

**APPRAISAL**

of

**Fort Worden**

**Location:**

Building 305, Fort Worden  
Port Townsend, Washington

**As of:**

February 28, 2019

**Authorized by:**

Rufina Garay  
Chief Strategy Officer  
Fort Worden Public Development Authority

**Prepared by:**

Ken Barnes, MAI, CRE  
Robert Foxcurran, Appraiser

**McKee Appraisal**  
Real Estate | Consulting

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March 19, 2018

Rufina Garay  
Chief Strategy Officer  
Fort Worden Public Development Authority  
via email  
rgaray@fortworden.org

**Name:** *Fort Worden*  
**Description:** *2,200sf of basement space*  
**Address:** *Building 305, Fort Worden*  
**Municipality:** *Port Townsend, Washington*  
**Jefferson County Parcel No.:** *101351001*  
**McKee Appraisal Reference No.:** *39046*

Dear Ms. Garay:

At your request and authorization, we have prepared the attached appraisal report. The subject property is a portion of the basement of building 305 at Fort Worden State Park in Port Townsend, WA. The purpose of this appraisal is to estimate the market rent of the subject property.

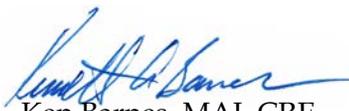
The accompanying appraisal has been prepared in conformity with *The Uniform Standards of Professional Appraisal Practice (USPAP)* and the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute. This appraisal is subject to the attached signed Certification, Assumptions and Limiting Conditions.

As a result of our investigation and analysis, we conclude to the following:

<u>Description</u>	<u>Effective Valuation Date</u>	<u>Value Conclusion</u>
<b>Market Rent</b>	<b>February 28, 2019</b>	<b>\$0.80/sf/mo*</b>

\*landlord to pay all expenses and tenant to directly meter electricity, 3% annual escalation

Respectfully submitted,

  
Ken Barnes, MAI, CRE  
WA State-Certified General Real Estate Appraiser (1100578)

  
Robert Foxcurran, Appraiser  
WA State-Registered Appraiser Trainee (1001762)

## **Property Identification**

The subject of this appraisal is 2,200 sf of basement space in Building 305 at Fort Worden in Port Townsend, Washington. Specifically, the property is located in northeast corner of Port Townsend, on the south end of the state park along Fort Worden Way.

The subject property is located on Jefferson County Parcel No. 101351001.

## **Client and Intended Users**

The client and intended user of this report is the Fort Worden Public Development Authority.

## **Intended Use**

The intended use of this appraisal is to assist the Fort Worden Public Development Authority in determining the market rent of the property that is the subject of this report for internal use. The following definition of market rent is found in the Dictionary of Real Estate Appraisal, Third Edition:

Market rent: The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal.

## **Property Rights Appraised**

This appraisal addresses the fee simple interest in the subject property.

## **Effective Date of Value Estimate**

February 28, 2019

## **Date of Report**

March 19, 2019

## **Three-Year Sale History & Current Status**

The subject property has not transacted within the three years prior to this appraisal. It is not currently listed for sale and we are not aware of any purchase options or agreements of sale.

## **Scope of Work & Highest and Best Use**

The scope of work associated with the appraisal assignment is consistent with the intention to produce appropriate and credible results, considering the requirements and intended use for the client. In the course of this assignment Ken Barnes inspected the subject. We interviewed

staff of the Fort Worden Public Development Authority for relevant information regarding the property, including physical characteristics, planned upgrades prior to occupancy, historical maintenance, and any unapparent conditions. We further researched the subject and its market by examining and analyzing information from public records and published sources including CBA and Costar information. We visited the subject neighborhood and researched trends and public information about the subject and the neighborhood. We called local businesses that might occupy basement space to find transactions that are relevant to this property. The subject is a vacant basement space and we have researched the market for similar basement uses in the subject's competitive market.

We have concluded that the highest and best use for the subject is to renovate and lease the space. At the request of the client, we have included an estimate of the market rent for the subject. Our market rent estimate is based on recent leases and active listings of basement retail, office and light industrial/creative space in the subject's competitive market and from the surrounding region. Overall, the scope of the research and analysis contained in this appraisal is adequate to support the value conclusion.

