

**SUMMARY APPRAISAL REPORT**

of

**CITY OF BAINBRIDGE ISLAND  
SPORTSMAN CLUB ROAD PROPERTY**

**BAINBRIDGE ISLAND, WASHINGTON**

as of

July 11, 2013

Prepared for:

Morgan Smith  
Deputy City Manager  
City of Bainbridge Island  
280 Madison Avenue N.  
Bainbridge Island, WA 98110

Prepared by:

Stephen Shapiro, MAI

**STEPHEN SHAPIRO COMMERCIAL APPRAISAL, LLC**

*P.O. Box 11757  
Bainbridge Island, Washington 98110*

Ref. 1326

**STEPHEN SHAPIRO COMMERCIAL APPRAISAL, LLC**

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July 15, 2013

Morgan Smith  
Deputy City Manager  
City of Bainbridge Island  
280 Madison Avenue N.  
Bainbridge Island, WA 98110

RE: COBI Sportsman Club Road Property  
Kitsap County Tax ID No. 222502-4-006-2005  
SE Corner of New Brooklyn and Sportsman Club Road  
Bainbridge Island, WA

Dear Ms. Smith:

At your request, I have prepared an appraisal of the above-referenced property, which is described in the attached report. As requested, I have estimated the fee simple market value of the subject in its "as-is" condition. This appraisal has been prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP). It is presented as a *summary report* in compliance with USPAP standards.

The subject property is owned by the City of Bainbridge Island and is a vacant residential development site. The intended use of this report is to assist the City of Bainbridge Island with internal asset management.

As a result of my investigation and analysis, I have concluded with the following opinion of the subject's value in its existing condition as of the effective date of value, July 11, 2013, which is the most recent date of property inspection.

**TWO MILLION DOLLARS ..... \$2,000,000**

Respectfully submitted,



Stephen Shapiro, MAI

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# APPRAISER'S CERTIFICATION

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

The statements of fact contained in this appraisal are true and correct;

- ◆ The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conclusions, and are my personal, unbiased professional analyses, opinions, and conclusions;
- ◆ I have no present or prospective interest in the property that is the subject of this appraisal, and I have no personal interest or bias with respect to the parties involved;
- ◆ 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 obtainment 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 appraisal has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
- ◆ I have not performed appraisal services regarding the property that is the subject of this report within the past three years.
- ◆ I have made a personal inspection of the property that is the subject of this report.
- ◆ I have afforded the owner or a designated representative of the property that is the subject of this appraisal the opportunity to accompany me on the inspection of the property.
- ◆ Persons providing significant professional assistance to the persons signing this report are identified herein.
- ◆ This appraisal has been made in conformity with the appropriate State and Federal laws and requirements, and complies with the contract between the agency and the appraiser;
- ◆ I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by authorized representatives.
- ◆ As of the date of this report, I have completed the continuing education program requirements of the Appraisal Institute.

## RESTRICTION UPON DISCLOSURE & USE:

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.

The property has been appraised for its fair market value as though owned in fee simple.

The opinion of value expressed below is the result of, and is subject to the data and conditions described in detail in this report.

I have made several personal inspections of the property that is the subject of this report, most recently on July 11, 2013. No representative of the client or the property owner attended these inspections.

I acknowledge the significant professional assistance of Adam Brenneman in the research and drafting of this report.

The date of value for the property that is the subject of this appraisal is July 11, 2013, which is the date of most recent property inspection.

Per the MARKET VALUE definition herein, the value conclusion for the property that is the subject of this appraisal is on a cash basis and is:

**SUBJECT PROPERTY .....\$2,000,000**

Name: **Stephen Shapiro, MAI**  
WS Cert # 1101561

Signature: 

Date Signed: **July 15, 2013**

## **General Assumptions and Limiting Conditions**

### ***This appraisal report has been made with the following general assumptions:***

1. No responsibility is assumed for the legal description provided or for matters pertaining to 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 property management are assumed.
4. The information furnished by others is believed to be reliable, but no warranty is given for its accuracy.
5. All engineering studies are assumed to be correct. The plot plans and illustrative material in this report are included only to help the reader visualize the property.
6. It is assumed that 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.
7. It is assumed that 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 non-conformity has been identified, described, and considered in this 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 opinion of value contained in this report is based.
10. It is assumed that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in the report.
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 cause a loss in 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.

