APPRAISAL

of

Fort Worden

Location:
Buildings 223, 255, 275 & 306, Fort Worden
Port Townsend, Washington

As of:
May 21, 2019

Authorized by:
Rufina Garay
Chief Strategy Officer
Fort Worden Public Development Authority

Prepared by:
Ken Barnes, MAI, CRE
Robert Foxcurran, Appraiser
July 16, 2019

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

Name: Fort Worden  
Description: Buildings 223, 255, 275- Unit B, & 306 at Fort Worden  
Address: Fort Worden Historical State Park  
Municipality: Port Townsend, Washington  
Jefferson County Parcel No.: 101351001  
McKee Appraisal Reference No.: 39133

Dear Ms. Garay:

At your request and authorization, we have prepared the attached appraisal report. The subject property consists of buildings 223, 255, 275- Unit B, & 306 at Fort Worden Historical State Park in Port Townsend, WA. The purpose of this appraisal is to estimate the market rent of the subject properties.

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:

<table>
<thead>
<tr>
<th>Office:</th>
<th>Effective Value Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>Valuation Date</td>
</tr>
<tr>
<td>Market Rent- Building 223</td>
<td>May 21, 2019</td>
</tr>
<tr>
<td></td>
<td>$1.07/sf/mo*</td>
</tr>
<tr>
<td>Market Rent- Building 306</td>
<td>May 21, 2019</td>
</tr>
<tr>
<td></td>
<td>$1.20/sf/mo*</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Description</th>
<th>Effective Valuation Date</th>
<th>Value Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Rent- Buildings 255 &amp; 275- Unit B</td>
<td>May 21, 2019</td>
<td></td>
</tr>
<tr>
<td>Nightly (Peak Season):</td>
<td></td>
<td>$320</td>
</tr>
<tr>
<td>Nightly (Off-season):</td>
<td></td>
<td>$280</td>
</tr>
<tr>
<td>Weekly (Peak Season):</td>
<td></td>
<td>$2,000</td>
</tr>
<tr>
<td>Weekly (Off-season):</td>
<td></td>
<td>$1,750</td>
</tr>
<tr>
<td>Monthly:</td>
<td></td>
<td>$1,400</td>
</tr>
</tbody>
</table>

Note: The building 306 concluded rent includes the use of the attic area, but the square foot price should only be applied to the building footprint. The building 223 area that we were provided appears to be inaccurate, and our rent per square foot should be applied to the building footprint, excluding outdoor porch area, multiplied times three floors.

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 consists of buildings 223, 255, 275- Unit B, & 306 at Fort Worden Historical State Park in Port Townsend, WA. Specifically, the properties are located in the northeast corner of Port Townsend, on the south end of the state park.

The subject properties are 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 rents of the properties that are the subjects 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 properties.

Effective Date of Value Estimate

May 21, 2019

Date of Report

July 16, 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, Costar, Airbnb and VRBO 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 relevant space to find transactions that are relevant to these properties. The subjects consist of an office building, an art studio space, and two three-bedroom and one-bathroom residential units. We have researched the market for similar uses in the subject’s competitive market.

We have concluded that the highest and best use for the subject is to maintain and lease the space. At the request of the client, we have included an estimate of the various market rents for the subjects, including monthly and annual rent for the office spaces and daily and weekly rental rates for the residential units. Our market rent estimate is based on recent leases and active listings of office, flex office, and retail/creative space, as well as vacation homes and apartment/house rentals 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 properties are located in the incorporated city of Port Townsend, Washington. The subjects are 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 Descriptions

**Building 223**
Centrum administrative offices – The former post headquarters building that has been repurposed to office space. Offices are located on the main level, second level and basement level. This building is in good condition, though it is clearly a 100-year old building and has a different layout than most offices. Constructed in 1904.

**Building 255**
3BR/1BA single-story residential cottage. This is leased to Centrum on a long-term basis.

**Building 275**
Unit B (called SUDS unit) – also a 3BR/1BA unit but within two-story four-plex building. The subject unit is half of one floor, specifically the first floor. Constructed in 1941.