### **Neighborhood Summary**

The subject is located in the incorporated city of Port Townsend, Washington. The subject property is specifically located in the northeastern part of town within the boundaries of Fort Worden State Historical Park. The city of Port Townsend is located about 40 miles northwest of Seattle and 30 miles east of Port Angeles. Highway 101 is the main highway on the Olympic Peninsula connecting several of the cities. This highway leads west from Port Angeles to the Washington coast and portions of the Olympic National Forest, two key attractions to the great number of tourists who visit this area on an annual basis.

The economic base of the Port Townsend area is fairly diverse. Summer seasonal tourism accounts for a significant amount of local trade between the months of May and September. In addition to its natural scenery at the northeast tip of the Olympic Peninsula, the city is also known for the many Victorian buildings remaining from its late 19th-century heyday, numerous annual cultural events, and as a maritime center for independent boat builders and related industries and crafts. The Port Townsend Historic District was declared a National Historic Landmark in 1977.

Fort Worden Historical State Park, in which the subject is located, is a 432-acre multi-use park with more than 2 miles of saltwater shoreline and a wide variety of services and facilities, including a full-service conference center, an aquarium, and multiple small retail businesses. The park is co-managed by the Fort Worden Public Development Authority, which runs the overnight lodging and partners with Centrum Arts Foundation and other on-site organizations to provide unique experiences for visitors. The former fort was constructed between 1898 and 1917 and served as a coastal defense facility through WWI and WWII.

### **Property Description**

The subject is a 2,200 sf basement space located in building 305 at Fort Worden State Park. The building was originally constructed in 1904. The subject basement is currently in shell condition.

The space will be available soon and will be significantly improved over a typical basement dead storage space, including improved access, upgraded HVAC, electrical service, lighting and some demising walls. The building in which the subject is a part of is a single-story structure that formerly served a military purpose. It is located in a cluster of other similar former military buildings that were constructed during the same time period as the subject. Please see the attached subject photos in the addenda of this report for further visualization of the subject property, though prior to the interior work described above.

## Market Rent Analysis

At the request of the client, we have included an estimate of the market rent the subject property could likely achieve, were it to become available for lease as of the effective date of this report. To determine the subject's market rental rate, we analyzed several recent leases and listings for retail, office, and warehouse basement spaces within Port Townsend and similar western Washington markets. The two listings are current as of March 2019. All of the listed rental rates are full service (also known as gross) in nature, unless otherwise specified. Leases noted as "Modified Gross" indicate the tenant pays for one or more expense items. For example, in Lease No. 1 the tenant pays electricity, while the landlord pays everything else. For more specific details regarding these leases and listings, please see the *Lease Comparison Summary* exhibit, located on a following page. In our analysis, we assume a tenant in the subject space will pay their own electricity through a separate meter. Therefore, our market rent conclusion considers this factor. Our general assumption on electricity is that a typical electrical cost will include lighting and plug loads, but not building HVAC costs, even if the HVAC system is electrical. The typical cost for this is about \$0.05/sf/month for an office usage at a combined plug and lighting load of 2 watts/sf, 10 hours/day of use, 22-24 days/month and a utility cost of \$0.107/kWh. Retail space would have a lower plug load but more hours/month of use.

The lease comparisons indicate a rental rate between \$1.00/sf/mo and \$1.40/sf/mo. The low end of the range consists of a pending lease for 3,753 sf of basement office space in downtown Bellingham, which lies across Puget Sound to the northeast of Port Townsend.

The indications that are perhaps the most similar to the subject are Lease No. 1, which is located entirely below ground and is leased to a frame shop and gallery in Port Townsend, and Lease No. 2, a fully below grade basement space in downtown Bellingham. Lease No. 1 is located in a superior location compared to the subject, just off of Water street in downtown Port Townsend.

Lease No. 1 has a significantly superior location in that it has retail potential and some street exposure through the use of a sandwich board and visible below-grade windows, though limited to the type of retailers that cannot afford street-level windows. The subject space would not be well-suited to a retailer since there is very little pedestrian traffic and low vehicular traffic. Additionally, the subject tenant will pay their own electricity, a \$0.05/sf/mo downward adjustment. If we adjust this indication downward by 30% for its superior location, and down 5% for its superior size (smaller, which tends to rent for more per square foot) and downward by \$0.05/sf/mo for utilities the indicated subject rate is \$0.76/sf/mo.