### ***This appraisal report has been made with the following general limiting conditions:***

1. If the subject is improved: Any allocation of the total value estimated in this report between the land and the improvements applies only under the stated program of utilization. The separate values allocated to the land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.
2. Possession of this report, or a copy thereof, does not carry with it the right of publication.
3. 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.
4. 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 of the appraiser

*The following assumptions and limiting conditions may apply to this assignment:*

1. Any opinions of value provided in the report apply to the entire property, and any proration or division of the total into fractional interests will invalidate the opinion of value, unless such proration or division of interests has been set forth in the report.
2. In the case of proposed developments: If only preliminary plans and specifications were available for use in the preparation of this appraisal; the analysis, therefore, is subject to a review of the final plans and specifications when available.
3. In the case of proposed developments, and the assignment of values to a property at the completion of construction, all proposed improvements are assumed to have been completed unless otherwise stipulated, so any construction is assumed to conform with the building plans referenced in the reports.
4. In the case of improved property: The appraiser assumes that the reader or user of this report has been provided with copies of available building plans and all leases and amendments, if any, that encumber the property.
5. If no legal description or survey was furnished, the appraiser used the county tax plat to ascertain the physical dimensions and acreage of the property. Should a survey prove this information to be inaccurate, it may be necessary for this appraisal to be adjusted. If a legal description has been provided, the appraiser is not responsible for the accuracy of the description. The property appraised is assumed to be as delineated on county maps, as noted in this appraisal.
6. 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.
7. If the subject is improved: The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey or analysis of any improvements on the property to determine whether or not it is in conformity with the various detailed requirements of ADA. It is possible that a compliance survey of the property and a detailed analysis of the requirements of the ADA would reveal that the property is not in compliance with one or more of the requirements of the act. If so, this fact could have a negative impact upon the value of the property. Since the appraiser has not direct evidence relating to this issue, possible noncompliance with the requirements of ADA was not considered in estimating the value of the property.

# **SUBJECT PHOTOGRAPHS**



**AERIAL PHOTOGRAPH with LOT LINES**  
(Photographs on the Following Pages were Taken by Stephen Shapiro  
On May 29, 2013.)

## **SUBJECT PHOTOGRAPHS**



The subject property has frontage along Sportsman Club Road (subject property on right in both photographs).





The subject's frontage at the intersection of Sportsman Club Road and New Brooklyn Road. The subject occupies the southeast corner of the intersection.





The subject's frontage along New Brooklyn Road.





The subject's frontage along New Brooklyn Road (subject on left).



New Brooklyn Road as viewed from the interior of subject.



The interior of the subject is forested and covered in ground vegetation.



## **SUMMARY OF APPRAISAL**

# SUMMARY OF APPRAISAL

## Identification of Subject Property

The subject of this analysis consists of a single Kitsap County tax parcel with the identification number 222502-4-006-2005. The legal description, as found on the Kitsap County Assessor's webpage, is as follows:

THAT PORTION OF THE NORTH HALF OF THE NORTHWEST QUARTER OF THE SOUTHEAST QUARTER, SECTION 22, TOWNSHIP 25 NORTH, RANGE 2 EAST, W.M., KITSAP COUNTY, WASHINGTON, LYING EAST OF PERMANENT HIGHWAY NO. 13; EXCEPT THE NORTH 30 FEET CONVEYED TO KITSAP COUNTY FOR ROAD BY DEED RECORDED UNDER AUDITOR'S FILE NO. 777166; SITUATE IN KITSAP COUNTY, WASHINGTON.>>> EXCEPT THAT PORTION CONVEYED TO THE CITY OF BAINBRIDGE ISLAND FOR RIGHT OF WAY AS DESCRIBED UNDER AUDITOR'S FILE NO. 201204090289, RECORDS OF KITSAP COUNTY, WASHINGTON.

