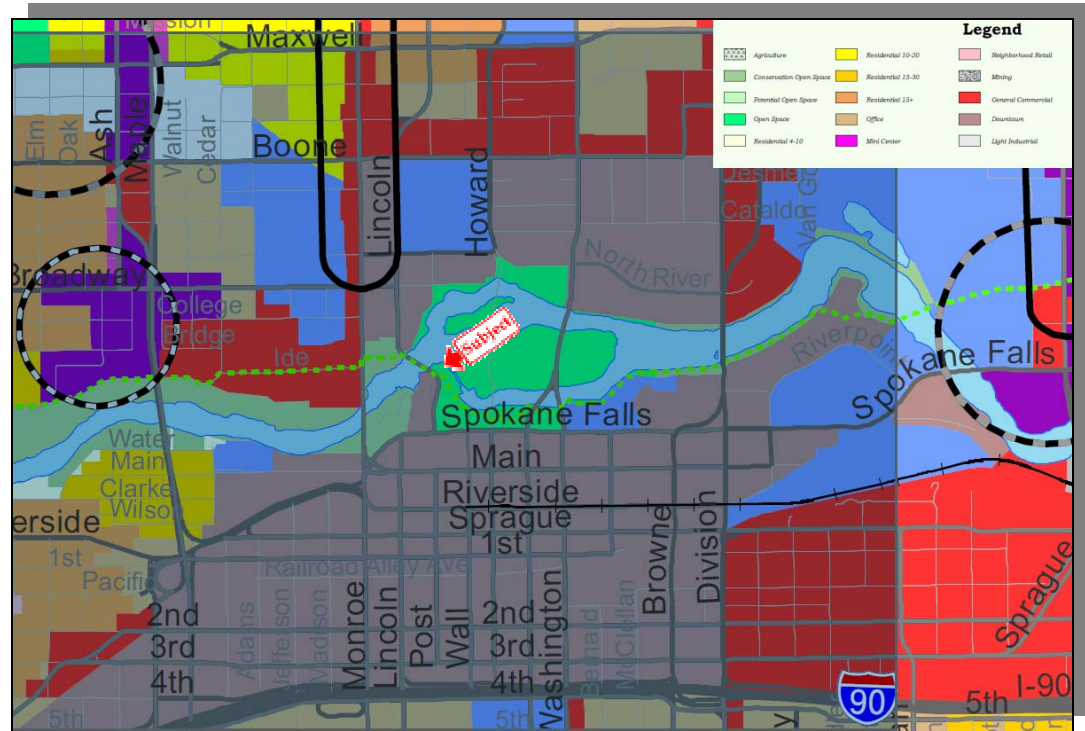


I. LEGALLY PERMISSIBLE USES

Zoning, private restrictions, building codes, historic district controls, and environmental regulations may preclude many potential uses.

ZONING/COMPREHENSIVE PLAN

Comprehensive Plan: As shown on the map below, the subject is classified as “open space” by Spokane’s comprehensive plan.



Zoning: According to the Spokane Municipal Code, “The zoning code is a principal means of implementing the comprehensive plan, particularly the land use element, in the exercise of the City’s inherent police power.” Although the subject is classified as “open space” on the comprehensive plan, its current CBD-6 zoning designation is a zone designed for high-intensity use. According to the Code, “The CBD-6 category is applied to the North Bank, the area immediately north of the Spokane River. This is a mixed-use residential, commercial, hotel, recreation and entertainment area. Generally all uses are allowed, except auto-oriented and industrial.” The wide range of uses allowed under the CBD-6 zone appears to be inconsistent with the intent of the comprehensive plan.

Despite this inconsistency, the zoning code is the means by which allowed uses are determined. The table on the following pages summarizes current zoning requirements.



CBD-6 ZONING REQUIREMENTS

Regulation	Standards	Subject
Allowed Uses:	<p>Mixed-use residential, commercial, hotel, recreation, and entertainment. Generally all uses are allowed except auto-oriented and industrial.</p> <p style="text-align: center;"><u>Uses Permitted Outright:</u></p> <ul style="list-style-type: none"> ▪ Boarding houses ▪ Commercial entertainment facilities ▪ Communication/Media Production ▪ Consumer Repair Services ▪ Cultural and Library Services ▪ Custom Manufacturing ▪ Day Care ▪ Educational Institutions ▪ Group Living ▪ High Technology ▪ Liquor Store ▪ Live-work ▪ Lodging Services ▪ Medical services ▪ Multifamily residences ▪ Offices ▪ Peddlers and Vendors ▪ Print shop ▪ Private parking facility ▪ Public assembly ▪ Public Parking Facility ▪ Public Transportation Facilities ▪ Religious and Civic Institutions ▪ Restaurants and Bars ▪ Retail Sales ▪ Retirement Homes ▪ Safety Services ▪ Utility Services ▪ Winery and Microbreweries ▪ <p style="text-align: center;"><u>Uses Permitted by Special Permit:</u></p> <ul style="list-style-type: none"> ▪ Light Industrial ▪ Research ▪ Residential Corrections Facility ▪ Self-service Storage ▪ Warehousing 	Former health club (recreation) with daycare, offices, and some social services. Now partially used only for administrative offices.
Height Requirements:	150' Maximum	< 150' (two stories above grade)
Minimum Gross Floor Area:	No Minimum	±90,373
Maximum Gross Floor Area:	<p>Six times the lot area (implies a base maximum of 238,866 SF), but excluding:</p> <ol style="list-style-type: none"> 1. Space devoted to residential uses; 2. 50% of ground floor retail in mixed-use buildings; 3. 50% of parking in a mixed use building; 4. Hotel uses in a building with at least 25% residential uses. 	±90,373
Residential Density:	No minimum or maximum number of units per acre.	N/Ap
Parcel Coverage:	No minimum or maximum parcel coverage.	24,975 SF footprint ÷ 39,811 SF Site = 62.7%



CBD-6 ZONING REQUIREMENTS (CONTINUED)		
Setbacks:	No front-yard setback requirements, except: 1. If first floor is non-residential and facing a Type I Green Street (the Howard Street pedestrian path through Riverfront Park is classified as such), 75% of the first floor must meet the property line, although up to 4' setback may be allowed if landscaped or pedestrian-oriented; 2. Alternatively, 100% of the line may be recessed up to 12' for an arcade if the second floor extends to the property line.	Front yard (west side): 8' to 36' Rear yard: 18' Side Yard (N): ±0' to 20' Side Yard (S): 18' to 20+'
Façade Surface:	New developments, or those that would increase the building footprint or square footage, must meet specific window and recessed area requirements.	Varies.
Parking:	Off-street parking is not required for any use in this zone. Parking for any use may be provided within a structure or on a surface lot, up to a maximum of two times the parking requirement set forth for that use in S 11.19.640-.658	No on-site parking; however the YMCA had historically had rights to use and operate the adjacent pay parking lots owned by the City.

With respect to zoning, the subject appears to conform to all requirements except with respect to setback requirements along a Type I Green Street (including Howard Street, even though it is not available for public vehicular use). If built today, the majority of the building would have to extend to the street.

PRIVATE/OTHER LAND USE RESTRICTIONS

Deed Restrictions: No title report was provided for use in this appraisal, and I am aware of no private deed restrictions.

Parking Restrictions: The subject building has no formal parking of its own. Historically, the YMCA had been allowed to lease and operate the adjacent city-owned parking lots that extend to the southwest of the property to Post Street. This comprises two adjoining lots connected by a meandering access roadway. The "upper lot" lies adjacent to Post Street, and has two curb cuts, a toll booth, and contains 40 stalls. The "lower lot" contains 25 additional stalls and a circular driveway that approaches the main walkway to the subject's south entrance. There are a total of 65 dedicated parking stalls that were available for use by the YMCA.



PREVIOUS PARKING LOT LEASE SUMMARY

Dated:	February 16, 1988
Lessor:	City of Spokane
Lessee:	YMCA of the Inland Empire
Property:	Not specified in terms of square feet or meets and bounds legal description, but shown on the map exhibit to include the two existing parking lots that extend to the southwest.
Term:	Ten years, beginning January 1, 1988, and ending December 31, 1997.
Extensions:	Automatically extends for two additional five year terms, unless otherwise terminated; would have ended December 31, 2007.
Rent:	The lessee was required to operate the lots, with rates of \$1.00 for every 3 hours for YMCA members, and \$1,000 per hour for the public. The lease does allow the YMCA contract out its day-to-day management to a responsible, experienced private operator. The YMCA agreed to pay 28% of the gross revenue of the parking lot obtained from its members or the public to the City.
Landlord Expenses:	Capital improvements over \$500, lighting.
Tenant Expenses:	Leasehold excise taxes (if applicable), liability insurance, general maintenance and repairs, landscaping.
Other:	<ol style="list-style-type: none">1) The City acknowledged that it had affected access to the YMCA by restricting public access to Howard Street (it's former primary vehicular access point) to pedestrian travel.2) The City notes that the YMCA publicly supported the restrictions after assurances from the City after assurances by the City that it would be provided with public access from Post Street (across City-owned property) and priority use of adjacent off-street parking lots.3) The lease notes that the City is authorized to provide off-street parking on land dedicated for park or civic center purposes for persons who use such park and civic center facilities.4) The lease acknowledged that both parties "recognize the need for a short-term parking area to service (both) visitors to Riverfront Park and the Lessee's building."5) Exhibit C to the lease describes the historical background for the lease, and notes that by relinquishing its Howard Street access, "negative consequences for the YMCA were reduced parking, loss of parking revenue, awkward drop-off facilities and front entrance, diminished 'walk-in' traffic, loss of street access, and loss of public exposure. It is the YMCA's belief that this greatly reduced the value of the YMCA building and that the business lost during Expo took years to replace."

Per verbal instructions from client contact Barry Russell, this analysis is to consider the availability to use the parking lots as a continued right for a subsequent owner or tenant. As stated previously, it is an extraordinary assumption of this report that any future tenants or occupants would be allowed to utilize these parking lots. However, it should be pointed out that the rights of the City to legally lease these lots for private use is somewhat nebulous by the State's laws concerning municipal off-street parking.

Notably, the prior lease contract states that "Whereas, pursuant to RCW 35.86.010, the City of Spokane is authorized to provide off-street parking facilities on land dedicated for park or civic center purposes to provide parking **for persons who use such park or civic center facilities** (emphasis added)..."



RCW 35.86.010 states "Cities of the first and second classes (Spokane is the former class) are authorized to provide off-street parking space and facilities located on land dedicated for park or civic center purposes, or on other municipally-owned land where the primary purpose of such off-street parking facility is to provide parking for persons who use such park or civic center facilities. In addition **a city may own other off-street parking facilities** and operate them in accordance with RCW 35.86A.120."

RCW 35.86.010 states that "...cities may operate off-street parking facilities with city forces...**except for off-street parking facilities** situated on real property leased or rented to a city and **not used for park or civic center** parking." The law goes on to describe how leased or rented off-street facilities shall be operated by experienced private operators.

Although, under an alternative use scenario, the parking would be used on land dedicated for a park or civic center, it would not be "situated on real property **leased or rented to a city.**" This *might* be interpreted as allowing the city to be able to allow it to be used for other purposes.

However, the law regarding the City's right to own off-street parking facilities on park land that would be leased to and used by a private, non-park or civic center user are somewhat unclear. Again, the alternative use analysis is based upon the extraordinary assumption that this parking would continue to be available for use by any subsequent user of the former YMCA. However, if this proves not to be true, the highest and best use would be restricted to park use, or one that would qualify as a "civic center."

The contract describes the YMCA as a "social service and indoor recreation facility," which would presumably have qualified it as a "civic center" use. However, if the use is changed to private offices, for example, then under RCW 35.86.010 the City might *not* be legally allowed by the State to provide off-street parking for the building if the parking, because the users would not technically be there to use the park or other civic center facilities.

Shoreline Management Restrictions: Because the subject lies within 200' of the Spokane River Shoreline, it is also affected by the Shoreline Master Program of the City, in conjunction with the Department of Ecology. If vacant today, no new construction could occur within 50' of the shoreline. Because the building existed prior to the incorporation of the 50' setback provision, the subject is considered a legal, non-conforming use with respect to this issue as well.



II. PHYSICALLY POSSIBLE USES

As described previously, the subject site is relatively large (0.91 acres), and overlooks the upper falls of the Spokane River. The site has all necessary utilities, is surrounded by a city park, and is within two blocks of the core of the central business district. The site has poor visibility, is essentially landlocked, and relies on the adjoining city-owned parking lots for both parking and public access from Post Street.

The improvements consist of a five-level, dated former health club facility that includes three basement levels and two levels above grade. It has a large swimming pool on one of the basement levels, a large gymnasium, and various sports courts and meeting rooms. The building has a dated exterior with no windows facing west, and three of its five levels are below grade. According to Coffman Engineers, the majority of the HVAC systems are at or near the end of their useful life.

These factors must be considered when analyzing which uses among those that are legally permissible would generate the most benefit from the subject. In an effort to summarize the overall suitability for both land and building to various uses, I have sorted the legal uses into five general categories:

1. **Retail/Commercial:** uses such as retail sales, restaurant, winery/microbrewery, daycares, printing, and other commercial services.
2. **Residential/Multifamily:** uses such as apartments, boarding homes, condominiums, retirement homes.
3. **Hospitality:** Hotels and motels.
4. **Office:** Includes general offices, governmental offices, communications/media productions, and tech centers.
5. **Civic:** Museums, cultural centers, science center, meeting halls, educational institutions, health club, social services, police station, etc.

The primary physical aspects of the site and improvements are then rated on a scale of -3 (highly negative for the use class) to +3 (a highly positive factor for the use class). Physical characteristics that are, on balance, neither positive nor negative are rate "0". Although this methodology is somewhat subjective, it is a useful tool that helps to quantify the positive and negative characteristics of the property relative to each use.



LAND AND IMPROVEMENT ANALYSIS FOR ALTERNATIVE USES					
SITE					
Factor	Retail/ Commercial	Residential/ Multifamily	Hospitality	Office	Civic
Regional Access	3	1	2	2	2
Ingress/Egress (Traffic Flow)	-3	-1	-3	-1	-2
Exposure/Visibility	-3	0	-2	0	-1
View Amenity	0	2	3	1	1
Availability of Parking	-2	-1	-3	-1	-2
Nearby Supporting Services	1	-1	1	2	3
Total Score - Site	-4	0	-2	3	1
IMPROVEMENTS					
Exterior Appearance	-1	-2	-3	0	0
Structure/Floorplan	-3	-2	-1	1	-2
HVAC/Heating	-1	-3	-3	-2	-2
Conversion Costs	-1	-3	-3	-1	1
Fenestration	-1	0	0	1	0
Bsmt. common/rec. amenities	1	3	3	1	1
Total Score - Improvements	-6	-7	-7	0	-2
Total Score - Site & Improvements	-10	-7	-9	3	-1
Rating Scale					
Highly positive for use	3				
Moderately positive for use	2				
Slightly positive for use	1				
Overall, neither negative or positive	0				
Slightly negative for use	-1				
Moderately negative for use	-2				
Highly negative for use	-3				

As shown, the subject's site and building characteristics are most conducive to office use, followed by some sort of continued civic use. The lowest scores were for retail/commercial and hospitality.

The retail/commercial classification achieves the lowest net score largely because these uses are highly dependent upon exposure and parking. In discussions with Steve McNutt, architect and former president of the Spokane Park Board, it was reported that none of the park's commercial features turn a net profit, except for the carousel, which is located on the south side of the park near the downtown core. The features near the center of the park and removed from parking, such as the Imax Theater and Ice Pavilion are not reportedly profitable, and are subsidized by the park. Additionally, he reported that the former YMCA building was briefly tried as a location for a Farmer's Market, but that it did not succeed largely because of the lack of parking, immediate drive-up access, and exposure.

From an architectural standpoint, Mr. McNutt pointed out that the building itself is also not conducive to building interior garage parking, as was reportedly planned for the two basement levels in the condominium conversion planned by Mark Pinch. Mr. McNutt reports that you would need at least 30' to 35' of width for driveway areas, with an



additional 18' to 20' in width for the parking stalls. With column spacing of only 15-½' by 18', the addition of parking stalls within the structure does not appear likely. He also stated that he knows the Park Board would be "vehemently opposed" to building an above-grade parking structure on the adjacent parking lots, as the Board's emphasis is on maintaining its pastoral feel, which would comply with the "open space" designation of the comprehensive plan.

The next lowest score is for hospitality use. Again, the lack of parking is a critical issue. I spoke with Mark Hollander of Hollander Investments, about the possibility of converting the building to hotel use. Hollander investments redeveloped and expanded an abandoned building in downtown Tacoma into the 162-room Marriott Courtyard Hotel with 30,000 SF of retail space. They also own and operate four other hotels in the Pacific Northwest, in addition to numerous office and multifamily properties, and were recently negotiating for a site in Spokane for an expansion. Thus, they are very familiar with this property type. Mr. Hollander stated that, although the site's views and park side location are highly appealing characteristics, the small site size would limit it to, at best, a boutique hotel, though he does not believe the Spokane market could currently support one from an economic standpoint. He believes it would take \$120 to \$130 average daily rates to support a boutique hotel, while he believes Spokane's ADR is closer to \$85 or \$90/night in the downtown area. He also stated that the small parking ratio would be a critical issue, and that it would not likely be feasible to build a garage structure.