**Building 306**
Port Townsend School of Art – this is generally open space inside with two rooms created for private offices, one room as a sink room (washing paint brushes) and two bathrooms. There is also an unfinished attic space that is utilized for storage and runs over the whole building. The attic is not heated or lit. This space allows the school to devote all of their main floor to class and office uses since they don’t need any storage space on the main floor but is otherwise fairly low utility. This building was constructed in 1910 and was formerly the commissary.

**Market Rent Analysis- Buildings 223 and 306**

At the request of the client, we have included an estimate of the market rent buildings 223 and 306 could likely achieve, were they to become available for lease as of the effective date of this report. To determine the subjects’ market rental rates, we analyzed several recent leases and listings for office, flex office, retail and general commercial spaces within Port Townsend. The two listings are current as of May 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. 3 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- Office & Commercial 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 $0.78/sf/mo and $1.50/sf/mo. The low end of the range consists of a lease for office space near Water Street in downtown Port Townsend, at the Port of Port Townsend. This space is apparently in rough condition, and was
<table>
<thead>
<tr>
<th>Name &amp; Location</th>
<th>Year Built</th>
<th>Leased Area (sf)</th>
<th>Percent Office</th>
<th>Lease Start</th>
<th>Term (yrs)</th>
<th>Annual Esc.</th>
<th>$/sf/mo Full Service</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Cupola House- Port of P.T.</td>
<td>1942</td>
<td>2,800</td>
<td>100%</td>
<td>Apr-19</td>
<td>5</td>
<td>3%</td>
<td>$0.78 Modified Gross</td>
<td>Stand alone office building owned by the Port of Port Townsend near downtown. Building was in &quot;rough&quot; condition at the time of the lease signing. Rent does not include utilities. Due to the condition, this rent was lower than the Port's average, which ranges from $0.85/sf/mo to $1.50/sf/mo. Previously occupied by WSU Extension.</td>
</tr>
<tr>
<td>2 Undertown- Frameworks</td>
<td>1891</td>
<td>1,400</td>
<td>0%</td>
<td>2018 renewal</td>
<td>5</td>
<td>unk.</td>
<td>$1.25 Full Service</td>
<td>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.</td>
</tr>
<tr>
<td>3 Water Street Retail</td>
<td>1886/1880</td>
<td>1,856</td>
<td>77%</td>
<td>Feb-19</td>
<td>5</td>
<td>3-4%</td>
<td>$1.40 Modified Gross</td>
<td>Street level retail that includes 425 sf of basement space. Suite comes with one off-street parking spot. Tenant only pays electric.</td>
</tr>
<tr>
<td>4 Kuhn Building</td>
<td>1890</td>
<td>450</td>
<td>100%</td>
<td>Listing neg.</td>
<td>N/A</td>
<td></td>
<td>$1.11 N/A</td>
<td>Three listings in a historic retail/office building in downtown Port Townsend. The first two listings are for second floor office space, with the larger of the two including a water view. The third listing is for ground floor retail space with high ceilings and a storage area.</td>
</tr>
<tr>
<td>5 Mt. Baker Block Building</td>
<td>1889</td>
<td>645</td>
<td>100%</td>
<td>Listing neg.</td>
<td>N/A</td>
<td></td>
<td>$1.50 N/A</td>
<td>Two listings in a historic office building in downtown Port Townsend. The first listing is for third floor space and includes electricity and garbage. The second listing is for basement art studio/office space and utilities are paid separately.</td>
</tr>
</tbody>
</table>

**Subject**

<table>
<thead>
<tr>
<th>Subject</th>
<th>Year Built</th>
<th>Leased Area (sf)</th>
<th>Percent Office</th>
<th>Date of Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fort Worden, Building 223</td>
<td>1904</td>
<td>4,160</td>
<td>100%</td>
<td>Date of Appraisal</td>
</tr>
<tr>
<td>Fort Worden, Building 306</td>
<td>1910</td>
<td>2,176</td>
<td>+/-10%</td>
<td>May 21, 2019</td>
</tr>
</tbody>
</table>

McKee Appraisal
June 2019
leased at slightly lower than the port’s average rate for office/flex office space, which ranges from $0.85 to $1.50/sf/mo.