## Location

The subject is located in the central portion of Bainbridge Island at the southeast corner of NE New Brooklyn Road and Sportsman Club Road NE. The surrounding area consists of residential homes and school district property. Diagonally across this intersection from the subject is the Woodward Middle School and Sakai Intermediate School complex. Directly across NE New Brooklyn Road is the North Town Woods subdivision.

## Highest & Best Use

The highest and best use of the subject property is for development of a 31-lot subdivision of single-family homes.

## Final Value Estimate

**\$2,000,000**

## Effective Date of Valuation

This valuation date of this appraisal is July 11, 2013, which is the most recent date of property inspection. This report was prepared in June and July of 2013.

## Property Rights Appraised

This is an appraisal of the fee simple interest in the subject real estate.

## **Purpose of Appraisal**

The purpose of this appraisal is to arrive at an estimate of market value for the subject property's fee simple estate. The term "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 the buyer under conditions whereby:*

- a. the buyer and seller are typically motivated;*
- b. both parties are well informed or well advised, and acting in what they consider their own best interests;*
- c. a reasonable time is allowed for exposure in the open market;*
- d. payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
- e. 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."*

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

## **Intended User/Use of Appraisal**

Intended users of this report include the client, Morgan Smith, Deputy City Manager with the City of Bainbridge Island, as well as her authorized associates, employees, representatives or agents. The intended use of this appraisal is to assist the client with internal asset management.

## **Scope of Appraisal**

### *Appraisal Content*

The scope of work performed in this appraisal is in compliance with the specific guidelines of the Uniform Standards of Professional Appraisal Practice (USPAP) to produce a credible value opinion that meets the expectations of parties who are regularly intended users of similar appraisal assignments and is also in accord with the analysis that the appraiser's peers would perform in a similar appraisal assignment.

The most typical valuation methodology applicable to vacant land is the direct sales comparison approach. When good market data is available this is considered to be a highly reliable valuation technique. However, in my scope of search for sales comparables I did not find any relevant recent market sales that have the entire subject's mix of attributes including size, number of platted lots, and location in the Bainbridge Island market. This is not surprising owing to the dearth of residential subdivision in the aftermath of the bursting of the housing bubble in 2007 and subsequent economic recession. Consequently, I have relied upon older sales of property in the Bainbridge Island market. While this does provide some perspective upon the subject's current market value, its usefulness is

limited owing to the significant changes in market conditions that have occurred between the peak of the housing boom when these sales transactions occurred and the present date of valuation of this report.

Although I was not able to perform a credible direct sales comparison analysis, there is good current market sales data relevant to the subject's individual potential subdivision lots. Consequently, I performed a subdivision development approach, which relies upon sales comparables relevant to the subject as if sold as individual development lots. This well established appraisal methodology derives a value for the entire subject by accounting for the total sell out value of the lots and deducting all costs of development including profit.

The development approach can be performed through both a direct analysis and a discounted cash flow analysis. Both arrive at a conclusion through enumeration of the retail sellout prices of a subject's individual lots, along with an accounting of costs and an estimate of profit incentive. The key difference is that the direct analysis is a simplified snapshot of the total subdivision scenario in which the developer's profit is taken as a separate line item. Conversely, the discounted cash flow analysis lays out the development costs and sales receipts over the time period in which they are anticipated to occur and accounts for the developer's profit as a function of the internal rate of return that a typical investor would apply. The advantage of the direct analysis is that it is much simpler and requires fewer speculative inputs regarding development expenses. While the discounted cash flow analysis is more complex, it has the benefit of more accurately projecting the timing in which the costs of development and the sales of finished lots would occur. For very small subdivision projects the DCF is considered unnecessary. However, the subject can accommodate as many as 31 potential residential lots that would take several years to entitle, provide infrastructure and sell. Therefore, I have performed both the direct analysis and a DCF.