Lease No. 2 has a buildout that is suitable for office use or workout room use, which is similar to the subject. Lease No. 2 is also in a downtown location and benefits from the density of

demand by users in this location, though has no street-front visibility. We have also applied the \$0.05/sf/mo adjustment for tenant-paid electricity to the subject space. If we adjust this indication downward by 20% for location, up by 10% for its inferior larger size, and \$0.05/sf/mo for utilities the indicated subject rate is \$0.85/sf/mo.

Lease No. 3 is the highest indication, and is for prime retail space along Water Street, the main commercial corridor, in downtown Port Townsend. While 400 sf of the total 1,856 sf are below ground, the majority of the square footage is located on the ground floor with good visibility. Also of note, the \$1.40/sf/mo indication for this space is not a true full service lease, as the tenant pays for their own electricity, which we have estimated to be worth another \$0.05/sf/mo above. We have adjusted this rate downward by 50% for its superior location to indicate \$0.70/sf/mo for the subject.

Lease No. 4 is the next highest lease, a retail space along Water street but set back from the main sidewalk with no direct commercial frontage. The current asking rate for this space is \$1.39/sf/mo, however the tenant will pay for their own electricity, as well as interior suite maintenance and repairs. On a true full service lease, these additional expenses would push this rate at least \$0.05/sf/mo higher. We have adjusted this rate downward for 40% for its superior location, and down by another 5% for its small and superior size, though up by \$0.05/sf/mo for its inferior expense treatment. The indicated subject rate is \$0.81/sf/mo.

The final indication, Lease No. 5, is a listing for warehouse/shop space in a building outside of downtown Port Townsend, but still in a commercial area. This space is partially below grade and has limited visibility from the fronting arterial. This rate of \$1.20/sf/mo was adjusted to full service. Despite the limited visibility, this is still above ground space at a prominent traffic roundabout in the City and is an estimated 25% superior location. We have also adjusted downward by \$0.05/sf/mo for electricity, to indicate a \$0.85/sf/mo rate for the subject.

Taking this information into account, we have directly compared the subject space to the comparison's, and adjusted between their respective rental rates to determine the market rental rate for the subject.

After adjustments, we estimated that the subject rent should lie between the \$0.76/sf/mo indicated rate of Lease No. 1 and the \$0.85/sf/mo indicated rate of Lease No. 2.

We have concluded to **\$0.80/sf/mo, modified gross, with the tenant directly paying their own electricity**. The prevailing market terms include annual escalations, typically 3%.

# Lease Comparison Map



**Fort Worden**  
**Lease Comparison Summary**

<b>Name &amp; Location</b>	<b>Year Built</b>	<b>Leased Area (sf)</b>	<b>Percent Office</b>	<b>Lease Start</b>	<b>Term (yrs)</b>	<b>Annual Esc.</b>	<b>\$/sf/mo Full Service</b>	<b>Comments</b>
<b>1 Undertown- Frameworks</b> 211 Taylor Street, B-5 Port Townsend, WA	1891	1,400	0%	2018 <i>renewal</i>	5	unk.	<b>\$1.25</b> <i>Full Service</i>	Commercial frame shop and gallery in a below ground retail space, just off of Water street. Tenant pays full service rent. Suite is accessed via stairs from the above sidewalk. Included figures are all close but not exact.
<b>2 Bellingham Office Basement</b> 103 E Holly St Bellingham, WA	1913	3,753	100%	<i>Pending</i>	neg.	N/A	<b>\$1.00</b> <i>Full Service</i>	This basement space is equipped with two fully functioning bank vaults, private offices and a large open floor plan. This is a gross lease with terms starting at 1 year. All power utilities and water are included with rent.
<b>3 Water Street Retail</b> 810 Water Street Port Townsend, WA	1886/ 1980	1,856	77%	Feb-19	5	3-4%	<b>\$1.40</b> <i>Modified Gross</i>	Street level retail that includes 425 sf of basement space. Suite comes with one off-street parking spot. Tenant only pays electric.
<b>4 Kellogg Building</b> 1013 Water Street Port Townsend, WA	unk.	830	100%	<i>Listing</i>	neg.	N/A	<b>\$1.39</b> <i>Modified Gross</i>	Retail space along the back wall of a small mall with an indoor plaza. Unit has a water view and comes with a display window on Water Street. Tenant pays electrical and repairs/maintenance with the suite.
<b>5 Sims Way Commercial</b> 2427 W Sims Way Port Townsend, WA	~1960	1,666	0%	<i>Listing</i>	neg.	N/A	<b>\$1.20</b> <i>Adjusted to Full Service</i>	Warehouse/shop space behind a retail store with no commercial frontage from the main arterial. Conversion to office is a possibility. Includes a shared bathroom and free parking. NNN rent at .90/sf/mo with expenses at \$3.60/sf/yr.
<b><u>Subject</u></b> Fort Worden, Building 305 Basement Port Townsend, WA	1904	2,200	0%	<i>Date of Appraisal February 28, 2019</i>			<i>Modified Gross</i>	Basement space in Building 305 at Fort Worden. Tenant pays separately metered electrical.