Residential/multifamily also scored very low, largely due to the lack of parking, the difficulty of converting a masonry civic building into a marketable residential complex, and the lack of nearby support services, such a grocery shopping and drugstores. This use would be able to take advantage of the willingness for residents to pay a premium for views of the Spokane River and the adjacent park.

The uses that scored the highest were for office conversion, or use for some alternative "civic" use, such as a cultural center, science center, or some other attraction within the park. The building appears to be too physically obsolete to warrant conversion to the two most likely candidates for such a use:

1. **Mobius Science Center:** As has been publicized in the local papers, the City has been negotiating with the non-profit entity Mobius Science have them build a 53,000 SF Mobius Science Center at Riverfront Park. Mr. McNutt was involved in negotiating a ground lease with Mobius Science, and reported that the Park Board also had discussions with them about using the former YMCA property. He reported that that two issues were "deal breaker" for them: 1) the lack of parking (they required between 150 and 300 stalls, while the lots next to the YMCA provided 62), and 2) they want a structure with large, clear-span construction to allow use for exhibits. The 10' to 12' ceilings and 15 -½' x 18' grid of reinforced concrete columns would have created a "forest of columns" even if it were entirely gutted, according to Mr. McNutt, and this was of no interest to Mobius. Instead, they have negotiated a lease for a ±100,000 SF site on Cataldo Avenue along the park's north boundary, which will include space for 186 car parks.
2. **Native American Cultural Center:** Spokane Falls has historically been important to the local Native Americans. According to the Northwest Power and Conservation Council, "For the Spokane Tribe of Indians, the river has been 'a pathway of life for many, many generations'.... Members of the tribe have relied on the river for nourishment, medicinal, and spiritual purposes. Spokane Falls was a place for tribal members to gather with family and friends. The Spokane River



and the Spokane Falls are in the heart of the ancestral homelands of the tribe.” The United Native American of Spokane Public Development Authority was created in 2001. According to an article in the Spokesman Review, “The (tribal) leaders said they want to create a permanent presence for Native citizens at the ancestral heart of their culture – Spokane Falls. Their first project, they said, is studying the practicality of an interpretive center that could become a gathering place for Native people as well as a draw to tourists. It could display artifacts, sponsor cultural events and host traditional festivities...”⁸ However, according to City officials, “The Parks Department had been in discussions with the tribe at great length regarding the possibility of using the YMCA. Several months ago we received a letter from the tribe stating they were no longer interested in the YMCA.”

Based on this information, together with Mr. McNutt’s report that the attractions at the center of the park are not profitable and must be subsidized, it does not appear that a civic, social or cultural use of the facility is currently probable.

⁸ Spokesman Review, *Tribes, Spokane to explore Native American Culture; Public development authority considering sites near Spokane Falls*, Jan. 26, 2005, p. B-3.

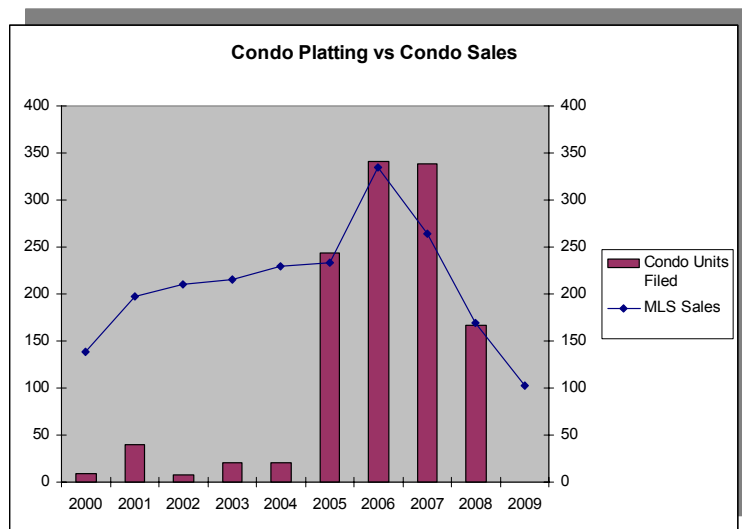


III. FINANCIALLY FEASIBLE USES

Among the legally permissible and physically possible uses, retail/commercial and hospitality use classes scored the lowest, and do not warrant further consideration. Residential/multifamily use is also scored very low, but warrants further discussion due to the fact that condominium development was the intended use prior to the City's acquisition.

RESIDENTIAL CONDOMINIUMS

As shown below, the condominium market soared in 2005, peaked in 2006, and then dropped off rapidly. The number of sales shown in the chart is through October 29, 2009, and as of the number of new condominium plats filed within the City through mid 2009 was zero.



Other evidence that the condominium market is no longer viable, especially in the subject's immediate neighborhood, is found among the following anecdotal information:

- Thought to be among the most successful of the high-end condominium projects was Upper Falls Condominiums located on the north side of the Spokane River. This 32-unit complex, developed between 2005 and 2007, sold at prices between \$500,000 and \$1.5 million. According to an article published in September 2008, one of the investors (GVL Investors) was suing partner Don Barbieri, who was supposed to have paid 53 percent of the profits to GVL. Instead, with only two units left to sell, Barbieri was quoted as saying, "We have no idea if this project is going to come in at a loss; we really don't."⁹
- SRM Development had been under contract to purchase the YWCA site in 2005, and had planned to build two, 14-story condominium towers on the site. In June 2009 SRM announced that the project would not be going forward, and let go its \$250,000 down payment on the property. The site has been listed for resale.
- Upper Falls East was a nine-story, 31-unit condominium project planned for development adjacent to the east side of the property occupied by the Flour Mill. After going through a lengthy permitting process to receive special permission to

⁹ Spokesman Review, *Condo partner files suit*, Sep 3, 2008.



build on the shoreline, the property was put back on the market for a price of \$750,000.

- Builder George Doran reported in early 2008 that he expected to lose “a couple of hundred thousand dollars” on the Lina Marta Condos, built in the Peaceful Valley area with a prices ranging from \$610,000 to \$780,000.

Additionally, in interviews concerning the subject project, every broker interviewed in researching the subject reported that residential condominiums would not be viable, including Joel Crosby and Corey Barbieri, each of whom had been involved in past condominium projects in the area. Mr. Crosby reported that it would be “impossible” to gain financing for such a project in today’s market. Based on this information, residential condominium development is not considered as a viable use.

CIVIC OR SOCIAL CENTER USE

With respect to its prior use as a health club and/or social services facility, I have considered the following information:

- The Marshall Valuation Service, a nationally recognized cost reporting authority, lists the estimated economic life expectancy of a good quality, class “C” construction health club at 40 years. Both the YMCA (45 years of age) and the similar YWCA across the river to the north (44 years of age) were found to be obsolete for continued use as a health club/social service facility, as they elected to abandon them and build a new, joint-use facility nearby. This lends some credence to the idea that these facilities are no longer capable of supporting the needs of these types of users.
- Recent second-generation health club/social service facilities show that they are not capable of achieving rents that would support the expenses necessary to operate a facility such as the existing YMCA. For example,
 - The Northeast Youth Center recently signed a lease for the 15,240 SF former VFA facility at 3004 E Queen Avenue at a rent of only \$2.36/SF/Yr.
 - The 12,000 SF former Moose Lodge at 6363 N Lidgerwood was recently leased to an events facility operator at a rent of only \$3.32/SF/Yr.
 - The former Turning Points Church facility was leased to Global Fitness at a rate of only \$6.83/SF/Yr.
- As will be shown later in the report, the subject’s estimated operating expenses will be in excess of \$7.50/SF/Yr for the occupied portions. As evidenced by the examples above, second-generation users of facilities such as the subject would not provide a sufficient return to cover expenses.

OFFICE USE/MARKET OVERVIEW

The next step in the analysis is to consider the financial feasibility for office space, which was considered the highest rated use among those that were legally permissible and physically possible. As part of this analysis it is first necessary to analyze the overall health of the Spokane office market by considering supply and demand.



Office Supply: The Spokane-Kootenai Real Estate Research Committee publishes a vacancy rate office survey twice per year that includes rental rates and vacancy for the CBD based on Class A, B or C space. This data is summarized below. As shown, the most recent survey showed the total vacancy rate climbing to 14.8% in the February 2009 survey.

Spokane CBD Office Vacancy and Rental Rate History													
Date	# of Bldgs	Usable SF	Vacant SF	Percent Vacant	Average Rental Rate	Recent Rental Rate	Date	# of Bldgs	Usable SF	Vacant SF	Percent Vacant	Average Rental Rate	Average Recent Rental Rate
Class A							Class C						
Feb-09	9	1,092,178	104,879	9.60%	\$18.94	\$24.59	Feb-09	9	176,002	15,420	8.76%	\$11.71	\$12.03
Oct-08	9	1,081,086	78,492	7.26%	\$18.67	\$24.58	Oct-08	9	176,002	7,741	4.40%	\$11.72	\$12.09
Feb-08	7	956,355	131,006	13.70%	\$18.31	\$20.31	Feb-08	9	176,002	9,750	5.54%	\$11.72	\$12.09
Oct-07	8	1,003,545	138,647	13.82%	\$18.62	\$20.28	Oct-07	7	118,704	10,523	8.86%	\$13.11	\$13.11
Feb-07	7	966,147	160,066	16.57%	\$19.68	\$20.00	Feb-07	7	122,475	14,555	11.88%	\$12.77	\$12.77
Oct-06	7	966,357	111,362	11.52%	\$19.88	\$20.20	Oct-06	6	110,544	10,432	9.44%	\$11.83	\$12.42
Feb-06	7	966,357	166,397	17.22%	\$19.88	\$20.20	Feb-06	6	109,604	15,797	14.41%	\$11.15	\$11.89
Oct-05	6	918,957	160,188	17.43%	\$19.23	\$20.24	Oct-05	6	109,604	18,358	16.75%	\$11.34	\$11.89
Feb-05	6	918,957	224,052	24.38%	\$19.58	\$20.44	Feb-05	6	109,604	26,948	24.59%	\$11.99	\$11.85
Oct-04	5	850,124	234,328	27.56%	\$19.83	\$24.72	Oct-04	6	112,673	30,869	27.40%	\$11.84	\$12.78
Feb-04	5	850,124	163,645	19.25%	\$18.68	\$19.49	Feb-04	6	112,673	13,576	12.05%	\$11.84	\$12.78
Class B							Total						
Feb-09	39	1,551,045	298,030	19.21%	\$15.60	\$15.88	Feb-09	57	2,819,225	418,329	14.84%		
Oct-08	38	1,531,899	290,693	18.98%	\$15.74	\$15.85	Oct-08	56	2,788,987	376,926	13.51%		
Feb-08	39	1,621,301	206,091	12.71%	\$15.78	\$16.30	Feb-08	55	2,753,658	346,847	12.60%		
Oct-07	37	1,617,698	210,070	12.99%	\$15.73	\$15.87	Oct-07	52	2,739,947	359,240	13.11%		
Feb-07	38	1,604,070	276,815	17.26%	\$15.82	\$15.56	Feb-07	52	2,692,692	451,692	16.77%		
Oct-06	38	1,604,070	257,629	16.06%	\$15.58	\$15.38	Oct-06	51	2,680,971	379,423	14.15%		
Feb-06	38	1,588,275	237,052	14.93%	\$15.07	\$15.14	Feb-06	51	2,664,236	419,246	15.74%		
Oct-05	38	1,595,630	263,270	16.50%	\$15.29	\$14.98	Oct-05	50	2,624,191	441,816	16.84%		
Feb-05	38	1,645,239	332,330	20.20%	\$15.37	\$15.08	Feb-05	50	2,673,800	583,330	21.82%		
Oct-04	37	1,655,536	256,232	15.48%	\$14.85	\$15.39	Oct-04	48	2,618,333	521,429	19.91%		

Office space is commonly referred to as Class A, B, or C. Although there is no formal definition, the Urban Land Institute, a noted authority on commercial land uses, says the following about these classifications in its *Office Development Handbook*:

Class A office space can be characterized as buildings that have excellent location and access, attract high quality tenants, and are managed professionally. Building materials are high quality and rents are competitive with other new buildings. In practical terms, the office buildings that you see in the heart of the financial district with lots of brass and glass fixtures and huge, expensive lobbies are examples of Class A office buildings. Class A office buildings are usually steel-framed and tall. They are often occupied by banks, high-priced law firms, investment banking companies, and other high-profile companies with a need to provide the trappings of financial success.

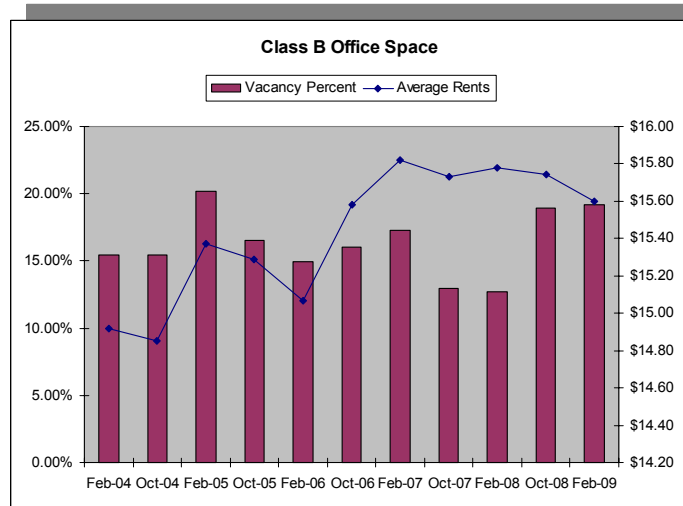
Class B buildings have good (versus excellent) locations, management, and construction, and tenant standards are high. Buildings should have very little functional obsolescence and deterioration.

In practical terms, Class B buildings are usually newer, wood-framed buildings or older, former Class A buildings. Class B office buildings are often found in the suburbs or the less-pricey areas of major Central Business Districts (CBDs). Wood-framed Class B office buildings are usually three stories or less.

Class C buildings are typically 15 to 25 years old but are maintaining steady occupancy. A fair number of the Class C office spaces in the inventory are not truly office buildings but rather walk-up office spaces above retail or service businesses. In a normal market, Class A rents are much higher than Class B, which are above Class C. This makes sense because Class A buildings offer higher quality to the tenants and cost more to provide.

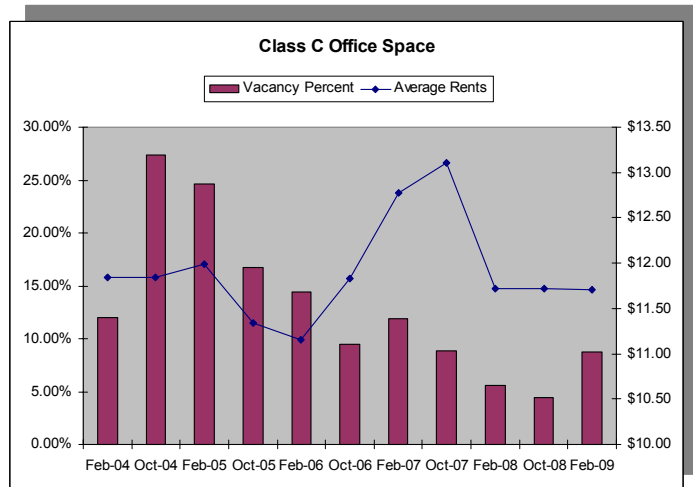


Given the age of the subject, its relative isolation, lack of parking, and the fact that office would be second generation of a building originally designed for a health club, the subject would not be able to compete as Class A space, regardless of the level of renovation. At best, its upper floors could compete against Spokane's Class "B" space due to their good views. However, the first floor is effectively a daylight basement, and could at best be Class "C" even after renovation. The lower floors, without windows, would not be marketable as office space. The subject's main floor (or basement 1) would most likely be considered as "Class C" space, at best, even after renovation, despite its views. For this reason, the space focused on in this analysis is that of classes "B" and "C".



As shown above, office space in Class B Buildings has remained at a relatively high vacancy level, in excess of 15%, since 2006. Average rents have declined slightly over the past couple of years, to a February 2009 average of \$15.85/SF.

Class C office space has performed better than Class B space in the CBD. As shown in the chart at right, although rents have dropped since their peak of \$13.11/SF in 2007 to only \$12.03/SF in February 2009, vacancies have also dropped dramatically from a peak of 27.4% in October 2004 to a February 2009 rate of 8.76%.



In its mid-year 2009 market report, Kiemle and Hagood (a key contributor to the RERC

studies shown in the chart), reported an increase in vacancy for all three property types, to 9.6% for Class A, 19.2% for Class B, and 8.8% for Class C. Ironically, rents were still reportedly higher for Class A and B space (to \$18.94/SF and \$15.60/SF, respectively) despite the increase in vacancy, while rates had dropped slightly to \$11.71/SF in the Class C market.

Office Demand: An office residual model based on the number of office workers in the county versus the typical SF of office space per employee is used to estimate office current and near-term office demand. The following table illustrates the estimated percentage of employees in the sectors that are likely to occupy office space (information services,



finance, insurance, real estate, professional and business services, and government (excluding education)).