Sales data has been obtained from public records as well as private databases including the Northwest Multiple Listing Service, Commercial Brokers Association Listing Service, Realquest and Assessor's data from Kitsap County. The subject property, as well as all relevant sales comparisons relied upon have been inspected.

### *Report Type*

This report meets the standard for a *summary report* document under USPAP. In certain sections of the report, only summaries of the data, reasoning and analyses that were used in the appraisal process to develop an opinion of value are presented. Supporting documentation is retained in my files.

### **Hypothetical Conditions and Extraordinary Assumptions**

This report has been performed under no hypothetical conditions. The following extraordinary assumption does apply:

- I have not been provided a title report for the subject. However, I have been informed by the subject owner that there are no extraordinary covenants, conditions restrictions or easements that would constrain the highest and best use of the subject. Thus, it is assumed that any such limitations would be typical utility easements or other common constraints.

- According to county records the subject property consists of 13.83 acres, or approximately 602,435sf. However, the City of Bainbridge records indicate that the property is 14.33 acres, or approximately 624,215sf. I have not been provided a survey for the property and therefore cannot definitively determine the accurate size. The size of the property does have an impact upon its value, and based upon the information available I have relied upon the estimate provided by the City of Bainbridge Island as this is the owner. However, in the event information comes to light indicating that this is incorrect I reserve the right to reconsider the conclusion stated in this appraisal.

### **Ownership/Use History**

The Uniform Standards of Professional Appraisal Practice requires a three year sale history of the subject. The City of Bainbridge Island purchased the subject from the Frank Y. and Miyo Suzuki Trust on April 18, 2000 for \$500,000. The property has been under the City's ownership since that time. To the best of my knowledge it is not presently listed for sale or part of any pending transaction.