The indications that are perhaps the most similar to the subject are Lease No. 1, which is located in relatively close proximity to the subject in Port Townsend, and Lease Nos. 4 and 5, which include listings for office space in downtown Port Townsend. Lease No. 1 is located in a superior location compared to the subject, just off of Water street in downtown Port Townsend, but is in inferior condition. Lease Nos. 4 and 5 are in superior condition and have superior locations compared to the subject.

Lease No. 1 is located in an older building and has a buildout that is suitable for office use, which is similar to the subjects. Lease No. 1 is also in a downtown location and benefits from the density of demand by users in this location, though it is somewhat removed from the higher traffic area of Water Street and therefore has lower visibility. If we adjust this indication downward by 10% for location, up by 25% for its inferior condition, and up by 5% a month for utilities, the indicated subject rate is $0.95/sf/mo.

Lease No. 2 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. Neither of the subject spaces would be well-suited to a retailer since there is very little pedestrian traffic and low vehicular traffic. If we adjust this indication downward by 15% for its superior location, up 20% for its inferior basement/partially finished condition, 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 $1.20/sf/mo.

Lease No. 3 is the highest indication from a signed lease agreement, 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, 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 would be the same as the subject tenants. We have adjusted this rate downward by 20% for its superior location to indicate $1.12/sf/mo for the subject.

Lease No. 4 consists of three listings in a historic retail/office building in downtown Port Townsend. The first two listings are for second floor office space, with the larger of the two including a water view. The third listing is for ground floor retail space with high ceilings and a roughly 200 sf storage area. We have adjusted all three of these rates downward for 20% for their superior location. The larger retail listing was adjusted down by another 5% for its small and superior size, while the two very small office listings were adjusted down 10%. Finally, we adjusted down by $0.05/sf/mo for its superior expense treatment. The indicated subject rates are $0.73, $0.77 and $1.08/sf/mo, respectively.

The final indication, Lease No. 5, are two active listings for small office space in a historic office building in downtown Port Townsend. The first listing is for third floor space and includes electricity and garbage. The second listing is for basement art studio/office space and utilities are paid separately. We have also adjusted the first listing downward for its superior location,
condition and smaller size, as well as by $0.05/sf/mo for electricity, to indicate a $0.93/sf/mo rate for the subject. For the second listing, we adjusted downward for location, and size, and upward for condition (all basement) and for their inferior utilities coverage, to indicate a $1.25/sf/mo rate for the subject.

Taking this information into account, we have directly compared the subject spaces to the comparisons and adjusted between their respective rental rates to determine the market rental rates for the subject properties.

After adjustments, we estimated that the subject rent should lie between the $0.73/sf/mo indicated rate of Lease No. 4 and the $1.25/sf/mo indicated rate of Lease No. 5.

For building 306 we have concluded to $1.20/sf/mo, modified gross, with the tenant directly paying their own electricity. The prevailing market terms include annual escalations, typically 3%.

For building 223 we have concluded to $1.07/sf/mo, modified gross, with the tenant directly paying their own electricity. This is a blended rate of $0.80/sf for the basement portion of the building (one third of the building area), and a rate of $1.20/sf for the remainder of the building. The prevailing market terms include annual escalations, typically 3%.

Residential Market Rent Analysis

At the request of the client, we have included an estimate of the market rent buildings 255 and 275 Unit B could likely achieve, were they to become available for lease as of the effective date of this report. Specifically, the client requested that we provide the nightly, weekly, and monthly rental rates for the two subject residential properties. To determine the subjects’ market rental rates, we analyzed several recent listings for similar long-term rental houses and apartments, as well as short term vacation rentals within Port Townsend and similar northeastern Olympic Peninsula markets. A variety of sources were used to identify appropriate comparisons for the subjects. For the five long-term rental comparisons, we used a combination of local classified advertisements, craigslist.com, local real estate brokers and property managers, and various other websites. For the short-term rentals we consulted Fort Worden’s rental website for rates of the other similar properties already available for rent at Fort Worden, as well as Airbnb.com. For consistency, all three of the comparisons are sourced from Airbnb.com, however we also viewed VRBO.com and various other vacation rental websites. For more specific details regarding these comparisons, please see the Lease Comparison Summary- Residential exhibit, located on a following page.