SPOKANE COUNTY RESIDUAL OFFICE DEMAND					Comments	
	2006	2007	2008	2009		
1	Total County Nonfarm Employment	212,900	217,400	218,575	204,700	Actual data, Employment Security Dept.
2	Percentage Occupying Office Space	27.0%	26.4%	26.2%	25.7%	Est. by office worker SIC categories
3	Total Employed in Office Space	57,500	57,500	57,217	52,560	Line 1 x line 2
4	Total Office SF Inventoried	8,112,408	8,280,434	8,669,244	8,944,779	Per RERC report, all areas
5	Less Overall Vacancy	-15.74%	-16.77%	-12.60%	-14.84%	Per RERC report
6	Office Space Occupied	6,835,515	6,891,805	7,576,919	7,617,374	Line 4 x line 5
7	Occupied Office Space Per Employee	119	120	132	145	Line 6 ÷ line 3

As shown, these sectors lead to a demand in office space estimated at about 132 SF per employee, using the 2008 “pre-recession” figure from above. The next step is to consider the likely change in employment that can be expected in the coming years.

Spokane County - Annual Changes in Non-Farm Employment		
	Average	Median
Last 10 Years:	0.7%	1.4%
Last 5 Years:	0.4%	2.1%
Last 3 Years:	-1.3%	0.5%
Last Year:	-6.3%	-6.3%

As shown, the annual average growth in non-farm employment has averaged 0.7% over the past 10 years. However, the averages are skewed downward by the -6.3% change in employment incurred in the past year. The more “typical” growth rate might be illustrated by the ten-year median of 1.4%.

In his market outlook for 2009, Dr. Grant Forsyth, economist at Eastern Washington University, reported that “the release of advanced third quarter GDP growth confirmed that the U.S. economy has slipped into a recession, probably starting in the summer. Regional growth in employment, taxable sales, and home prices slowed markedly starting in the summer. In addition, there has also been a significant decline in wheat prices, an important regional commodity... Therefore, for the rest of 2008 and most of 2009 [he expects] most of the major economic indicators in Spokane and Kootenai County to show no or negative growth.”

Dr. Forsyth predicted a turnaround in late 2009, and a recovery beginning in 2010. This appears to be generally accurate. Unemployment held steady at 8.4 percent in September 2009. According to Regional Labor Economist Doug Tweedy, job numbers will level out by the end of 2009, followed by job losses and gains in a “sawtooth recovery” that will gradually rebuild the job base. However, he believes it will probably take up to three years to recoup all the jobs lost since November 2008, when unemployment peaked at 229,380 jobs.

For the purpose of this analysis, future demand is estimated based on a 0% growth rate for 2010, followed by an estimated growth rate of 2.0%/Yr in subsequent years. The total number of employees is multiplied by the percentage of jobs attributable to industries that typically drive office space demand (26%). This leads to an estimate of the total number of office employees, which is in turn multiplied by the estimated office space per employee shown in the grid above to arrive at the total square footage of office demanded by year.

This analysis is summarized in the following table.



TOTAL AND MARGINAL OFFICE SPACE DEMAND FORECAST - SPOKANE COUNTY						
	2010	2011	2012	2013	2014	2015
1 Total County Nonfarm Employment	204,700	208,794	212,970	217,229	221,574	226,005
2 Percentage Occupying Office Space	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
3 Total Employed in Office Space	53,222	54,286	55,372	56,480	57,609	58,761
4 Times Occupied SF Per Employee	135	135	135	135	135	135
5 Total Office Demand (SF)	7,184,970	7,328,669	7,475,243	7,624,748	7,777,243	7,932,787
6 SF Change	N/Ap	143,699	146,573	149,505	152,495	155,545

As shown, after a flat 2010, the marginal demand for office space in Spokane County is estimated to grow by 143,699 SF to 155,545 SF per year over the next five years. As mentioned previously, economist Doug Tweedy's October 2009 estimate was three years to achieve recovery of the number of jobs lost during the current recession (implying late 2012). The above estimate would have the subject regaining the early 2009 levels of occupied office space (7.6 million SF) again between 2012 and 2013, comparing well to Tweedy's forecast.

The preceding figures can also be used to anticipate likely vacancy rates:

SPOKANE COUNTY OFFICE MARKET VACANCY FORECAST						
	2010	2011	2012	2013	2014	2015
1 Total Office Demand (SF)	7,184,970	7,328,669	7,475,243	7,624,748	7,777,243	7,932,787
2 Existing Supply (Assuming None New)	8,944,779	8,944,779	8,944,779	8,944,779	8,944,779	8,944,779
3 Overall Percent Vacancy	19.7%	18.1%	16.4%	14.8%	13.1%	11.3%

The preceding analysis shows that overall office vacancies can be expected to peak at nearly 20% in 2010. Among the ten office rent comparables that will be summarized later in the report, the overall vacancy rate is 22.8% out of 486,736 SF measured in the survey. This lends some measure of support to the 2010 county-wide overall vacancy rate estimate above of 19.7%. If no new construction is added, the excess space would be absorbed down to an overall vacancy figure of roughly 11.3% by 2015, over the subsequent five years.

The subject's capture rate as a percentage of the total is also estimate as a percentage of the total demand. The subject is on the margin between the CBD and the CBD periphery, and both square footages are used below.

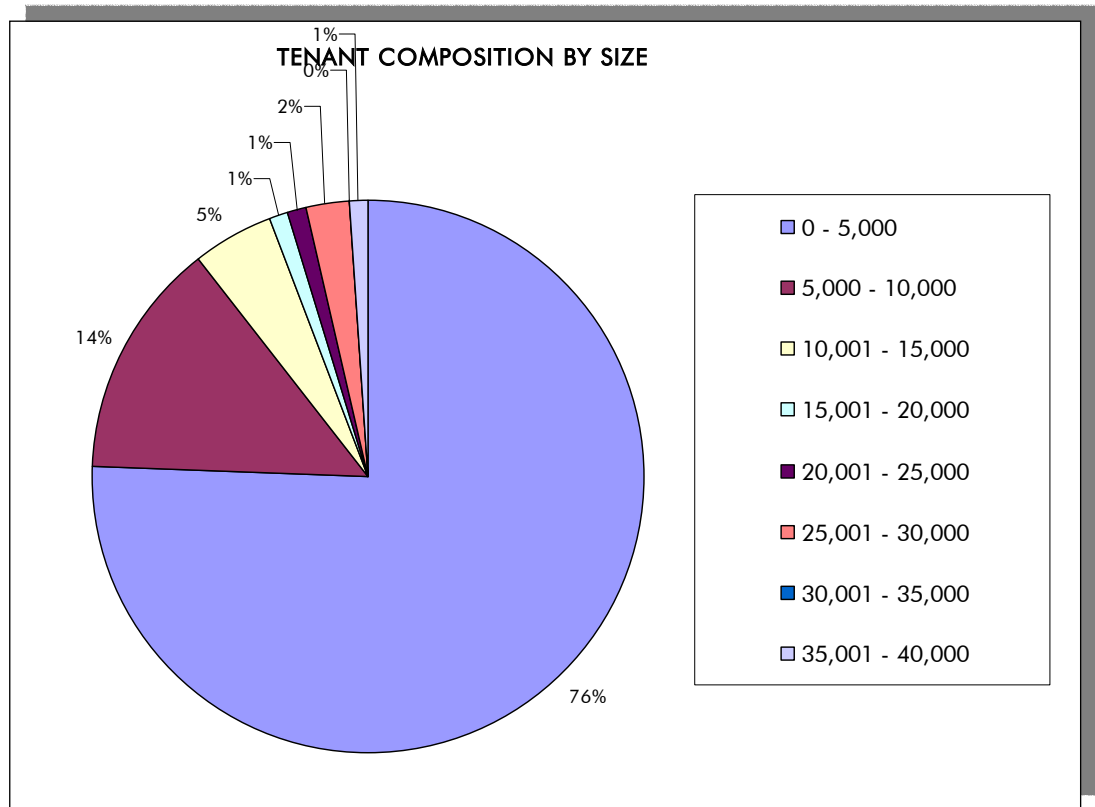
SUBJECT CAPTURE RATE						
	2010	2011	2012	2013	2014	2015
1 Total Office Demand (SF)	7,184,970	7,328,669	7,475,243	7,624,748	7,777,243	7,932,787
2 Percentage of County Office Space in CBD and Periphery	62.6%	62.6%	62.6%	62.6%	62.6%	62.6%
3 Total SF of Demand in CBD & Periphery	4,498,506	4,588,477	4,680,246	4,773,851	4,869,328	4,966,715
4 Subject as % of Total	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%

As shown, the subject would need to capture a relative low 1.1% of the competitive office demand.

Tenant Profile: Although many of the managers, owners and leasing agents contacted were only willing to give general tenant information, we were able to obtain detailed rent rolls on six properties in the market area with a total of 86 tenants.

In order to profile the typical tenant mix in the subject's immediate market area (including Northbank, but excluding the CBD core), I have analyzed the percentage of tenants by size, as broken down in the following pie chart.

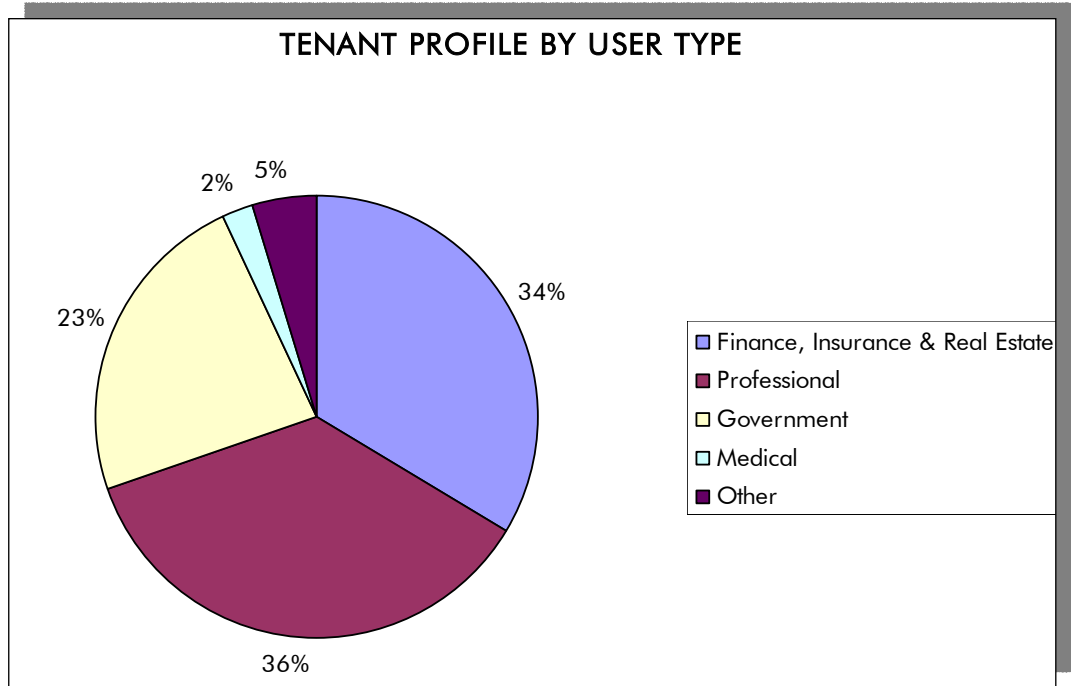




As shown, this market is made up predominantly of small tenants of less than 5,000 SF in size. The subject's upper floor is 8,897 SF, and would be conducive to being leased by a single tenant. As shown, the 5,000 to 10,000 SF segment composes 14% of the tenant mix. The larger floors have in excess of 15,000 SF each, and, although tenants of this size do exist, they are exceedingly rare. It is likely that these floors would need to be leased to multiple tenants to be marketable.



I have also considered the tenant mix by user type. This data is summarized in the chart below. As shown, the largest percentage of tenants is made up of professionals (attorneys, engineers, and the like), at 36%. The next highest is finance, insurance and real estate category at 34%. Government offices are also popular in this area, composing 23% of the total surveyed. This is not unexpected, given the close proximity to the County and Federal Courthouses, as well as to City Hall.



Supply and Demand Conclusions for Office Space: The preceding analysis showed that office vacancy rates have increased in conjunction with the national recession, and are expected to continue to rise to nearly 20% in 2010. After this, with the expected recovery in the economy, rates should gradually diminish to lower levels approaching 10% again over the subsequent five years, assuming there is no new construction. This information will be considered in estimating the viability of the subject as an office conversion in the next section.



OFFICE RENTS

The next step in the analysis is to determine the likely market rents that the subject would be capable of achieving if it were converted to office use. To do so, I have surveyed a number of area properties that are useful for comparison to the subject. This includes a mix of class B and C office buildings in the subject's immediate area as well as in comparable neighborhoods with close proximity to the river. It also includes a number of buildings which, like the subject, were converted from some prior original use into a secondary use as office space. This data is summarized on the following pages.