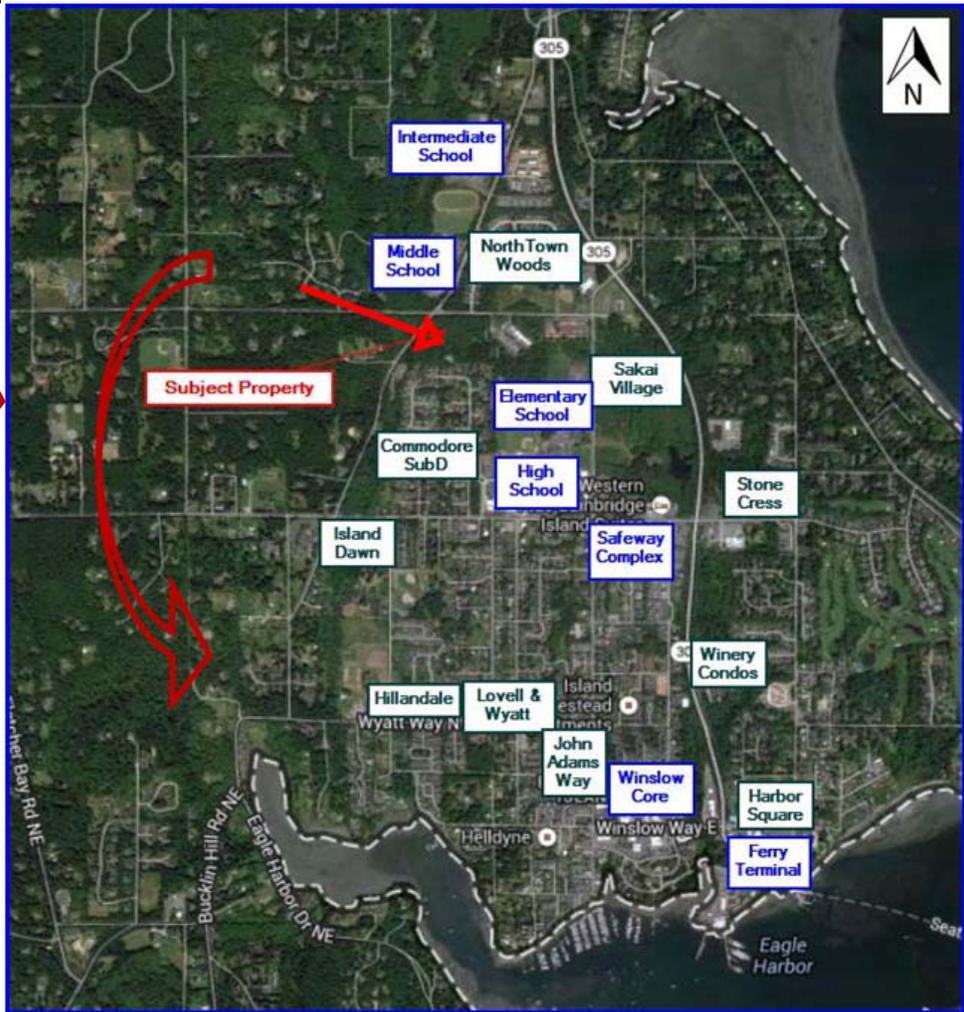
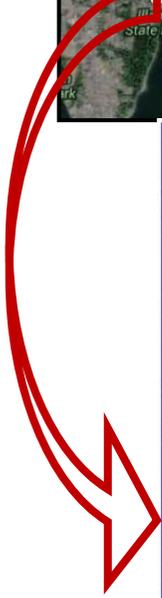
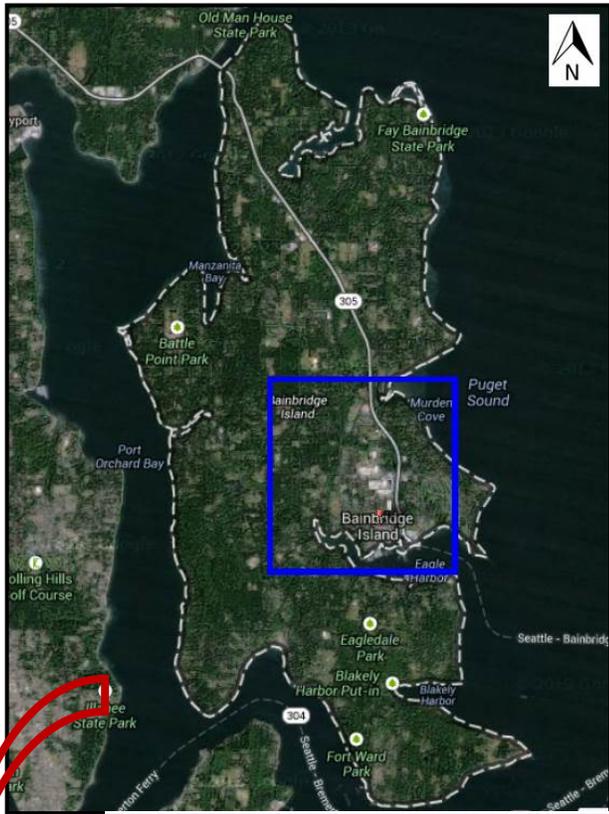
### **Inspection of Property/Notice of Contact with Property Owner/Representative**

I made a personal inspection of the subject property on various dates, the most recent of which was July 11, 2013, which is the date of valuation. The client, Morgan Smith, declined to accompany me on the inspections.

### **Qualifications of Appraiser**

The appraiser has extensive prior experience in the appraisal of property such as the subject that has the potential for residential development and has previously performed appraisal services in this market area. He is therefore considered to be competent to undertake this appraisal. Please see the experience data included in the addendum for specifics concerning the appraiser's background and experience.