## **ADDENDA**

- **Subject Photographs**
- **Certification**
- **General Assumptions and Limiting Conditions; Restriction on Disclosure & Use**
- **Appraisers' Experience and Qualifications**

## Subject Photographs



Interior view of the subject basement.



The subject is currently in raw/unfinished condition.



The subject basement has multiple windows providing limited natural lighting.

## 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 performed no services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- 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.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Ken Barnes, MAI, has completed the continuing education program for Designated Members of the Appraisal Institute.
- As of the date of this report, Robert Foxcurran has completed the continuing education program for Practicing Affiliates of the Appraisal Institute.
- Ken Barnes, MAI, CRE made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.

Respectfully submitted,



Ken Barnes, MAI, CRE  
WA State-Certified General Real Estate Appraiser (1100578)



Robert Foxcurran, Appraiser  
WA State-Registered Appraiser Trainee (1001762)

## **General Assumptions, Limiting Conditions, Disclosure and Use Restriction**

The attached report may only be used or reviewed in its entirety. No individual pages, portions, analyses or conclusions may be separated from the complete report or verbally disseminated without transmittal of the entire report. This appraisal is intended for use only by the client and intended users specifically identified in the report, and may not be transferred to any other party without the specific written permission of McKee Appraisal, Inc. Certain aspects of the report (including analysis methodology, spreadsheets, textual formatting and content) are considered the exclusive intellectual property of McKee Appraisal, Inc. All rights are reserved.

The following General Assumptions and Limiting Conditions are supplemented by additional specific assumptions and limiting conditions identified in the report.

It is assumed that there have been no substantial changes to the property between the date of our inspection and the date of the report.

It is assumed that there are no hidden or unapparent conditions of the property, subsoil, structures, or environment (including asbestos, formaldehyde, radon, soil contamination, structural conditions, legal compliance including zoning and Americans With Disabilities Act compliance, title or legal conditions, mineral or other valuable conditions or rights, or unknown soils, hydrological, or environmental factors) that render it more or less valuable. We have no expertise in any of these areas, and we specifically counsel the client to perform additional investigation by qualified experts. No responsibility is assumed for such conditions or for arranging the studies that may be required to discover them.

The liability of McKee Appraisal, Inc. and its employees is limited to the client only.

The value conclusions are the result of integration of the entire appraisal process, including multiple methodologies, approaches and analyses. Any specific errors or omissions may or may not change the value conclusions.

The appraiser is not required to give further consultation, testimony or attendance in court by reason of this appraisal unless arrangements have been previously made.

The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.

The forecasts, projections and estimates contained in this report are based on current market conditions, anticipated short-term supply and demand factors, and a stable economy. These forecasts are, therefore, subject to changes with future conditions. The analyses and conclusions are valid only as of the date of transmittal of the report.

The appraiser has made no survey of the property and assumes no responsibility in connection with such matters. Any sketch or identified survey of the property included in this report is only for the purpose of assisting the reader to visualize the property.