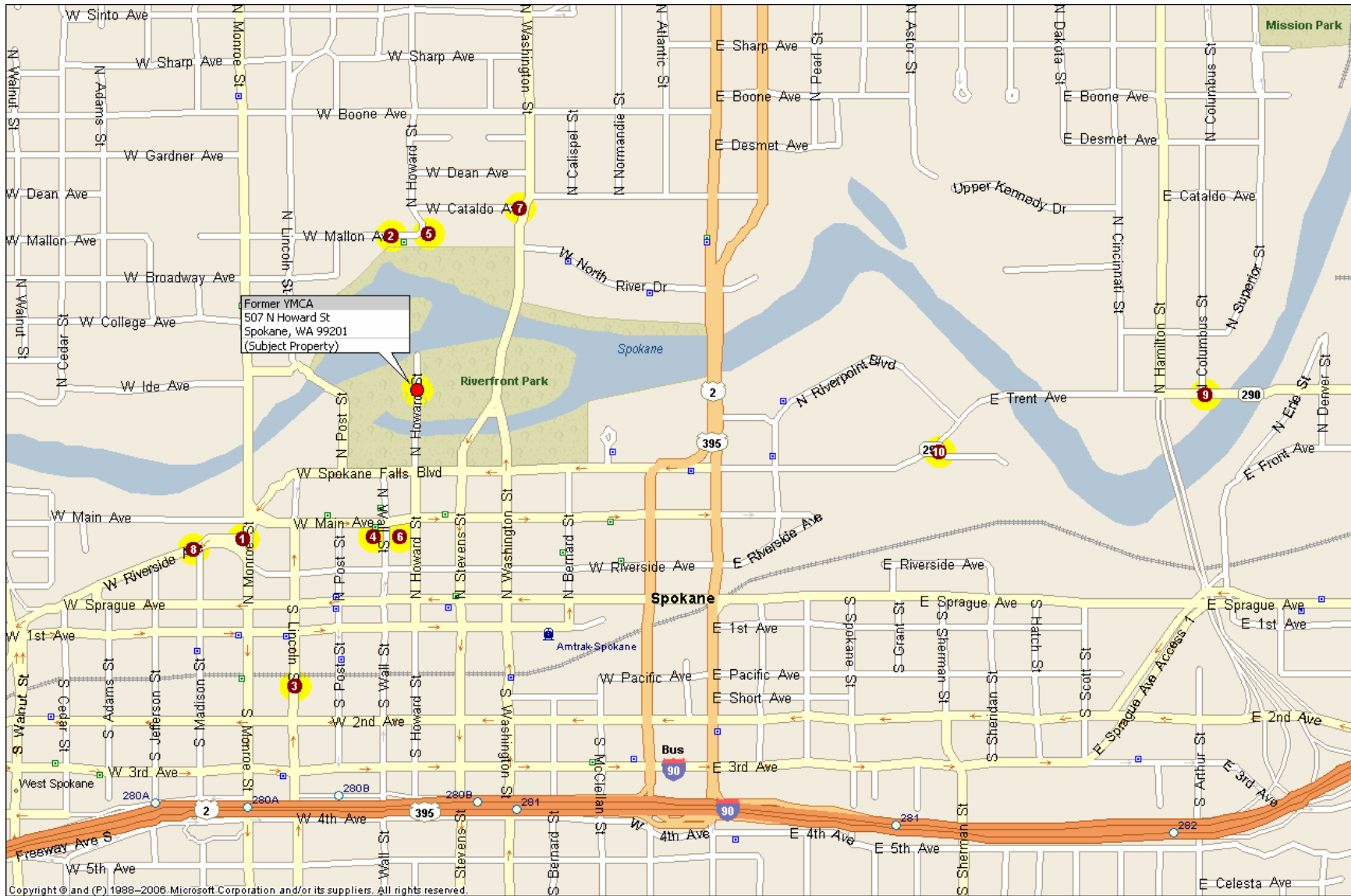


OFFICE RENT COMPARABLE SUMMARY

No.	Identification	Stories	Built	SF NRA	SF Vacant	Vacancy	Representative Tenant(s)	Floor	Office \$/SF/Yr	U or R	Expenses	FS Equiv. \$/SF/Yr	Parking Stalls/1,000 SF	Verification
1	Civic Building 1020 W Riverside Ave	3	1930	15,606	5,900	37.8%	Listing: Listing:	B2 B1	\$4.47 \$10.00	U U	NNN NNN	\$8.34 \$13.87	0	Chris Bell NAI Black 622-3538
2	The Flour Mill 621 W Mallon Ave	7	7	40,973 (excl. condos)	6,902	16.8%	Comcast: Van Voorhis: USKH: Listing:	B2 B1 B1 6/7	\$15.00 \$17.00 \$16.54 \$14.00	R R R R	FS FS FS FS	\$15.00 \$17.00 \$16.54 \$14.00	1.8	Michael Mathis Kiemle & Hagood 755-7516
3	Steam Plant Square 159 S Lincoln St	4	1889-1916 Ren. 1999	35,467	10,285	29.0%	Lower end of reported range: Upper end of reported range:		\$12.00 \$16.00	R R	MG MG	\$13.00 \$17.00	N/Av	Spencer Stromberg Wells & Co. 624-8050
4	Old City Hall 221 N Wall St	6	1912	98,104	38,705	39.5%	Spokane Solid Waste:	4	\$15.00	R	FS	\$15.00	0	Joel Crosby Tomlinson South 535-7400
5	SFCU Building 601 W Mallon Ave	2	1964 Ren. 2005	25,220	0	0.0%	Varela & Associates	DBsmt	\$14.69	R	FS	\$14.69	2.0	Mark Varela Varela & Assoc. 328-6066
6	Wheatland Bank Bldg 222 N Wall St	4	1978	36,523	4,565	12.5%	Selkirk Investments Haskell Law	N/Av N/Av Avg:	\$14.50 \$19.85 \$17.48	R R R	FS FS FS	\$14.50 \$19.85 \$17.48	0.0	Confidential
7	Broadview Dairy 411 W Cataldo Ave	3	1907	26,800	0	0.0%	Homeland Security:	2 & 3	\$23.00	R	FS	\$23.00	0.8	Tom Barbieri G&B Commercial Prop. 459-6109
8	North Coast Life/Plaza 1116 - 1124 W Riverside Ave	3 & 7	1912/21	67,026	15,000	22.4%	Asking: Average: Average:	2	\$19.00 \$16.50 \$12.50	R R R	FS FS FS	\$19.00 \$16.50 \$12.50	1.4	Jeff McGougan NAI Black 622-3576
9	RiverWalk 1007 E Trent Ave	1 - 3	1913-1940 Ren. 1996	70,323	13,817	19.6%	Matrical (Office): Lincare:	1 - 2 3	\$11.34 \$14.77	R R	NNN MG	\$14.34 \$16.52	3.6	Confidential
10	Schade Towers 528 E Trent Ave	5	1903	70,694	15,649	22.1%	Asking: Asking: Asking: Average Upper Floors: Average Basement:	3 2 Bsmt	\$20.00 \$18.00 \$12.00 \$19.00 \$10.00	R R R R R	FS FS FS FS FS	\$20.00 \$18.00 \$12.00 \$19.00 \$10.00	2.6	Jeff McGougan NAI Black 622-3576
Totals/Averages				486,736	110,824	22.8%			Low: \$4.47 Avg: \$15.11 Median: \$15.00 High: \$23.00			\$8.34 \$15.71 \$15.75 \$23.00	0.00 1.36 1.40 3.56	



RENT COMPARABLE MAP



Former YMCA Facility
 As of October 9, 2009
 #09.194



Improved Lease No. 1



Property Identification

Record ID	1107
Property Type	Office, Lowrise
Property Name	Civic Building
Address	1020 W Riverside Ave, Spokane, Spokane County, Washington 99201
Location	CBD Periphery West
Tax ID	35183.2230

Physical Data

Land Size	0.152 Acres or 6,600 SF
Gross SF	15,606
Construction Type	Reinforced concrete
Roof Type	Gable with ceramic tile
Foundation	Concrete
Sprinklers	None
Stories	3
Year Built	1930
Condition	Average

General Lease Data

Tenants	The Inlander, KQUP TV, et al
Typical Lease Term	3-5 Years
Lease Type	Triple Net, Usable Area Basis
Tenant Size	2,900 to 5,780

General Tenant Summary

Owner	The Spokane Club
Management Co.	NAI Black
Verification	Chris Bell, NAI Black; (509) 622-3538, October 27, 2009; Confirmed by JDL
Rent Charges	\$4.47/SF to \$10/SF
Escalations	CPI
Tenant Expenses	All. NNN Expenses are \$1.62/S

Rent Analysis

Former YMCA Facility
As of October 9, 2009

#09.194



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Actual Rent \$4.47 - \$10.00/SF
Improved Lease No. 1 (Cont.)
Occupancy 62%

Remarks

The Civic building is situated in the West Riverside Historic District, between the Spokane Club and the Masonic Hall. The building was constructed in 1930. Initially, the building housed the Chamber of Commerce and other civic users. The building is of reinforced concrete construction with a pale brick facade, and rises one story above grade along Riverside Avenue, with three daylight basement levels facing north. Originally, the basements contained an auditorium and luncheon facilities, conference rooms, and storerooms. There is no on-site parking.

Currently, the upper floor is occupied by The Inlander magazine at unknown rates. Portions of the lower floors are available for lease at rates of \$4.47/SF for a 2,900 SF area, and \$10.00/SF for a 3,000 SF area, all triple net. The leasing agent reports that the "cheaper" space actually constitutes "hallways" that surround the former auditorium, with the walls open to below, and was last used by an engineering firm that did not mind the open space design for its drafting tables, etc.. The space was described as being "newly remodeled," and TI's would be negotiable depending upon the lease and lessee.



Improved Lease No. 2



Property Identification

Record ID	863
Property Type	Retail-Commercial, Mixed Use (Office/Retail)
Property Name	The Flour Mill
Address	621 W Mallon Avenue, Spokane, Spokane County, Washington 99201
Location	Northbank
Tax ID	35185.4928 et al

Physical Data

Land Size	0.975 Acres or 42,477 SF
Gross SF	42,477
Net SF	40,973

Area Breakdown	2nd Floor	5,743
	3rd Floor	14,741
	4th Floor	20,489
	Included Condo	1,504

Parking	General lot	119	6 hdcp
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Construction Type	Brick with wood beams
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Improved Lease No. 2 (Cont.)

Roof Type	flat, built-up
Foundation	Stone
Electrical	Provided by Landlord
HVAC	Zoned HVAC
Sprinklers	Throughout
Stories	7
Floor Height	14-20'
Retail	Street Level & 1st Floor below
Office	2nd level below street grade
Year Built	1896
Condition	Average

General Lease Data

Tenant	Various
Typical Lease Term	3-5 Years
Lease Type	Full service
Tenant Size	522 to 8,154

General Tenant Summary

Owner	GVL Inv
Management Co.	Kiemle & Hagood Co.
Verification	Marketing packet; September 25, 2008; Michael Mathis, Kiemle & Hagood, (509) 755-7516, October 15, 2009; Other sources: Public records, Confirmed by JDL
Office Area	19,302 SF
Retail Area	21,314 SF
Percent Finished	99.13%
Tenant Expenses	Full service

Rent Analysis

Actual Rent	\$9.00 - \$21.94/SF; \$16.34/SF Average
Effective Rent	\$9.00 - \$21.94/SF; \$16.34/SF Average
Occupancy	88.8% (4,198 SF Vac)

Remarks

This brick building, originally constructed in 1896, was renovated and converted to office/retail in 1974, in conjunction with the Expo '74 World's Fair. It is located along the north bank of the Spokane River, and has water views. The building has three daylight basement levels, and four above grade levels. Notably, the three upper floors and the lowest floors have been converted to office condominiums. The first floor and the first basement are mostly retail tenants, with the remainder office. The building has received substantial renovations in recent years, including a new 2-ton HVAC boiler system, upgraded Otis elevator, and new energy-efficient windows and lighting throughout.

All of the leases in the Flour Mill are on a full service basis, with the landlord paying all janitorial, maintenance, insurance, utilities, and tax expenses associated with the property. The only exception to this is with the restaurant tenants, which pay their own janitorial and utility fees. Most of the square footages are based on usable square feet, with the exception of Comcast, A Gifted Touch Massage, and USKH Engineering, which are leased on a rentable square foot basis.



Clinkerdagger's Restaurant acts as the premier anchor tenant, and during the last lease negotiation, the landlord agreed to pay \$100,000 in remodeling costs, while the tenant was responsible for \$200,000. The attended surface parking lot to the east of the building is used by both tenants and customers alike. A portion of the parking lot was sold for the construction of the Upper Falls Condominiums, therefore, on-site parking has been reduced.

Current asking rents are \$18/SF for above-grade office space on floors 3 and 4. The penthouse on floors 6/7 is available for \$14/SF, but has some functional inefficiencies, such as the fact that the elevator does not extend to the 7th floor, and windows on the 7th floor are atypically low. Tenant improvements are negotiated with the tenants, and ranges of \$3/SF to \$15/SF have been typical in the past.



Improved Lease No. 3



Property Identification

Record ID	83
Property Type	Retail-Commercial, Mixed Use (Office/Retail/Warehouse)
Property Name	Steam Plant Square
Address	159 S Lincoln, Spokane, Spokane County, Washington 99201
Location	Downtown
Tax ID	35192.2001, 17

Physical Data

Land Size	0.597 Acres or 25,986 SF
Net Rentable SF	35,467
Net SF	35,467

Construction Type	Brick
Roof Type	Flat, built up
Foundation	N/Av
Electrical	Adequate
HVAC	Package, roof mounted
Sprinklers	N/Av
Stories	2-4
Floor Height	Varies



Improved Lease No. 3 (Cont.)

Retail First floor and basement, east
Office Both floors, west bldg; top two
Year Built 1889-1916
Condition Average

General Lease Data

Tenant Steam Plant Grill, various office
Typical Lease Term 3 Years
Lease Type Modified gross, no janitorial
Tenant Size 275 to 7,500

General Tenant Summary

Owner DCJ Investments LLC
Management Co. Wells & Company
Verification Chris Batnum, Agent; 509-624-8050, Spencer Stromberg (Wells and Company), 509-624-8050 x 105, December 01, 2008; Other sources: Public Records, listing information, Confirmed by MPB
Tenant Improvements Negotiable, depending on term
Escalations Start at 3% per year, renewal
Renewals Vary
Tenant Expenses Janitorial \$0.75/SF to \$1.25/S

Rent Analysis

Actual Rent \$13.00 - \$18.00/SF; \$16.00/SF Average
Occupancy 86.4%

Remarks

This property is composed of three connecting buildings. The two oldest buildings were part of a steam plant and were built in 1889 and 1916. The newest addition, which houses office space and parking, connects the two older buildings and is referred to as "The Courtyard". This building houses approximately 10,000 SF of rentable space. The Steam Plant Grill, which opened in October of 1999, is the main ground floor tenant of the easternmost "Steam Plant" building. The property manager reports that there is no other retail space in the building, and the remainder is used primarily for office space. The westernmost building is known as the "Sehorn Building" and has a more dated appearance than the other two buildings. Paid parking is available in an adjacent parking lot.

Lease rates range from \$13.00/SF to \$18.00/SF, though the lower end of the range is paid by Avista, which is a part owner in the building and as such, is not technically arm's length. The upper end of the range is paid by a tenant that was willing to pay a premium for a short term lease. Most leases are between \$15.00/SF and \$16.00/SF. Notably, the easternmost building, which has a more stylized interior, leases for approximately \$1.00/SF more than space in the western building.

Lease rates are based on usable square footage and a modified gross expense structure whereby the landlord is responsible for all expenses except for janitorial. As of December 2008, 5,082 SF (or 13.6%) was vacant. As of October 2009, vacancy had risen to 29%.



Improved Lease No. 4



Property Identification

Record ID	84
Property Type	Office, Office Building
Property Name	Old City Hall
Address	221 N Wall, Spokane, Spokane County, Washington 99201
Location	Downtown
Tax ID	35183.0301

Physical Data

Land Size	0.458 Acres or 19,945 SF
Net Rentable SF	98,104
Gross SF	115,992

Load Factor	15%
Construction Type	Brick
Roof Type	Flat
Foundation	Stone, masonry & concrete
HVAC	Gas fired boiler, full AC
Sprinklers	Fully sprinklered
Stories	6
Year Built	1912



Improved Lease No. 4 (Cont.)

Condition Average

General Lease Data

Tenant Olive Garden Restaurant, retail, office
Typical Lease Term Negotiable
Lease Type Full service, Rentable basis with 15% load factor

General Tenant Summary

Owner James F Cotter
Management Co. Kiemle & Hagood Company
Verification Joel Crosby, Leasing Agent; (509) 535-7400, October 30, 2009; Ron Horton (K&H), 509-755-7551, August 14, 2007; Confirmed by JDL
Rent Concessions 1 mo free for each year leased
Tenant Improvements Negotiable
Escalations 2.5-3.0% per year
Tenant Expenses Full Service

Rent Analysis

Actual Rent \$14.00 - \$16.00/SF; \$15.00/SF Average
Occupancy 67%

Remarks

This six-story historic building houses one ground floor restaurant (approx. 10,000 SF) and two retail tenants, along with five stories of office space. Retail space ranges from 1,500 - 10,000 SF and rents for between \$19.00/SF -21.00/SF. Office space rents from \$14.00 - \$16.00/SF, with an average of \$15/SF. The building overlooks Riverfront Park in downtown Spokane. In addition, the building has skywalk access. Although there is no parking on site, they will make arrangements for certain tenants if necessary to secure some nearby parking.

All space in the building is leased on a full service basis and it is currently (October 2009) 33% vacant, up from 25% vacant in 2007. The maximum contiguous vacant space currently available is 6,068 SF.

A representative recent lease was for 3,174 SF to the City of Spokane Solid Waste Department on the sixth floor beginning May 2008. The lease term is 60 months at a beginning rate of \$15.00/SF with roughly 3% escalations.



Improved Lease No. 5



Property Identification

Record ID	1102
Property Type	Office, Lowrise
Property Name	Spokane Federal Credit Union Building
Address	601 W Mallon Ave, Spokane, Spokane County, Washington 99201
Location	Northbank
Tax ID	35181.0003

Physical Data

Land Size	0.890 Acres or 38,768 SF
Gross SF	25,220

Parking	Open, paved	39
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Construction Type	Masonry
Roof Type	Flat, built-up
Foundation	Concrete
Stories	1 + Bsmt
Year Built	1964



Improved Lease No. 5 (Cont.)

Condition Good

<u>Suite No.</u>	<u>Tenant Name</u>	<u>Size</u>	<u>Tenant Rent Roll</u>			<u>Beg. Date</u>	<u>Term</u>
			<u>Rent/SF</u>	<u>Lease Type</u>			
A	Varela & Associates	3,955	\$14.69	Full Service	2005		

General Tenant Summary

Owner Spokane Federal Credit Union
Verification Mark Varela, Lessee; 509.328.6066, October 29, 2009;
Confirmed by JDL

Remarks

The Spokane Federal Credit Union has one story over daylight basement and is located adjacent to Riverfront Park's north entrance, as well as to the Spokane River. The building was constructed in 1964, and extensively renovated in 2005. SFCU occupies the entire ground floor, which is accessed from street grade along its south side, as well as a portion of the daylight basement. The daylight basement space is accessed from the rear (south) side of the building.

Varela & Associates, an engineering firm, occupies 3,955 SF of area in the daylight basement, with the remainder of the building used by the owner (Spokane Federal Credit Union). According to the tenant, rent is currently \$4,842/mo, or \$14.69/SF/Yr, on a full service, rentable basis. The space includes shared common area such as a common restroom, and the lease is inclusive of eight parking spaces in a surface parking lot on the site. There are a total of 39 stalls on the site, for a ratio of 1.5 stalls/1,000 SF.



Improved Lease No. 6



Property Identification

Record ID	674
Property Type	Office, Office Building
Property Name	Wheatland Bank Building
Address	222 N Wall St, Spokane, Spokane County, Washington 99201
Location	CBD
Tax ID	35184.1808

Physical Data

Land Size	0.356 Acres or 15,494 SF
Gross SF	58,193
Net SF	36,523

Area Breakdown

Basement	9,880	GBA
1st Floor	8,719	GBA
2nd Floor	9,600	GBA
3rd Floor	14,997	GBA
4th Floor	14,997	GBA



Improved Lease No. 6 (Cont.)

Parking	Streetside metered stalls	14
Load Factor	1.45	
Construction Type	Reinforced Concrete	
Roof Type	Flat, membrane covered	
Foundation	concrete slab	
Electrical	adequate	
HVAC	cooling tower, VAV boxes	
Sprinklers	Basement, floors 1 and 2	
Stories	4+bsmt	
Floor Height	10'	
Year Built	1978	
Condition	Average	

General Tenant Summary

Owner	Riverpark Properties
Management Co.	Tomlinson Black
Verification	Rent Roll; August 07, 2007; Other sources: Inspection, Confirmed by MPB
Office Area	27428
Retail Area	2743
Percent Finished	82.61
User 6	Asking \$20/SF

Rent Analysis

Actual Rent	\$8.01 - \$22.29/SF; \$17.48/SF Average
Effective Rent	\$14.23 - \$22.29/SF; \$18.48/SF Average
Occupancy	87.5%

Remarks

This is the Wheatland Bank building located at the north end of the CBD core. Most suites have views of Riverfront Park. Asking rents for vacant space are \$20/SF full service. Additional amenities include men's and women's locker rooms and a large conference room in the basement.