Regarding specifically the short-term rentals, we determined that rates vary greatly throughout the course of the year. For the comparison properties surveyed, we identified rates that can vary between weekends and weekdays, as well as seasonally between the peak season (roughly June through September) and the off-season. Additionally, two out of the three short-term comparisons offered some degree of a weekly discount, while the third did not. We disregarded any “last minute” rates or deals. Therefore, to more accurately represent nightly and weekly market rental rates for short-term rentals, we have included both “peak season” and “off-season” rates. All rates are an average of surveyed rates for each property and consider all the
## Fort Worden

**Lease Comparison Summary - Residential**

<table>
<thead>
<tr>
<th>Name &amp; Location</th>
<th>Leased Area (sf)</th>
<th>Bedrooms/ Bathrooms</th>
<th>Annual Rent</th>
<th>Monthly Rent</th>
<th>Weekly Rent</th>
<th>Nightly Rent</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Long-Term Rentals</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>1 Port Townsend Home</td>
<td>1,100</td>
<td>2/2</td>
<td>$19,200</td>
<td>$1,600</td>
<td>-</td>
<td>-</td>
<td>Entire house for rent near the Castle Hill neighborhood of Port Townsend. Single-story modular home with a small deck. Vaulted ceilings, large parking pad/carport. Tenant is responsible for all utilities.</td>
</tr>
<tr>
<td>Near the Castle Hill neighborhood Port Townsend, WA</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>2 Tukey House</td>
<td>1,240</td>
<td>3/1.5</td>
<td>$16,800</td>
<td>$1,400</td>
<td>-</td>
<td>-</td>
<td>Two-story home in a rural area about 10 minutes outside of Port Townsend. W/D in unit. Two-car garage, tenant has access to one space. Located on 4+ acre site.</td>
</tr>
<tr>
<td>Near Tukey &amp; Beckett Point Port Townsend, WA</td>
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<td></td>
</tr>
<tr>
<td>3 Sequim Apartment</td>
<td>1,600</td>
<td>3/2</td>
<td>$19,200</td>
<td>$1,600</td>
<td>-</td>
<td>-</td>
<td>Apartment has water and mountain views. Located in a triplex building. A large deck surrounds the entire apartment. W/D in unit. Tenant pays 1/3 of triplex's electric, water, trash and gas bill. In close proximity to Miller Peninsula State Park.</td>
</tr>
<tr>
<td>Diamond Point Sequim, WA</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4 Port Townsend Apartment</td>
<td>800</td>
<td>2/1</td>
<td>$10,800</td>
<td>$900</td>
<td>-</td>
<td>-</td>
<td>Apartment consists of one floor of a larger house. Rent includes utilities.</td>
</tr>
<tr>
<td>Port Townsend, WA</td>
<td></td>
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</tr>
<tr>
<td>5 Bridgehaven House</td>
<td>1,350</td>
<td>3/2</td>
<td>$15,600</td>
<td>$1,300</td>
<td>-</td>
<td>-</td>
<td>Located in a quiet neighborhood near the Hood Canal bridge. Also includes a 200 sf storage/out building. Water is included in the rent. No views. Modular, single-story home.</td>
</tr>
<tr>
<td>Port Ludlow, WA</td>
<td></td>
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<tr>
<td><strong>Short-Term Rentals</strong></td>
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<td></td>
</tr>
<tr>
<td>6 Uptown Flat</td>
<td>1,500</td>
<td>3/2</td>
<td>-</td>
<td>-</td>
<td>$1,978</td>
<td>$283</td>
<td>Airbnb located in a historic Victorian home. Rental is for a floor of the house. Flat has 3 bedrooms with 4 total beds. Includes 13% service fee on base rate of $250/night. $195/night base rate during the off-season (October-May). Weekly discount of 7 nights for the price of 6 during the off-season. No discount given for weekdays vs. weekends. No cleaning fee.</td>
</tr>
<tr>
<td>806 Clay St Port Townsend, WA</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 Big Red Barn</td>
<td>600</td>
<td>2/1</td>
<td>-</td>
<td>-</td>
<td>$2,535</td>
<td>$401</td>
<td>Built in the 1890's and renovated in the 1980's. Located one block from Fort Worden. Property includes excellent water views. No discount for weekdays vs. weekends. No weekly discount. Base rate during the summer of $315/night, plus a $40 cleaning fee and a ~13-15% service fee, depending on length of stay.</td>
</tr>
<tr>
<td>309 V St Port Townsend, WA</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8 Morgan Hill Rental</td>
<td>850</td>
<td>2/1</td>
<td>-</td>
<td>-</td>
<td>$1,609</td>
<td>$300</td>
<td>Guest house that appears to be of somewhat recent construction. Unit includes 2 bedrooms with 3 beds. Property has water and mountain views. Located closer towards downtown than the subjects. Rent includes a base rate, plus a $45 cleaning fee and a roughly 14% service fee. 10% weekly discount.</td>
</tr>
<tr>
<td>915 Cosgrove St Port Townsend, WA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subject</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fort Worden, Building 255 Port Townsend, WA</td>
<td>991</td>
<td>3/1</td>
<td>-</td>
<td>-</td>
<td>$1,235</td>
<td>$241</td>
<td>Short term rental rates do not includes taxes. Peak Season can be roughly defined as the months of June-September, however this is not specific to each comparison. Prices shown are averages of prices found during each season, including week nights vs. weekends.</td>
</tr>
<tr>
<td>Fort Worden, Building 275- Unit B Port Townsend, WA</td>
<td>1,195</td>
<td>3/1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>
factors discussed above. Additionally, all taxes have been excluded from the listed rental rates, however any additional cleaning or service fees have been included into the rates.