No responsibility is assumed for the legal description or for matters including legal or title considerations. The property is appraised free and clear of any or all liens or encumbrances, unless otherwise stated. Title to the property is assumed to be good and marketable.

Responsible ownership and competent management are assumed.

The allocation of total value to land, buildings, or any fractional part or interest as shown in this report, is invalidated if used separately or in conjunction with any other appraisal.

### **RESTRICTION UPON DISCLOSURE & USE:**

This appraisal is intended for use only by the client and intended users specifically identified in the report, and may not be transmitted or communicated to any other party without the specific written permission of McKee Appraisal, Inc. Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser or the firm with which (s)he is connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraiser.

# McKEE APPRAISAL

REAL ESTATE APPRAISAL SERVICES & CONSULTANTS, INC.

1200 Sixth Avenue, Suite 1805, Seattle, Washington 98101

Telephone (206) 343-8909 Fax (206) 386-5777

## EXPERIENCE & QUALIFICATIONS

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### **KENNETH A. BARNES, MAI, CRE**

Mr. Barnes graduated from the University of Missouri – Columbia with a BS in Biochemistry in 1982. In 1988 Mr. Barnes received an MBA with a Finance concentration from the University of Chicago.

Mr. Barnes received the MAI (Member Appraisal Institute) designation in 1989. He also holds the CRE designation awarded by the Counselors of Real Estate. Mr. Barnes entered the real estate business in 1981, first as a principal acquiring and renovating small rental properties, and then as an appraiser in 1983 with Moore & Shryock in Columbia, Missouri. In 1984 Mr. Barnes moved to Chicago to join Real Estate Research Corporation. He joined Cushman & Wakefield in 1989 as a Senior Appraiser in Seattle. In 1990, Mr. Barnes was elected an officer of the company as a Director and Manager of the Seattle practice. In 1998 he left the company to travel and returned to CB Richard Ellis. After 18 months of corporate advisory work he joined first one, and then a second, startup in executive roles. Mr. Barnes returned to Cushman & Wakefield in 2001 as Director. Mr. Barnes joined McKee & Schalka, now McKee Appraisal, as Principal in 2006.

Mr. Barnes has authored a number of articles in the Appraisal Journal and other real estate publications, and has been a guest speaker or panelist for real estate organizations including NAIOP, IREM and the Appraisal Institute.

Mr. Barnes is a Certified General Real Estate Appraiser (Washington State Certificate No. 1100578), and has completed the requirements of the continuing education program of the Appraisal Institute. In his appraisal experience, Mr. Barnes has appraised and analyzed a wide variety of commercial property types, and provided critical appraisal, consultation and litigation services to a diversified range of clients.

**McKEE APPRAISAL**  
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**EXPERIENCE & QUALIFICATIONS**

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**ROBERT FOXCURRAN**

Robert joined McKee Appraisal as a researcher, and became a State Registered Real Estate Appraiser Trainee in 2014 (Washington State Certificate No. 1001762). Appraisal course work includes the most recent USPAP update course, Basic Appraisal Principles, Basic Appraisal Procedures, Business Practices and Ethics, Real Estate Finance and Statistics, General Appraiser Report Writing and Case Studies, General Appraiser Market Analysis and Highest and Best Use, Advanced Income Capitalization, General Appraiser Sales Comparison Approach, Income I & II, and General Appraiser Site Valuation and Cost Approach. Property types appraised include churches, schools, collegiate buildings, daycares, community centers, retail and office condominiums, flex industrial properties, industrial warehouses and industrial manufacturing properties, general office, medical and dental offices, mortuaries, automotive retail and dealerships, restaurants and miscellaneous retail properties, single family and multi-family buildings, along with commercial and residential vacant land.

Mr. Robert Foxcurran graduated from the University of Washington in 2012, earning a BA in History with minors in Urban Design & Planning and Political Science. A proud Seattle native, his work and interests revolve around the history, culture, and the natural and built environments of the city.

After graduation Robert had internships with BOMA Seattle King County and the Vance Corporation. In September 2012, Robert was appointed to the Seattle Landmarks Preservation Board for a one year term. Before joining McKee Appraisal, he most recently worked as a property administrator for Commonwealth Partners at the Safeco Plaza and Russell Investment Center buildings in Seattle.