The retail space on the ground floor is occupied by two tenants at rates well below those along Main Avenue. This is likely due to the fact that Main Avenue has more pedestrian traffic and better sun exposure and although this building's retail tenants appear to be below market rate, they probably are not.



Improved Lease No. 7



Property Identification

Record ID	1058
Property Type	Office, Mixed Use (Office/Retail)
Property Name	Broadview Dairy Building
Address	411 W. Cataldo, Spokane, Spokane County, Washington
Location	Northbank
Tax ID	35181.4410

Physical Data

Land Size	1.290 Acres or 56,192 SF
Gross SF	33,000
Net Rentable SF	26,800

Parking	Segregated Lot	35
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Construction Type	Brick
Roof Type	Flat, Tar-Gravel
Foundation	CMU Block
HVAC	Gas
Stories	2.5



Improved Lease No. 7 (Cont.)

Floor Height	12
Retail	Caterina Winery
Office	Homeland Security Office
Year Built	1907
Condition	Fair

General Lease Data

Tenant	Caterina Winery, Homeland Security
Typical Lease Term	5-10 years
Lease Type	Full service

General Tenant Summary

Owner	Huckleberry Bay Co.
Management Co.	Goodale and Barbieri
Verification	Tom Barbieri; 509-459-6109, May 07, 2009; Corey Barbieri, 999.9324, October 20, 2009; Confirmed by JDL
Escalations	CPI w/4% Max

Rent Analysis

Actual Rent	\$18.00 - \$23.00/SF
Occupancy	100%

Remarks

This is the Broadview Dairy building, located at the corner of Washington Street and Cataldo Street. The building was built in 1907, is on the Spokane Historic Register, and was remodeled into office/retail space in 2001. Broadview dairy was one of several commercial dairy operations established in the Spokane area around the turn of the twentieth century. The building now houses Caterina winery (the anchor tenant) and the Department of Homeland Security, which recently took-over the space that had been occupied by Career Path Services on the 2nd and 3rd floor. Property has good access and visibility, as well as a paved parking lot with additional parking available off of Cataldo Street.

The Homeland Security space consists of two, 10,400 SF spaces leases for a starting rate of \$23/SF. Homeland Security took the spaces as is and is paying for their own TI's at \$60/SF. The lease includes only 17 stalls to the southeast of the building. The lease is full service, but there is an expense stop of 3% on utilities from the first year; after this, the tenant will pay for any additional increases. The lease includes annual CPI escalations to a maximum of 4%/Yr.

As of October 2010, Caterina Winery, which occupies the daylight basement, was in the process of negotiating a lease extension. The space consists of a mixture of office/retail and warehouse space, totaling 6,000 SF. The office space will be at \$18/SF, and the rate for the warehouse is still being finalized.



Improved Lease No. 8



Property Identification

Record ID	1103
Property Type	Office, Lowrise
Property Name	North Coast Life/North Coast Plaza Buildings
Address	1116 - 1124 W Riverside Avenue, Spokane, Spokane County, Washington 99201
Location	CBD Periphery - West
Tax ID	35183.2238 & .2239

Physical Data

Land Size	0.811 Acres or 35,320 SF
Gross SF	98,611
Net Rentable SF	67,026

Area Breakdown	North Coast Life	55,467	GBA
	North Coast Plaza	43,144	GBA

Parking	Garage	40
	Open, paved	55



Improved Lease No. 8 (Cont.)

Load Factor	3.4%
Construction Type	Reinforced Concrete
Roof Type	Flat
Foundation	Concrete
Stories	3&7
Year Built	1912/1921
Condition	Average-Good

General Lease Data

Typical Lease Term	3-5 Years
Tenant Size	1,324 to 15,423

General Tenant Summary

Owner	W 1116 & W 1124 Partner
Management Co.	NAI Black
Verification	Jeff McGougan, Agent; 509.622.3576, October 20, 2009; Other sources: Prior appraisal, Confirmed by JDL
Rent Charges	\$12.00 - \$19.00/SF/Yr
Escalations	3% - 5% annually
Office Area	67026
Tenant Expenses	Full Service

Rent Analysis

Actual Rent	\$12.00 - \$19.00/SF; \$17.00/SF Average
Occupancy	71.7%

Remarks

The North Coast Life and North Coast Plaza buildings are two historic buildings under the same ownership. The buildings are interconnected and have multiple tenants, the largest of which is North Coast Life Insurance, which is also under the same ownership as the buildings. Both buildings have excellent views of the Monroe Street Bridge framing the lower falls of the Spokane River.

The 1116 W Riverside Building was formerly the Elks Temple, and was completed in 1921. Portions of the building were designed by renowned architect Kirtland Cutter, and the building is on the national historic register. The building is of reinforced concrete construction. The building has an ornate exterior with arched windows and a second-story Ionic colonnade along its Riverside Avenue frontage. The first floor has 12,500 SF, the second floor 15,423 SF, and a third story penthouse has 3,032 SF.

The North Coast Plaza Building, at 1124 W Riverside, was originally built as the Smith Funeral Home and Apartments in 1912. This building is of reinforced concrete and brick, and also has an ornate exterior, with bay windows and copper and glass marquee entries. A copper mansard roof rises above a bracketed cornice and balustrade. It also features a square-domed pavilion and two ornamental dormers on either side of the dome, as well as a 40-stall, steel-framed parking garage that was added in 1925. The east side has 3.5 stories above grade of Riverside Avenue, and three levels below, including the parking garage. The west side has one floor up, and three floors down. The building was extensively remodeled after its acquisition in 1988.



The largest single tenant in the 1116 building is North Coast Life, at 15,423 SF, although this space is currently listed as available for lease. The Attorney General's office is the second-largest tenant, at 12,500 SF, and this tenant also occupies 10,271 SF in the 1124 building. The U.S. DEA also occupies a 5,250 SF basement suite. The majority of the remaining tenants are various law firms and financial service companies.

According to the leasing agent, upper floor rents are typically \$16 - \$17/SF, and below-grade offices are \$12 - \$13/SF, full service, typically with 3-5 year terms. Office space in the 1,300 SF penthouse of the 1124 building has no direct elevator access and low ceilings, and has leased for as little as \$6.50/SF. All include free parking, either in the garage or on the adjoining surface lots, with a total of 95 spaces available (or 1.4 stalls/1,000 SF of NRA).



Improved Lease No. 9



Property Identification

Record ID	78
Property Type	Retail-Commercial, Mixed Use
Property Name	RiverWalk
Address	1007 E Trent Ave, Spokane, Spokane County, Washington 99202
Location	North side of Trent Avenue, west side of Spokane River.
Tax ID	35174.0222
User 1	Dennis & Bradley's Addition & portion of SE/14 of 17-25- 43.

Physical Data

Land Size	0.502 Acres or 21,855 SF
Leasable SF	76,860
Net SF	70,323
Parking	Main Lot 160 North Lot 90
Construction Type	Masonry
Roof Type	Flat, built-up
Foundation	Concrete slab
Electrical	Adequate
HVAC	Package, roof mounted
Sprinklers	Throughout
Stories	1-3
Floor Height	12-16'
Retail	North portion of facility
Office	Central portion and upper level
Industrial	Lower level of southern portion
Year Built	1915/48
Condition	Average



Tenant Rent Roll

<u>Tenant Name</u>	<u>Size</u>	<u>Rent/SF</u>	<u>Lease Type</u>	<u>Beg. Date</u>	<u>Term</u>
Dry Fly Distilling	3,860	\$7.13	Modified Gross	7/1/2007	7 Years
Meechai, Inc. (Riverview Thai)	4,200	\$15.00	Full Service	7/1/2007	5 Years
Columbia Medical Associates	3,860	\$9.00	Triple Net	2/1/2006	5 Years
Matrical	18,206	\$7.50	Triple Net	9/1/2008	5 Years
Vacant	2,776	\$13.00	Triple Net	Vacant	
New Community Church	9,872	\$7.05	Triple Net	10/2/2007	3 Years
Vacant	2,400	\$13.00	Triple Net	Vacant	
Northern Lights Brewery	7,791	\$9.84	Triple Net	5/31/2007	5 Years
Hallets Chocolates	1,137	\$10.55	Triple Net	3/1/2008	5 Years
Lincare, Inc.	12,445	\$14.77	Modified Gross	11/1/2007	5 Years
Enjoy Services	3,776	\$6.36	Triple Net	3/1/2008	3 Years

General Tenant Summary

Owner	RiverWalk Properties LLC
Management Co.	Vincent Properties
Verification	Jim Quigley, broker; 755.7560, Appraisal, leases, Confirmed by MPB
Escalations	Varies
Retail Area	11991
Percent Finished	17.05

Rent Analysis

Actual Rent	\$6.36 - \$15.00/SF; \$10.29/SF Average
Effective Rent	\$6.36 - \$15.00/SF; \$10.29/SF Average
Occupancy	92.6%

Remarks

This 77,794 SF commercial complex was originally built as the Cascade Laundry facility in 1913, and was expanded and operated as a trucking facility in 1940, and operated as a school bus repair facility in 1970s. It was converted to its current use as the Cajun-themed Riverwalk office/retail complex in 1996. It fronts the Spokane River, and is located on the east end of the University District.

The property is fronted by Trent Avenue to the south, Columbus to the west, Springfield to the north, and the Spokane River to the east. The facility is 92.6% occupied by a variety of office, retail, restaurant, and industrial users. The southern portion of the building was completely renovated in 2007-2008. Overall, the building is in average condition.

Lease terms vary, with some signed at full service, others triple net, and others at modified gross terms. The most recent leases include: 1) an 18,750 SF lease to Matrical at a rate of \$7.50/SF triple net, with \$2.25/SF expenses. The equivalent full service rate would be \$9.75/SF; 2) Hallett's Chocolates leased 1,137 SF for a beginning rate of \$10.55/SF triple net, or \$12.80/SF full service equivalent.

As of October 2010, there was 13,817 SF available for lease or sublease at an asking rate of \$13/SF, triple net, with triple net expenses of \$2.25/SF.



OFFICE RENT COMPARABLES DISCUSSION

Rental No. 1 is the Civic Building, a recently renovated historic building constructed in 1930. The building has one floor at grade with Riverside Avenue, which serves as the main entry and is occupied by The Inlander. The lower floors are currently available at rates of \$4.47/SF to \$10.00/SF on a triple net basis, or \$8.34/SF to \$13.87/SF on an equivalent full service charge. The building has no parking. The lower of these two rates is for space that has large vertical penetrations and lacks functional utility, and is a low indicator for the subject. The \$13.87/SF space is a good indicator of rates for newly remodeled space with some views but limited parking.

Rental No. 2 is the Flour Mill. Like the subject, this is a building originally constructed for another use that is perched along the bank of the Spokane River and has been converted to office use. Office rents in this building range from \$14.00/SF to \$17.00/SF, with current asking rates of \$18.00/SF for above-grade, newly remodeled space. The lower end of the range is for space with some functional obsolescence, including the penthouse and some of the below-grade floors. The building has superior parking to the subject and the recent remodel included new lighting and energy-efficient windows, thus the upper end of the range is likely a high indicator for the subject. However the lower end of the range is a good indicator for the subject's upper floor view space.

Rental No. 3 is the Steam Plant Square. Although this has no water views, like the subject it is an older building on the CBD periphery that was originally built for another use and subsequently converted to office space. Like the subject, it also has very limited and somewhat inconvenient parking. The facility has been nicely remodeled, and most office rents range from \$13.00/SF to \$17.00/SF after adjustments to full service, though most above-grade spaces are at \$15/SF to \$16/SF. Lower level and "unusual" offices are still available at \$12.00/SF to \$14.00/SF, however. The upper end of the range is likely a high indicator, while the lower-middle end of the range is likely a good indicator for the subject space.

Rental No. 4 is the Old City Hall building, a six-story structure built in 1912. Like the subject, this building faces Riverfront Park. The building has a mix of office and retail tenants, and space varies from good quality space with views of the park to lower-quality space overlooking rooftop HVAC units next door. The average rental rate is currently \$15.00/SF. This is a similar to slightly high indicator of market rent for the subject's upper floor space.

Rental No. 5 is the SFCU building. This building is located adjacent to the Riverfront Park north entry, and just east of the Flour Mill. Like the subject, it has river views and a parkside location. The Spokane Federal Credit Union owner-occupies the entire upper floor and much of the basement. However, a portion of the basement is leased to Varela and Associates, an engineering firm, at a rate of \$14.69/SF. The space includes approximately two parking stalls per 1,000 SF of parking, and is a good indicator or market rent for the subject.

Rental No. 6 is the Wheatland Bank Building. This four-story building lies across the Street from Riverfront Park, and was built in 1978, and is in very good condition. Rents range from \$14.50/SF to \$19.85/SF. The building has no parking, but is of superior quality than the build out anticipated for the subject. The lower end of the range appears to be a good indication of what might be achievable for the subject's upper floors.



Rental No. 7 is the former Broadview Dairy Building. This is a three-story building that lies immediately to the north of Riverfront Park. The two upper floors were recently leased to the U.S. Department of Homeland Security at a rate of \$23.00/SF. The space was last occupied by a trade school, and the tenant expected to incur \$60/SF of its own costs to install specialized improvements. This leased was considered atypically high by most brokers with whom I discussed it, and they believe it is above-market due to the fact that the U.S. government is the tenant. It is used in this analysis, however, because this is clearly the upper end of the range that could be achieved in the area, and because government tenants are attracted to this area due to its close proximity to government facilities such as the County and Federal courthouses, and City Hall. The lower floor is leased to Caterina Winery, which utilizes it for a sales and warehouse area. Although the warehouse rent was not known, the office/showroom area was reportedly calculated at a rate of \$18/SF in the recent lease renewal. Again, this comparable is a high indicator for the subject.

Rental No. 8 is a brick and concrete historic complex owned by North Coast Life Insurance Company. The easterly building was formerly the Elk's Hall, while the westerly building was an apartment and former mortuary. The structures are conjoined, and have an extremely ornate exterior and a parking garage as well as nearby surface parking. Offices overlook the Spokane River below, as well as Spokane Falls and the Monroe Street Bridge. Most above-grade rents range from \$16.00/SF to \$17.00/SF, while below-grade tenants pay \$12.00/SF to \$13.00/SF. These are slightly high indicators for the subject due to the superior parking.

Rental No. 9 is the RiverWalk complex, a mixed-use retail/office/warehouse facility located adjacent to the Spokane River and on the east end of the University District. Two large new office tenants include Matrical (R&D/Office space) and Lincare, which paid \$14.34/SF and \$16.52/SF respectively (after adjustment to equivalent full-service rates) for newly refurbished space having views of the river. This is a good indicator of achievable rents for the subject's upper floors.

Rental No. 10 is the Schade Towers building, a converted former brewery building that was extensively renovated and now contains ground floor retail space and upper floor office space. It also contains a basement area with a 25' ceiling that has been used for physical therapy offices and commercial space. Some upper floor rents reportedly are in the low \$20's but, like the Broadview Dairy building, this is believed to be for federal offices occupied by the Secret Service. Most upper floor tents averaged about \$18/SF. The basement floor space has rented for \$10/SF to \$12/SF. Rents are typically starting from a vanilla shell finish, and a standard TI package of \$15/SF is provided, along with floor cover at \$1.50/SF, for a total TI package of \$16.50/SF.

MARKET RENT CONCLUSIONS

Again, only the subject's upper three floors are considered to be marketable. The two lower basements do not have window space, and would most likely be used as supportive space for the upper floor tenants.

The subject's two top floors both feature good views of the Spokane River and Riverfront Park. They are currently used for office space, although the second floor is partially occupied by a gymnasium and commercial kitchen, and has a more dated appearance. Given their somewhat isolated location and low parking ratio, but offset by the good views,



these two floors would be expected to be able to achieve rents in the lower-middle part of the range exhibited by the comparables.

The following array illustrates where the subject's market rents would be expected to lie relative to the comparables.

As shown, the subject's upper floor rents are expected to achieve **\$14.00/SF** for the 2nd floor and **\$15.00/SF** for the third floor. The lower floor rents, which have good views to the north but inferior views to the south and a lower ceiling, are estimated at a lower market rent of **\$12.00/SF**.

Notably, the United Way was reportedly leasing a portion of the building at the time the City exercised its right of first refusal, was paying rents of \$12 to \$13/SF for space with the best views of the river. The rents concluded at right compare relatively well. The space would presumably be modernized to a higher level of finish than was the case at the time it was leased to United Way, but would also include some space that was not included in their package that does not have as good of views as the space they leased. These items being largely offsetting, market rent conclusions show hear appear generally reasonable.

RENT COMPARABLE ARRAY		
No.	Identification	Rent/SF
7	Broadview Dairy - Upper	\$23.00
6	Wheatland Bank Building	\$14.50 - \$19.85
3	Steam Plant Upper Floors	\$16.50
8	North Coast Life Upper Floor Avg	\$16.50
2	Flour Mill - Typical	\$15.00 - \$17.00
9	Riverwalk - Lincare	\$16.52
4	Old City Hall	\$15.00
3	Steam Plant (Avg)	\$15.00
Subj. Upper floors 2 & 3		\$14 - \$15
9	Riverwalk - Matrical (R&D)	\$14.34
5	SFCU Lower Floor	\$14.69
2	Flour Mill - Floor 6/7	\$14.00
3	Steam Plant Lower Floors	\$13.00
8	North Coast Lower Floors	\$12 - \$13
Subj Main Floor (Basement 1)		\$12.00
10	Schade (lower level)	\$10.00 - \$12.00
1	Civic Buildings (lower levels)	\$4.47 - \$10.00

Applying the preceding rent conclusions to the square footages per floor, the subject's potential gross income is estimated at \$687,555/Mo.