Lease No. 6 is an Airbnb located in a historic Victorian home. The rental consists of one floor of the house. The flat itself has 3 bedrooms with 4 total beds. The listed nightly rates of $283 (peak season) and $220 (off-season) include a 13% service fee on the base rates. The base rate in the peak season is $250/night and $195/night during the off-season. There is a weekly discount of 7 nights for the price of 6 during the off-season. However, no discount is given for weekdays compared to weekends. Additionally, there is no cleaning fee associated with this rental.

Lease No. 7 is an Airbnb located in a repurposed barn that was built in the 1890's and renovated in the 1980's. Located one block from Fort Worden, with views of the park and excellent water views. There is no discount for weekdays compared to weekends. There is also no weekly discount. The base rate during the summer is $315/night, plus a $40 cleaning fee and a ~13-15% service fee, depending on the length of stay. The nightly off-season base rate is $290/night.

Lease No. 8 is an Airbnb guest house that appears to be of somewhat recent construction. The unit includes 2 bedrooms with 3 beds. The property, located closer to downtown Port Townsend, has water and mountain views. Rent includes a peak-season base rate of $224/night, plus a $45 cleaning fee and a roughly 14% service fee. The off-season base rate is $172/night, plus the same fees. There is a 10% weekly discount given year-round.

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

For building both building 255 and 275-Unit B, after adjustments we have concluded to a nightly peak season rental rate of $320 and an offseason rate of $280. We have also reconciled to a peak season weekly rate of $2,000 and an offseason weekly rate of $1,750. These rates include all assumed fees and charges but exclude any taxes.
ADDENDA

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

Building 223: Exterior

Building 223: Interior

Building 255: Exterior
Building 255: Interior

Building 275- Unit B: Exterior
(Subject is specifically located in half of the ground floor level)

Building 275- Unit B: Interior
Building 306: Exterior

Building 306: Interior
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 MA 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

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EXPERIENCE & QUALIFICATIONS

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.

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.