VACANCY

As discussed previously, the office survey of ten comparable properties showed a high current rate of 22.8%. However, this is substantially higher than the historic rate in the CBD, which has averaged 15.6% over the past five years, and 14.16% over the past three years. The 2008/2009 recession appears to have peaked, and a lower rate can be expected on a stabilized basis. A stabilized vacancy of 15.0% is applied in this analysis.

OFFICE OPERATING EXPENSES

The preceding subject rents were estimated assuming a "full service" expense basis, whereby the landlord would be responsible for all typical operating expenses. In order to estimate stabilized expenses for the subject, I have considered the subject's actual operating history for some line items (such as insurance and utilities), but have also relied upon expense comparables and expense surveys to assist in estimating stabilized expenses. This data is summarized below.



EXPENSE COMPARABLE DATA									
Property Name:	Confidential		Confidential		Confidential		Confidential		IREM Region 10 (Northwest)
Location	Northern Periphery of C		CBD Core		Eastern Periphery of CB		CBD Periphery		IREM 2009 Study
Occupancy	Multi Tenant, Office		Multi Tenant, Office		Multi Tenant, Office		Multi-tenant, office		Downtown Offices
Rentable Area	557,268 SF		36,523 SF		13,255 SF		26,486 SF		
Number of Floors above grade	3 - 8		4		2		2		N/Av
	\$/SF	% EGI	\$/SF	% EGI	\$/SF	% EGI	\$/SF	% EGI	Median \$/SF
EFFECTIVE GROSS INCOME	\$751.35	100.00%	\$41.15	5.48%	\$15.76	100.00%	\$19.18	100.00%	N/Av
OPERATING EXPENSES									
Real Estate Taxes	\$1.15	6.44%	\$1.42	0.52%	\$1.25	7.90%	\$1.23	6.39%	\$1.69
Insurance	\$0.16	0.89%	\$0.24	0.09%	\$0.23	1.48%	\$0.30	1.57%	\$0.19
Repairs and Maintenance	\$1.25	6.98%	\$1.92	0.70%	\$1.59	10.10%	\$0.89	4.66%	\$1.64
Utilities	\$1.51	8.42%	\$3.14	1.15%	\$2.23	14.14%	\$1.02	5.33%	\$1.82
Janitorial & Supplies	\$1.32	7.38%	\$1.11	0.41%	\$0.54	3.40%	\$1.02	5.32%	\$0.84
Administration	\$1.02	5.73%	\$0.00	0.00%	\$0.72	4.60%	\$0.03	0.17%	\$0.51
Management Fee	Incl. Above	Incl. Above	Incl. Above	Incl. Above	Incl. Above	Incl. Above	Incl. Above	Incl. Above	\$0.60
Other & Security	\$0.07	0.37%	\$0.30	0.11%	\$0.03	0.17%	\$0.05	0.28%	\$1.01
TOTAL EXPENSES	\$6.47	36.21%	\$8.12	2.98%	\$6.58	41.79%	\$4.55	23.72%	\$8.30

Real Estate Taxes: As a government-owned property, the subject would be exempt from real estate taxes. However, when private individuals or businesses use government property they are required to pay a leasehold excise tax. This rate is currently calculated by the Department of Revenue to 12.84% of the rent paid for the property. This equates to \$75,040/Yr.

Insurance: Among the comparables, the insurance expense ranged from \$0.16/SF to \$0.30/SF, with an average of \$0.23/SF. The IREM survey shows a rate of \$0.19/SF and the BOMA survey shows a higher rate of \$0.37/SF. Given the reinforced concrete construction style of the subject, a rate near \$0.20/SF would be expected on a market basis, or \$10,184/Yr. However, the subject is owned by the City, and its rates appear to be atypically low, likely due to the fact that it also insures numerous other properties with the same insurer. The actual rate of \$464 per quarter, or only \$1,856/Yr, is applied under continued ownership scenario by the City.

Repairs & Maintenance: The comparables show rates from \$0.89/SF to \$1.92/SF, with an average of \$1.41/SF. The IREM Survey shows a median rate of \$1.64/SF, while the BOMA survey shows an average rate of \$1.75/SF. This expense has been estimated at \$1.75/SF.

Janitorial: The comparables show ranges from \$0.54/SF to \$1.32/SF, with an average of \$1.00/SF. The IREM survey shows a median of \$0.84/SF and the BOMA survey an average of \$1.41/SF. A rate of \$1.25/SF is applied.

Utilities: The comparables range from \$1.02/SF to \$3.14/SF, with an average of \$1.97/SF, including all utilities. IREM shows a median of \$1.82/SF and BOMA shows an average of \$2.44/SF.

I have also considered the subject actual utility history, as summarized in the table at right. This is inclusive of both gas and electricity paid to Avista. As shown, the total is \$2.92/SF of NRA. While this appears to be at the upper end of the range relative to the expense comparables, this would be expected

SUBJECT UTILITY HISTORY - 2008		
SF NRA:	50,919	
Month	\$/SF NRA	Total
January	\$0.30	\$15,276
February	\$0.29	\$14,551
March	\$0.24	\$12,141
April	\$0.24	\$12,325
May	\$0.23	\$11,690
June	\$0.24	\$12,325
July	\$0.19	\$9,865
August	\$0.22	\$11,087
September	\$0.20	\$10,277
October	\$0.20	\$10,380
November	\$0.24	\$12,187
December	\$0.33	\$16,706
Total	\$2.92	\$148,810



given the single-pane windows, the large amount of common areas, and the fact that the swimming pool was in operation during 2008, which would not be the case under the office redevelopment scenario.

As noted by Coffman Engineers, many of the subject's heating systems are broken, outdated, and inefficient, and require constant adjustment by custodians in an attempt to keep tenants comfortable. Assuming some of these items are corrected, some efficiencies could likely be gained. A somewhat lower rate of \$2.00/SF of office NRA is applied.

Administration/Management: This expense is usually addressed as a percentage of gross revenue. The two comparables that separately itemized this item showed rates of 4.60% and 5.73%. Though not shown on the chart, the median rate reported by IREM of \$1.11/SF is 5.0% of the median effective gross income reported by that survey. A rate of 5.0% is applied.

Miscellaneous Expenses: This expense includes security and ranges from \$0.03/SF to \$0.30/SF among the comparables, with an average of \$0.11/SF. A rate of \$0.20/SF is applied.

Replacement Reserves: Most managers and owners do not itemize this expense, but it is still necessary to account for this expense as an annualized reflection of the costs incurred for periodic replacement of short-lived items over the course of the building's life. The Korpacz Real Estate Investor Survey shows that most investors in the National CBD Office Market are forecasting reserves of \$0.10 to \$0.60/SF, with an average of \$0.24/SF. A rate of \$0.25/SF is applied.

Total Expenses (exclusive of parking, discussed separately below) are estimated at \$383,625, or \$7.53/SF. This lies within the range of expenses exhibited by the comparables (\$4.55/SF to \$8.12/SF), and appears generally reasonable by comparison. The resulting net operating income (NOI) is **\$200,796/Yr.**

SURFACE PARKING LOT EXPENSE

As stated previously, the subject property does not include parking, and it is assumed that tenants would have the use of the 62-stalls of parking on the adjacent lots. The rental rates concluded previously are based on the assumption that the tenants would have this availability of parking built into their rent. If they were to be expensed for this item, the rents would have to be reduced by a commensurate amount. However, if the City elects to provide the tenants with the use of this space, then, it would be losing, in the form of "opportunity cost," the right to use and lease these spaces to others. As such, the market rent for the gross lease of these parking lots must be determined and is deducted from the Net Operating Income (NOI), to result in a net realized income level for the ownership of the subject. This is a non-operating expense, and is therefore shown "below the line" in cash flow calculation.

As an estimate of costs to rent the 62 parking stalls adjacent to the subject, the rental rate data for six representative surface parking lots in the CBD and periphery has been compiled. As shown in the chart at right, area rates range from \$20/mo for parking at the Spokane Arena to \$60/mo for parking near the

SPOKANE SURFACE PARKING LOT RATES		
No.	Lot	Rate
1	200 Block, W Main	\$50.00/Mo
2	Flour Mill Lot	\$50.00/Mo
3	Fox Theatre Lot	\$60.00/Mo
4	Under Freeway	\$25.00 - \$36.50/Mo
5	Lexus Lot	\$40.00/Mo
6	Spokane Arena	\$20.00/Mo



Fox Theatre. The Flour Mill charges \$50/mo for an attended lot. Given the subject's location, a monthly parking rate of \$40/mo is estimated. Multiplied by the 62 spaces in the adjoining lots, the expense is \$2,480/mo, or \$29,760/Yr.

The following summarizes the subject's estimated net operating income.

STABILIZED NET OPERATING INCOME ESTIMATE				
Rentable Floor	SF	Rent/Mo	Rent/SF/Yr	Rent/Yr
3	8,897	\$ 11,121	\$ 15.00	\$ 133,455
2	24,918	\$ 29,071	\$ 14.00	\$ 348,852
1 (B1)	17,104	\$ 17,104	\$ 12.00	\$ 205,248
	50,919	\$ 57,296		\$ 687,555
Less Vacancy & Credit Loss			-15%	\$ (103,133)
Effective Gross Income				\$ 584,422
<u>Less Expenses</u>				
	<u>\$/SF/Yr</u>	<u>% of EGI</u>	<u>Annual</u>	
Real Estate Taxes	\$ 1.47	12.8%	\$ 75,040	
Insurance	\$ 0.04	0.3%	\$ 1,856	
Maintenance & Repairs	\$ 1.75	15.2%	\$ 89,108	
Janitorial	\$ 1.25	10.9%	\$ 63,649	
Utilities	\$ 2.00	17.4%	\$ 101,838	
Management	\$ 0.57	5.0%	\$ 29,221	
Misc./Administrative	\$ 0.20	1.5%	\$ 10,184	
Reserves	\$ 0.25	2.2%	\$ 12,730	
	\$ 7.53	65.4%	\$ 383,625	\$ (383,625)
Net Operating Income				\$ 200,796
Less Parking Lot Expense		62 Stalls/Mo @	\$ 40	\$ (29,760)
Final Net Operating Income				\$ 171,036

As shown above, after adding the parking lot expense, the resulting adjusted NOI is reduced to **\$171,036**.

CAPITAL IMPROVEMENT COSTS

In order to convert the subject to class B and C office space, as described, it would be necessary to first invest in: 1) mechanical and electrical system repairs; 2) interior demolition of the non-office portions of the building on the main floor and 2nd floor and retrofitting to a "vanilla shell"; and 3) tenant improvement (TI) costs.

Mechanical and Electrical Systems: In a building assessment report concerning the subject property, prepared by Coffman Engineers and dated October 26, 2009, they found the subject's systems to be dated and deficient in terms of HVAC, lighting, and power and communications service for office-type use. A reconstructed summary of the costs/SF, as applied to the appraiser's estimated net rentable areas is summarized below:



MECHANICAL AND ELECTRICAL - NECESSARY UPGRADES			
Item	Min \$/SF	Max \$/SF	Rate Used
HVAC - Minimum Remodel	\$5.00	\$10.00	\$12.50
HVAC - Class A Remodel	\$15.00	\$30.00	
Lighting Upgrades to Office	\$4.00	\$7.00	\$5.50
Power and Communications	\$5.00	\$8.00	\$6.50
Subtotal HVAC, Lighting and Power Updating Cost/SF:			\$24.50
Times SF NRA:		x	50,919
Total			\$1,247,516

Interior Build-Out Demolition: The main (first) floor was last used as a reception area and daycare. Its suspended ceilings have been dropped to below 8', its floorcover is worn and dated, and it is overly divided. This floor will essentially have to be gutted in order to be converted to office space. Roughly 1/2 of the 2nd floor is currently built out with office space, ranging from low cost to average quality build-out. However, roughly 1/2 has been used for the gymnasium, a commercial kitchen, and workout rooms. Demolition costs are applied to the entire first floor, and 1/2 of the second floor, using the Marshall Valuation Service for the cost/SF estimates:

INTERIOR DEMOLITION COSTS FOR NON-OFFICE AREAS			
Item	Min \$/SF	Max \$/SF	Rate Used
Floor Cover	\$0.14	\$0.54	\$0.34
Partitions - Studs	\$0.39	\$0.73	\$0.56
Partitions - Drywall	\$0.54	\$1.05	\$0.80
Acoustic Tile Ceiling	\$0.31	\$0.85	\$0.58
Subtotal			\$2.28
First Floor NRA		17,104	
2nd Floor NRA Times 1/2	+	12,459	
Total Interior Demolition Area			x 29,563
Estimated Demolition Costs for Non-Office Areas			\$67,256

Basic Tenant Improvement (TI) Allowances: In today's leasing environment, landlords are typically offering at least some basic TI allowances for tenants to replace carpets, paint, and otherwise customize space to meet their own needs. The cost will vary depending upon the beginning state of the space, typically considered under two general bases:

1. "Under Ceiling" (or "vanilla shell") includes walls taped and ready for paint, HVAC system ready for distribution to offices, ceiling grid in place with lights and tile on the floor ready for placement, electric and plumbing stubbed off to the space and often, window coverings.
2. "Slab to Slab" (or "gray shell") includes none of these improvements.

The two bases above will vary by as much as \$20/SF.

In determining an appropriate TI allowance for the subject, the following information has been considered:



- According to leasing agent/developer Jeff McGougan, the Schade towers property, a former brewery, underwent a \$5 million renovation, or about \$35 to \$45/SF just to bring it to a marketable vanilla shell as office space. From this point, they offer \$15/SF in basic TI's, in addition to \$13.50/square yard for floor cover (or another \$1.50/SF), for a total TI allowance of \$16.50/SF. Adding the basic build-out costs to the TI's, the implied price to take a shell space to good quality finished office space is roughly \$56.50/SF. Rents in the building are currently \$18 to \$20/SF.
- The Department of Homeland Security recently rented two floors of the former Broadview Dairy building and is effectively gutting it and converting it to good quality office space at a total cost of \$60/SF.
- The former Itronix facility at 801 S Stevens Street was recently purchased for use by Inland Imaging, who required \$15/SF in TI's to modernize it from existing 1960's – 1970's era office space.
- According to Michael Mathis, leasing agent for the Flour Mill, they will typically offer \$15/SF in TI's for a three-year lease, and up to \$20 to \$25/SF for a five-year lease to a quality tenant.
- The former Itron building recently leased 50,000 SF to a call center tenant who converted existing open-concept office space to call center space for a cost of \$9.96/SF on space for which the basic lease rate was \$8.13/SF.
- According to the Marshall Valuation Service, office build-out in an office building shell will cost \$30.71/SF for low-cost space, \$42.62/SF for average quality space, and \$55.08/SF for good quality space.

Based on the data above, the cost to take an office from raw shell space to finished space can be anywhere from \$30/SF to \$60/SF, depending upon the quality of the build-out. Of this approximately \$10/SF to \$25/SF can be attributed to office finish, depending upon quality. Generally, the cost/SF of TI's is commensurate with the rent/SF in the space. The subject is estimated to have average quality office space on its upper two floors, and low cost office space on its lower floors.

Based on this information, the subject's tenant improvement and build-out allowance would be as follows:

ESTIMATED BUILD-OUT ALLOWANCES					
	1st Floor	2nd Floor New Office	2nd Floor Ex'g Office	3rd Floor	Subtotal
Basic Build-Out Cost/SF	\$20.00	\$20.00	-	-	
TI Allowance Cost SF:	\$12.00	\$14.00	\$14.00	\$15.00	
Subtotal Cost/SF:	\$32.00	\$34.00	\$14.00	\$15.00	\$25.11
Times SF NRA:	17,104	12,459	12,459	8,897	50,919
Implied Build-Out Costs	\$547,328	\$423,606	\$174,426	\$133,455	\$1,278,815

RENT CONCESSIONS

Most brokers interviewed in the course of this analysis reported that the market is currently "very competitive," with a lot of property owners chasing few new tenants. In this



environment, most are willing to offer free rent as another concession in addition to the TI allowances discussed above. Western States Insurance recently signed a seven-year lease in the Riverpoint One building, and was given two months of free rent at the beginning of the lease as an incentive. According to a representative of Kiemle & Hagood, free rent can be as much as one month free per year leased. Considering this information, free rent is built into the analysis as three months free, based upon a five-year lease term.

ABSORPTION

There has been relatively little new office development in the Spokane market by which absorption can be gauged. Although somewhat dated, the most recent data available includes the following:

- The 44,696 SF AmericanWest Bank building was constructed in 1994, and leased to stabilization after two years, according to the owner, for an implied absorption rate of 1,862 SF/Mo, or 22,344 SF/Yr. The owner believed it would have been faster, but the property came on line shortly after Metropolitan Mortgage had declared vacancy and vacated much of the space it occupied in its building.
- The American Legion building leased approximately 48,000 SF over a period of 24 months after completion of its renovation in 2005. This implies an absorption rate of 24,000 SF/Yr.
- The Fidelity Building, originally built in 1952 and completely renovated in 2005, absorbed 35,100 SF over a period of 33 months, or 1,063 SF/Mo, and 12,756 SF per year.
- The 139,359 SF Itron building was sold by Itron to an investor in December 2007, leaving 91,932 SF Vacant. The building has subsequently leased 60,695 SF of call center space in nearly two years, for an absorption rate of roughly 30,348 SF/Yr.

Based on this limited market evidence, and considering the macroeconomic supply conclusions discussed previously, the subject is anticipated to be vacant for one year during the initial renovation work, then to lease up the remaining 50,919 SF over the subsequent two years, for an effective absorption rate of 16,973 SF per year, near the lower-middle of the range shown above.

OFFICE REDEVELOPMENT FEASIBILITY CONCLUSION

The primary method of measuring the value of an investment over time is yield capitalization via a discounted cash flow (DCF) analysis. In yield capitalization, the cash flows over a typical investment holding period are discounted to their present value, including both cash flows from operation and the future resale of the property upon reversion. If the resulting net present value is negative, then the project implies a negative return on investment, and is not, therefore, feasible.

The DCF analysis that follows is based upon the following set of assumptions:

Income: Rental income is based upon the rates described previously. However, no absorption is estimated for the first year, as interior demolition and systems upgrading would be projected to be underway. After that, the subject is projected to absorb to a stabilized occupancy rate of 85% within a two-year span.



Growth: According to the Korpacz Real Estate Investor Survey, investors in the Pacific Northwest Office Market were projecting market rent growth rates of 3.92% and expense growth rates of 3.33% one year ago.¹⁰ However, the current survey shows anticipated growth rates of 0.25% and 2.13%, respectively, in light of the current recession. For the purpose of this analysis, no growth in income or expenses rates is projected until the third year.

Hold Period/Reversion: National CBD investors cited in the Korpacz survey are using a forecast period between five and ten years. For the purpose of this analysis, an analysis period of five years is used, with the year five reversion based upon capitalization of the year six stabilized income.

Capital Improvements, Concessions, and Commissions: Capital improvements and repairs to the deficient systems are based on the costs described earlier, and are presumed to occur in year one of the analysis. Tenant improvements are also applied based on the costs described previously, but they are anticipated to occur as the space is leased upon in years 2 and 3 of the analysis. Free rent is calculated as three months free with each new lease. Commissions are based on a typical 6% commission as applied to the lease rate times a five-year projected term. Again, these are incurred when the space is leased.

Yield Rate: A discount rate (IRR) of 11.50% is applied, based upon the Korpacz Survey average rate as applied to the Pacific Northwest Office Market.

¹⁰ PriceWaterhouseCoopers, *Korpacz Real Estate Investor Survey*, 3rd Qtr 2009, p. 34.



NET PRESENT VALUE ANALYSIS - OFFICE CONVERSION ALTERNATIVE						
Assumptions						
SF Net Rentable Area:	50,919		Stabilized Effective Gross Income:	\$	584,422	
Vacancy @	-15%		Average EGI/SF:	\$	13.50	
NRA Leased at Stabilization:	43,281		Commissions:		6%	
Years to Absorb:	2		Times Avg Lease Yrs:		5	
Absorption Rate/Yr:	21,641		Free Rent (Months):		3	
Global Growth Rate:	3% Yr; beg. year 3					
Residual Cap Rate:	9.00%					
Discount Rate:	11.50%					
Year	1	2	3	4	5	6
Beginning Space Available	0	43,281	21,641	0	0	0
Space Leased	0	-21,641	-21,641	0	0	0
Ending Space Available	43,281	21,641	0	0	0	0
Cumulative Space Leased		21,641	43,281	43,281	43,281	43,281
Times Average EGI/SF:	\$ -	\$ 13.50	\$ 13.91	\$ 14.33	\$ 14.76	\$ 15.20
Effective Gross Income:	\$ -	\$ 292,211	\$ 601,954	\$ 620,013	\$ 638,613	\$ 657,772
Less Expenses:						
Leasehold Taxes	\$ -	\$ 37,520	\$ 77,291	\$ 79,610	\$ 81,998	\$ 84,458
Insurance	\$ 1,856	\$ 1,856	\$ 1,912	\$ 1,969	\$ 2,028	\$ 2,089
Maintenance & Repairs	\$ -	\$ 89,108	\$ 91,781	\$ 94,535	\$ 97,371	\$ 100,292
Janitorial	\$ -	\$ 63,649	\$ 65,558	\$ 67,525	\$ 69,551	\$ 71,637
Utilities	\$ 50,919	\$ 101,838	\$ 104,893	\$ 108,040	\$ 111,281	\$ 114,620
Management	\$ -	\$ 29,221	\$ 30,098	\$ 31,001	\$ 31,931	\$ 32,888
Misc./Administrative	\$ -	\$ 10,184	\$ 10,489	\$ 10,804	\$ 11,128	\$ 11,462
Reserves	\$ -	\$ 12,730	\$ 13,112	\$ 13,505	\$ 13,910	\$ 14,327
Total Operating Expenses	\$ 52,775	\$ 346,105	\$ 395,134	\$ 406,988	\$ 419,198	\$ 431,774
Subtotal Net Income	\$ (52,775)	\$ (53,895)	\$ 206,820	\$ 213,025	\$ 219,416	\$ 225,998
Less Parking Expenses	\$ -	\$ (14,880)	\$ (30,653)	\$ (31,572)	\$ (32,520)	\$ (33,495)
Net Realizable Income	\$ (52,775)	\$ (68,775)	\$ 176,168	\$ 181,453	\$ 186,896	\$ 192,503
Reversion						
6th Year CF Capitalized @:	9.00%				\$ 2,138,923	
Less Cost of Sales @	-6%				\$ (128,335)	
Net Reversion					\$ 2,010,587	
Total Cash Flows from Operations	\$ (52,775)	\$ (68,775)	\$ 176,168	\$ 181,453	\$ 2,197,483	
Less Capital Improvement Costs						
Mechanical & Electrical Updating	\$ (1,247,516)					
Demolition	\$ (67,256)					
Build Out Costs Per SF Leased, @ \$25.11		\$ (543,395)	\$ (559,697)			
Less Free Rent Concession		\$ (73,053)	\$ (75,244)			
Less Commissions @ 6%		\$ (87,663)	\$ (90,293)			
Net Project Cash Flow	\$ (1,367,546)	\$ (772,885)	\$ (549,067)	\$ 181,453	\$ 2,197,483	
Net Present Value @ 11.50%	\$ (851,753)					
Rounded To:						\$ (850,000)

As shown, despite being the most likely use among those that would be legally permissible and physically possible, the **conversion to market-rate office space would actually result in a net loss of \$850,000** based upon the assumptions and estimates described previously. Thus, office conversion is not a financially feasible use of the property.



IV. MAXIMALLY PRODUCTIVE (HIGHEST AND BEST) USE

The preceding analysis showed that, although office conversion would have been the most likely legally permissible and physically possible modification of the existing improvements, it did not meet the test of feasibility. As mentioned, previously, there are essentially only three available options when considering the highest and best use of a property as improved:

1. Continuation of the existing use;
2. Modification of the existing use; or
3. Demolition.

Continuation of the existing use was also ruled out, as the property is essentially vacant, aside from the handful of YMCA administrative offices that are expected to depart in the near future. This will leave the property essentially 100% vacant and unproductive.

The last option is demolition. According to The Appraisal of Real Estate, "Demolition can be considered the most extreme form of modification of the existing use of the property as improved. When an alternative use of the site is legally permissible, physically possible, financially feasible, and more profitable (less the cost of demolition and redevelopment of the site), than the continuing use of the existing improvements, then the alternative use will be the highest and best use of the property as improved. Many buildings are torn down and their sites left vacant or devoted to an interim use for a variety of reason: property taxes, liabilities, avoidance of criticism about an "eyesore," and others."¹¹

Although the structural framework of the subject is sound and it occupies a prime piece of real estate with some of the most prestigious views in the City, there does not currently appear to be an financially feasible alternative use for the property. The "eyesore" remark above is particularly pertinent to the subject, given the fact that it is owned by the City and occupies a central location in its largest park. Although, if under private ownership the building might be "mothballed" until market conditions improve to the point where redevelopment might become feasible, this is not a likely scenario due to the eyesore and liability issues.

Based on information provided by the client, demolition costs were estimated at \$10.00/SF for demolition. Multiplied by square footage of 76,093 fro all five levels (rather than the area for the upper three levels that were considered in the redevelopment scenario), this would imply a demolition cost of \$760,093. Additionally, the cost to restore the site was estimated at \$40,000, implying a total cost of roughly \$800,000.

Based on newspaper articles, the City originally paid for the YMCA property with \$5.3 million, of which \$4.4 million was reportedly "borrowed" from the City's investment fund.¹² However, the City has another legal incentive to undertake the demolition of the property. By agreeing to demolish the facility and return the site to its natural state, the City would become eligible to tap into existing Spokane County Conservation Futures Funds. On March 24, 2009, the County Commissioners agreed to pay \$4.3 million from

¹¹ Appraisal Institute, *The Appraisal of Real Estate*, 13th ed., p.287.

¹² Tribune Business News, *County considers Y's fate: Conservation Futures funding stipulates building's removal*, April 14, 2009.



Conservation Futures fund toward to reimburse the City for a portion of its purchase of the facility.

Thus, the two investment alternatives left for the City are summarized as follows:

USE SCENARIO COMPARISON		
	1	2
Scenario:	Office Conversion	Demolition
Costs*:	(\$850,000)	(\$800,000)
Add Back Reimbursement from County Conservation Funds:	\$0	\$4,300,000
Indicated (Loss) or Gain:	(\$850,000)	\$3,500,000

* For the office conversion, this represents the present value of all positive and negative cash flows under this scenario - not just the conversion costs.

HIGHEST AND BEST USE CONCLUSION

As shown above, the highest and best use of the subject property, from the City's perspective, would be to accept the County Conservation Funds and commence with the demolition of the building. The conversion to office space, the next most viable option, would result in a net loss estimated at \$850,000, and is not financially feasible.



ADDENDA

Contact List
Letter of Engagement
Excise Tax Affidavit and Legal Description From Last Sale
Appraiser Qualifications



CONTACT LIST

Persons interviewed with regard to this assignment included the following:

Barry Russell
Director
Spokane Parks & Recreation Department
(509) 625-6200

Scot Auble, MAI
Appraiser, Investor, Landlord
YMCA Advisory Board Member
Auble & Associates
(509) 747-0999

Darin Hoffman
Associate Facilities Director
YMCA of the Inland Northwest
(509) 777-9622

Michael Mathis
Broker
Kiemle & Hagood
(509) 755-7516

Joel Crosby
Broker
Tomlinson South
(509) 535-7400

Mark Hollander
Landlord, Investor,
Office/Retail/Hotel Developer
Hollander Investments
(360) 319-1288

Craig Soehren
Broker
Kiemle & Hagood
(509) 755-7548

Chris Bell
Broker
NAI Black
(509) 622-3538

Rick Romero
Internal Auditor
City of Spokane Finance Division
(509) 625-6361

Steve McNutt
Architect, Past Park Board President
NAC Architecture
(509) 838-8240

Pamela McKinzie
Spokane Parks & Recreation Department
(509) 625-4653

Dan Cantu
Developer, Broker
Cantu Commercial Real Estate
(509) 777-1111

Corey Barbieri
Developer, Broker
Goodale & Barbieri
(509) 999-9324

Tom Barbieri
Developer, Broker
Goodale & Barbieri
(509) 459-6109

Mark Varela
Engineer, Tenant
Varela & Associates
(509) 328-6066

Chris Bell
Broker
NAI Black
(509) 622-3538

Spencer Stromberg
Broker
Wells & Company
(509) 624-8050

Jeff McGougan
Developer, Landlord, Broker
NAI Black
(509) 622-3576

CONSULTANT AGREEMENT

THIS AGREEMENT is between the CITY OF SPOKANE PARKS AND RECREATION DEPARTMENT, a Washington State municipal corporation, as "City," and LEMBECK APPRAISAL & CONSULTING, INC., whose address is 111 North River Drive, Suite 204, Spokane, Washington 99204, as "Consultant."

The parties agree as follows:

1. DESCRIPTION OF WORK. The Consultant shall provide COMMERCIAL REAL ESTATE APPRAISAL SERVICES for the City:
 - A. Develop a list of potential tenants and co-tenants types likely to lease the former Downtown YMCA. Such uses shall include potential full-occupancy by the Parks and Recreation Department, partial occupancy by the department or occupancy by others with no department presence in the building.
 - B. Provide a study of comparable properties, and broker, investor and developer interviews that demonstrates the lease terms that may be options for the Former Downtown YMCA.
 - C. Compare the financial options of demolishing the building to a vacant site.
 - D. Develop a preliminary overview background report on the status of the building mechanical and electrical systems. Provide a description of building systems, identify the age of the systems, cite systems' deficiencies, estimate a range of order-of magnitude costs for correction of deficiencies, evaluate adaptability to alternative uses and upgrading to current standards, and estimate a range of remaining useful life of systems.
2. CONTRACT TERM. The agreement shall begin at a mutually agreed time and be completed within no later than October 30, 2009, unless terminated earlier.
3. COMPENSATION. The City shall pay the Consultant an amount not to exceed SEVENTEEN THOUSAND FOUR HUNDRED SIXTY FIVE AND NO/100 DOLLARS (\$17,465.00) as full compensation for the services provided under this agreement. This is the maximum amount to be paid under this agreement for the work described in Section 1 above, and shall not be exceeded without the prior written authorization of the City in the form of an executed amendment to this agreement.
4. PAYMENT. The Consultant shall submit monthly applications for payment to the Parks and Recreation Department Administration Office, Fifth Floor, City Hall, 808 West Spokane Falls Boulevard, Spokane, Washington 99201. Payment will be made within thirty (30) days after receipt of the Consultant's application. If the City objects to all or any portion of the invoice, it shall notify the Consultant and reserves the right to only pay that portion of the invoice not in dispute. In that event, the parties shall immediately make every effort to settle the disputed amount.

5. TERMINATION. Either party may terminate this agreement, with or without cause, by ten (10) days written notice to the other party. In the event of such termination, the City shall pay the Consultant for all work previously authorized and performed prior to the termination date.
6. STANDARD OF PERFORMANCE. The standard of performance applicable to Consultant's services will be the degree of skill and diligence normally employed by professional consultants performing the same or similar services at the time the services under this agreement are performed.
7. OWNERSHIP AND USE OF RECORDS AND DOCUMENTS. Original documents, drawings, designs, reports, or any other records developed or created under this agreement shall belong to and become the property of the City. All records submitted by the City to the Consultant shall be safeguarded by the Consultant. The Consultant shall make such data, documents and files available to the City upon the City's request. If the City's use of the Consultant's records or data is not related to this project, it shall be without liability or legal exposure to the Consultant.
8. COMPLIANCE WITH LAWS. Each party shall comply with all applicable federal, state, and local laws and regulations.
9. INDEPENDENT CONTRACTOR. The parties intend that an independent contractor – employer relationship will be created by this agreement.
10. INDEMNIFICATION. The Consultant shall defend, indemnify and hold harmless the City, its officers and employees, from and against all claims for damages, liability, cost and expense arising out of the negligent conduct of the Consultant's performance of this agreement, except to the extent of those claims arising from the negligence of the City, its officers and employees.

The Consultant waives its immunity under Industrial Insurance, title 51 RCW, to the extent necessary to protect the City's interests under this indemnification. This provision has been specifically negotiated.

11. INSURANCE. During the term of the agreement, the Consultant shall maintain in force at its own expense, the following types and amounts of insurance:
 - A. Worker's Compensation Insurance in compliance with RCW 51.12.020, which requires subject employers to provide workers' compensation coverage for all their subject workers;
 - B. General Liability Insurance on an occurrence basis, with a combined single limit, of not less than \$1,000,000.00 each occurrence for Bodily Injury and Property Damage. It shall include contractual liability coverage for the indemnity provided under this contract. It shall provide that the City, its agents, officers and employees are Additional Insureds but only with respect to the Consultant's services to be provided under this agreement.
 - C. Automobile Liability Insurance with a combined single limit, or the equivalent of not less than \$1,000,00.00 each accident for Bodily Injury and Property Damage,

including coverage owned, hired or non-owned vehicles.

There shall be no cancellation, material change, reduction of limits or intent not to renew the insurance coverage(s) without thirty (30) days' written notice from the Consultant or its insurer(s) to the City. As evidence of the insurance coverage's required by this agreement, the Consultant shall furnish an acceptable insurance certificate to the City at the time the Consultant returns the signed agreement.

12. NONDISCRIMINATION. No individual shall be excluded from participation in, denied the benefit of, subjected to discrimination under, or denied employment in the administration of or in connection with this agreement because of age, sex, race, color, religion, creed, marital status, familial status, sexual orientation, national origin, honorably discharged veteran or military status, the presence of any sensory, mental or physical disability, or use of a service animal by a person with disabilities.

13. BUSINESS LICENSE REQUIREMENT. Section 8.01.070 of the Spokane Municipal Code states that no person may engage in business with the City without first having obtained a valid business license. The Consultant shall be responsible for contacting the City's Taxes and Licenses Division at (509) 625-6070, to obtain a business license, or an exemption status determination.

14. ANTI-KICKBACK. No officer or employee of the City of Spokane, having the power or duty to perform an official act or action related to this agreement shall have or acquire any interest in the agreement, or have solicited, accepted or granted a present or future gift, favor, service or other thing of value from or to any person involved in this agreement.

15. AUDIT / RECORDS. The Consultant and its sub-consultants shall maintain for a minimum of three (3) years following final payment all records related to its performance of the agreement. The Consultant and its sub-consultants shall provide access to authorized City representatives, including the City Auditor, at reasonable times and in a reasonable manner to inspect and copy any such record. In the event of conflict between this provision and related auditing provisions required under federal law applicable to the agreement, the federal law shall prevail.

16. MISCELLANEOUS PROVISIONS.

- A. ASSIGNMENTS. Neither party may assign, transfer or subcontract its interest, in whole or in part, without the other party's prior written consent. In the event of an assignment or transfer, the terms of this agreement shall continue to be in full force and effect.
- B. DISPUTES. This agreement shall be performed under the laws of the State of Washington. Any litigation to enforce this agreement or any of its provisions shall be brought in Spokane County, Washington.
- C. SEVERABILITY. In the event any provision of this agreement should become invalid, the rest of the agreement shall remain in full force and effect.
- D. AMENDMENTS. This agreement may be amended at any time by mutual written agreement.

Dated: 09/09/09

CITY OF SPOKANE
PARKS AND RECREATION
DEPARTMENT



By: [Signature]
Director

Attest:

Approved as to form:

[Signature]
City Clerk

[Signature]
Assistant City Attorney

Dated: 9/09/09

LEMBECK APPRAISAL
& CONSULTING, INC.

E-Mail address, if available:

JEFF@LEMBECKAPPRAISAL.COM

City of Spokane Business License No.
60979137

By: [Signature]
Title: PRESIDENT



PLEASE TYPE OR PRINT

REAL ESTATE EXCISE TAX AFFIDAVIT
CHAPTER 82.45 RCW - CHAPTER 458-61A WAC

This form is your receipt when stamped by cashier.

THIS AFFIDAVIT WILL NOT BE ACCEPTED UNLESS ALL ARRAS ON ALL PAGES ARE FULLY COMPLETED
(See back of last page for instructions)

Check box if partial sale of property

If multiple owners, list percentage of ownership next to name

SELLER GRANTOR	Name: YMCA of the Inland Northwest, a Washington non-profit corporation	BUYER GRANTEE	Name: City of Spokane, a Washington municipal corporation
	Mailing Address: 930 North Monroe		Mailing Address: 808 West Spokane Falls Blvd.
	City/State/Zip: Spokane, WA 99201		City/State/Zip: Spokane, WA 99201
Phone No. (including area code)		Phone No. (including area code)	

Send all property tax correspondence to: Same as Buyer/Grantee

Name	List all real and personal property tax parcel account numbers-check box if personal property	List assessed value(s)
Street	35184.0069 <i>ok to old acct</i>	5,230,000.00
City/State/Zip	35185.0041 <i>1/2 p. Assesment</i>	107,102, 31R 0.00
Phone No. (including area code)	0010	0.00

Street address of property: **507 North Howard Street, Spokane, WA 99201**

This property is located in unincorporated City of **Spokane**

Check box if any of the listed parcels are being segregated from a larger parcel.

Legal description of property (if more space is needed, you may attach a separate sheet to each page of the affidavit)

See Legal Description attached hereto as Exhibit A and by this reference made a part hereof

5 Select Land Use Code(s): **74 76**

enter any additional codes: (See back of last page of instructions)

Is this property exempt from property tax per chapter 84.36 RCW (non profit organization)? YES NO

Is this property designated as forest land per chapter 84.33 RCW? YES NO

Is this property classified as current use (open space, farm and agricultural, or timber) land per Chapter 84.34 RCW? YES NO

Is this property receiving special valuation as historical property per Chapter 84.26 RCW? YES NO

If any answers are yes, complete as instructed below.

(1) NOTICE OF CONTINUANCE (FOREST LAND OR CURRENT USE)
NEW OWNER(S): To continue the current designation as forest land or classification as current use (open space, farm and agriculture, or timber) land, you must sign on (3) below. The county assessor must then determine if the land transferred continues to qualify and will indicate by signing below. If the land no longer qualifies or you do not wish to continue the designation or classification, it will be removed and the compensating or additional taxes will be due and payable by the seller or transferor at the time of sale. (RCW 84.33.140 or RCW 84.34.108). Prior to signing (3) below, you may contact your local county assessor for more information.

This land does does not qualify for continuance.

DEPUTY ASSESSOR _____ DATE _____

(2) NOTICE OF COMPLIANCE (HISTORIC PROPERTY)
NEW OWNER(S): To continue special valuation as historic property, sign (3) below. If the new owner(s) do not wish to continue, all additional tax calculated pursuant to chapter 84.26 RCW, shall be due and payable by the seller or transferor at the time of sale.

(3) OWNER(S) SIGNATURE _____
PRINT NAME _____

List all personal property (tangible and intangible) included in selling price.

If claiming an exemption, list WAC number and reason for exemption:

WAC No. (Section/Subsection) _____
Reason for exemption: _____

Type of Document **Statutory Warranty Deed**

Date of Document **June 18, 2009**

Gross Selling Price	\$ 5,390,000.00
*Personal Property (deduct)	\$ _____
Exemption Claimed (deduct)	\$ _____
Taxable Selling Price	\$ 5,390,000.00
Excise Tax: State	\$ 68,992.00
Local	\$ 26,950.00
*Delinquent Interest: State	\$ _____
Local	\$ _____
*Delinquent Penalty	\$ _____
Subtotal	\$ 95,942.00
*State Technology Fee	\$ 5.00
*Affidavit Processing Fee	\$ _____
Total Due	\$ 95,947.00

A MINIMUM OF \$10.00 IS DUE IN FEES AND/OR TAX
*SEE INSTRUCTIONS

I CERTIFY UNDER PENALTY OF PERJURY THAT THE FOREGOING IS TRUE AND CORRECT.

Signature of Grantor or Grantor's Agent: *Rig Riggins*

Name (print): **Rig Riggins**

Date & city of signing: **6/23/09 Spokane**

Signature of Grantee or Grantee's Agent: *Bette J. Tetlow*

Name (print): **Bette J. Tetlow**

Date and Place of signing: **6/23/09 Spokane**

Perjury: Perjury is a class C felony which is punishable by imprisonment in the state correctional institution for a maximum term of not more than five years, or by a fine in an amount fixed by the court of not more than five thousand dollars (\$5,000.00), or by both imprisonment and fine (RCW 9A.20.020(1C)).

REV 84 0001A (02/13/07)

THIS SPACE - TREASURER'S USE ONLY

First American Title Insurance Company

COUNTY TREASURER

F 883935 MSA

6/24/2009 CBG

\$95,947.00 200906451

EXHIBIT A

LEGAL DESCRIPTION: Real property in the County of Spokane, State of Washington, described as follows:

PARCEL A:

THAT PORTION OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 18, TOWNSHIP 25 NORTH, RANGE 43 EAST, W.M., IN SPOKANE COUNTY, WASHINGTON, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTH AND SOUTH CENTER LINE OF SAID SECTION, 476.59 FEET NORTH OF THE SOUTHWEST CORNER OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER;
THENCE SOUTH 87°37' EAST 24.67 FEET TO THE TRUE POINT OF BEGINNING;
THENCE NORTH 2°38' EAST 163.74 FEET;
THENCE NORTH 76°21'30" EAST 98.34 FEET;
THENCE SOUTH 50°18' EAST 21.74 FEET;
THENCE NORTH 67°51'30" EAST, 75.71 FEET, MORE OR LESS, TO A POINT ON THE WEST LINE OF HOWARD STREET;
THENCE SOUTH 1°55' EAST ALONG THE WEST LINE OF HOWARD STREET 226.78 FEET;
THENCE NORTH 42°41' WEST 8.55 FEET;
THENCE NORTH 78°06' WEST 66.72 FEET;
THENCE NORTH 87°37' WEST, 126.52 FEET TO THE TRUE POINT OF BEGINNING;

PARCEL B:

A TRACT OF LAND IN THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SECTION 18, TOWNSHIP 25 NORTH, RANGE 43 EAST, W.M., IN SPOKANE COUNTY, WASHINGTON, DESCRIBED AS FOLLOWS:

BEGINNING AT A POINT ON THE NORTH-SOUTH MID SECTION LINE OF SAID SECTION 18, WHICH POINT LIES 476.59 FEET NORTHERLY FROM THE SOUTHWEST CORNER OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER OF SAID SECTION 18;
THENCE SOUTH 87°37' EAST 24.67 FEET;
THENCE NORTH 2°38' EAST, 163.74 FEET;
THENCE SOUTH 76°21'30" WEST 31.81 FEET TO A POINT ON THE NORTH-SOUTH MID SECTION LINE OF SAID SECTION 18;
THENCE ALONG SAID MID SECTION LINE SOUTH 0°29' WEST 155.04 FEET MORE OR LESS TO THE POINT OF BEGINNING.

PROFESSIONAL QUALIFICATIONS

Jeffrey D. Lembeck, MAI

PROFESSIONAL MEMBERSHIPS AND ASSOCIATIONS

- MAI member, Appraisal Institute, Certificate #10568
- Appraisal Institute National Admissions Committee, 2004
- Appraisal Institute National Associate Member Guidance Subcommittee, 2004
- President, Inland Northwest Chapter of the Appraisal Institute, 2000
- Vice President, Inland Northwest Chapter of the Appraisal Institute, 1999, 2007
- Board of Directors, Inland Northwest Chapter of the Appraisal Institute, 1997, 1998
- House Committee Chair, Seattle Chapter of the Appraisal Institute, 1995
- State of Washington Certified General Real Estate Appraiser, No. 27011-1100168
- State of Idaho Certified General Real Estate Appraiser, No. CGA 332
- State of Montana Certified General Real Estate Appraiser, No. CGA 564
- Qualified as expert witness in U.S. Bankruptcy Court
- Washington State Department of Transportation (WSDOT) Approved Appraiser
- Approved Market Study Provider, Washington State Housing Finance Commission
- Approved Market Study Provider, Idaho Housing and Finance Association
- Approved Market Study Provider, Montana Board of Housing

BUSINESS EXPERIENCE

- April 1999 - Present: Owner, Lembeck Appraisal & Consulting, Inc.
- October 1995 – April 1999: Staff Appraiser, Auble & Associates, Inc., Spokane, Washington
- March 1993 – October 1995: Manager, Commercial Real Estate Appraisal Division, Washington Mutual Bank, Seattle, Washington
- June 1991 – March 1993: Staff/Review Appraiser, Washington Mutual Bank, Seattle, Washington
- April 1989 – June 1991: Staff Appraiser, Schueler, McKown & Keenan, Inc., Seattle, Washington
- July 1988 – April 1989: Staff Appraiser, Albertini & Morgan, Inc., Bellevue, Washington

SAMPLE OF PROPERTIES APPRAISED

Industrial

- Huntwood Manufacturing Facility (490,000 SF), Liberty Lake, WA
- Cowles Publishing Facility, Spokane CBD
- Supervalu Distribution Center (535,000+ SF), Spokane Valley, WA

Office

- Metropolitan Mortgage (Wells Fargo) Tower, Spokane CBD
- Rock Pointe Office Complex (340,000 SF), Spokane, WA

Retail

- Northtown Square Lifestyle Center, Spokane, WA
- Five-Mile Community Shopping Center, Spokane, WA
- Shadle Community Shopping Center, Spokane, WA

Apartments

- Over 100 assignments involving Low-Income Housing Tax Credit/Affordable Housing Projects

Other

- Boise Tower Condominium, (proposed residential/retail/parking facility and tallest building in Idaho), Boise CBD
- Vintage Hills at MeadowWood (Golf Course SFR/Condominium Development)
- Mission Springs Litigation Support, City of Spokane (\$30 M lawsuit)

EDUCATION

COURSE/SEMINAR HISTORY - JEFFREY D. LEMBECK, MAI						
COURSE NUMBER	TITLE	SPONSOR	DATE	COURSE HRS.	EXAM HRS.	
APPRAISAL INSTITUTE/SOCIETY OF REAL ESTATE APPRAISERS COURSES						
	Condemnation Appraising: Basic Principles and Applications	Institute	Oct-07	15	1	
	Condemnation Appraising: Advanced Topics and Applications	Institute	Oct-07	15	1	
	Real Estate Finance, Statistics and Valuation Modeling	Institute	Sep-07	15	1	
400	7 Hour National USPAP Update	Institute	Apr-07	7	0	
400	Online 7 Hour National USPAP Update	Institute	Mar-05	7	0	
420	Business Practices and Ethics	Institute	Nov-03	7	1	
400	National USPAP Update	Institute	Mar-03	7	0	
800	Intangible Business Asset Valuation	Institute	Mar-02	15	0	
I330	Apartment Appraisal: Concepts & Applications	Institute	Nov-99	15	1	
430	Standards of Professional Practice, Part C	Institute	Jan-99	15	1	
II420	Standards of Professional Practice, Pt. B	Institute	Mar-95	10	1	
I410	Standards of Professional Practice, Pt. A	Institute	Mar-95	15	1	
2-2	Report Writing & Valuation Analysis	Institute	Dec-91	18	18	
SPPA	Standards of Professional Practice, Pt. A	Institute	Jun-91	15	1	
SPPB	Standards of Professional Practice, Pt. B	Institute	Apr-91	10	1	
1BB	Capitalization Theory & Techniques, Part B	Institute	Mar-91	24.5	4	
101	Introduction to Appraising Real Property	Society	Dec-89	54	6	
				264.5	38	
COURSES CHALLENGED & PASSED						
2-1	Case Studies in R.E.. Valuation	Institute	Sep-91	36	3	
1A1	Real Estate Appraisal Principles	Institute	Sep-90	36	2.5	
1A2	Basic Valuation Procedures	Institute	Sep-90	36	3.5	
1BA	Capitalization Theory & Techniques, Part A	Institute	Sep-90	36	3	
				144	12	
COLLEGE COURSES						
REST 240	Land Planning & Development	Bellevue C.C.	Mar-95	30	4	
RES 170	Real Estate Law	N. Seattle C.C.	Dec-91	30	4	
RE 305	Principles of Real Estate	W.S.U.	Dec-87	30	4	
ECON 402	History of Economic Thought	W.S.U.	Dec-87	30	4	
ECON 203	Fundamentals of Microeconomics	W.S.U.	May-86	30	4	
				150	20	
SEMINARS						
	Uniform Appraisal Standards for Federal Land Acquisitions	Institute	Apr-09	16	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-09	5	0	
	Seattle Fall Real Estate Conference	Institute	Nov-08	7	0	
	Office Building Valuation: A Contemporary Perspective	Institute	Sep-08	7	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-08	5	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-07	5	0	
	Commercial Real Estate Forecast-Puget Sound	Institute	Nov-06	7	0	
	Open For Business-Successful Case Studies For Building in the Core	Institute	May-06	4	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-06	5	0	
	Valuing High-End Homes and Other Unusual Residences	Institute	Jul-05	7	0	
	Beat the Clock	Institute	Jul-05	3	0	
	Inspecting Commercial Properties: Designing for Maintainability	Institute	Jul-05	3	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-05	5	0	
	Eminent Domain & Condemnation	Institute	Oct-04	7	0	
	Attacking & Defending an Appraisal in Litigation	Institute	Oct-04	14	0	
	Evaluating Commercial Construction	Institute	Feb-04	16	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-04	5	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-03	5	0	
	Appraisal Consulting	Institute	Jan-03	7	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-02	5	0	
	Online Analyzing Operating Expenses	Institute	Oct-01	7	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-01	5	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-00	5	0	
	Valuation of Detrimental Conditions in R. E.	Institute	Dec-99	7	0	
	Industrial Valuation	Institute	Sep-99	7	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-99	5	0	
	The Appraisal of Local Retail Properties	Institute	Nov-98	7	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-98	5	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-97	5	0	
	Zoning, Police Power, & Regulatory Takings	Institute	Dec-96	4	0	
	Working With Legal Descriptions	Institute	Dec-96	4	0	
	Low-Income Housing Tax Credit Workshop	WSHFC	Apr-96	5	0	
	Spokane-Kootenai R.E. Market Forum	RERC	Feb-96	5	0	
	Understanding Limited Appraisals	Institute	Jul-94	7	0	
	The Appraiser's Complete Review	Institute	Aug-94	21	0	
	Boeing & the Northwest Economy	Institute	Sep-93	4	0	
	Demo. Appraisal Rep. Seminar - Non-Res.	Institute	Jul-93	8	0	
	Appraisal Issues in Low-Income Housing	Institute, FHLLB	Jun-92	6	0	
	Residential Subdivision Analysis	Institute	Feb-92	6	0	
	Feasibility & Highest & Best Use	Institute	Aug-91	3	0	
				264	0	
Total Hours, All Courses & Seminars				822.5		