## **AREA DATA & MARKET ANALYSIS**



**AREA MAP**

## **AREA DATA & MARKET ANALYSIS**

### **Area Data**

The subject property is located in the center of Bainbridge Island, which is an incorporated city within the waters of Puget Sound. The island is located about eight miles west of the Seattle Central Business District, in Kitsap County, Washington and is accessible to it by commuter ferry. The island's current population is around 24,000 and it has grown steadily over the years, averaging an approximate 2%-3% growth rate per annum. Owing to its proximity to Seattle and good transportation links, Bainbridge has come to be a viable bedroom community for the west side of Puget Sound, offering an attractive residential community that is somewhat more rural than other Seattle bedroom communities. Additionally, Bainbridge offers a high level of amenities associated with its island waterfront.

### **Single Family Residential Market**

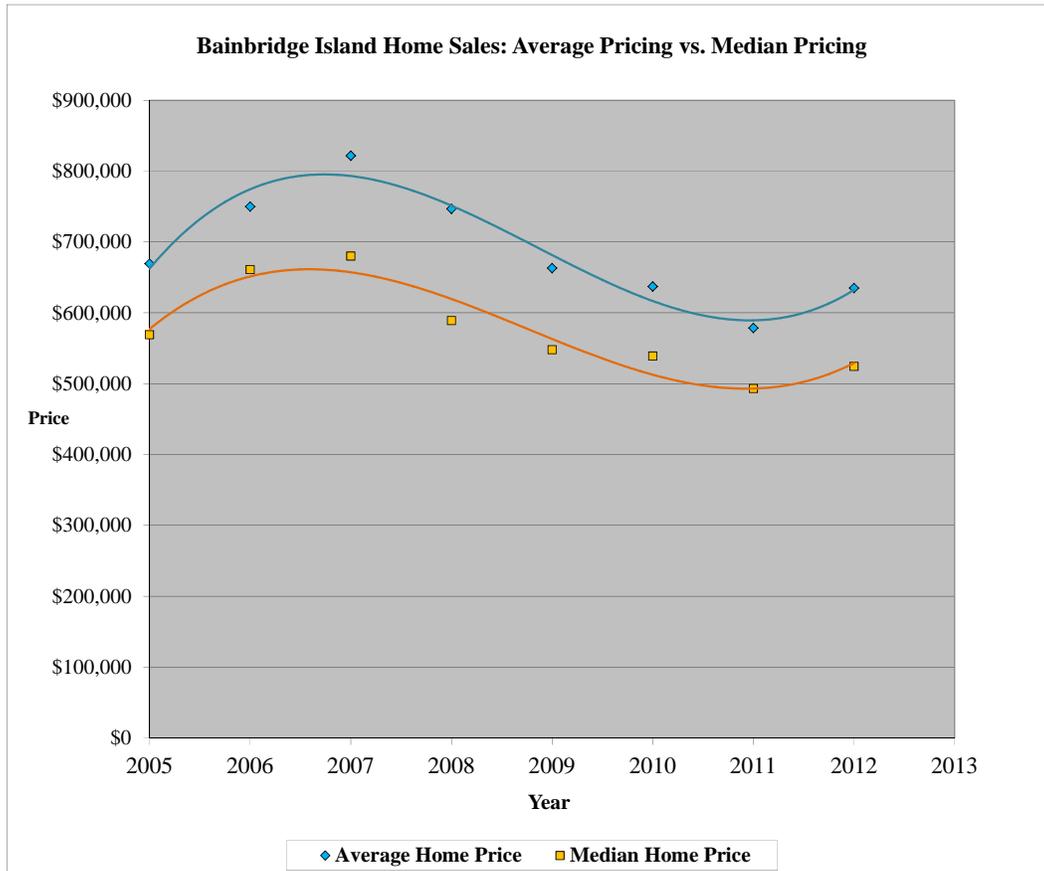
Although Bainbridge Island is located in Kitsap County, in many respects its residential market has developed in closer association with that of King County. The reasons for this are that being an island offers opportunities to develop high end homes on the waterfront and having the benefit of a convenient ferry commute to Seattle's central business district provides access to high paying jobs. The result is that home prices on the island tend to be much higher than is typical in Kitsap County and track more closely with higher end communities of King County.

The data that follows was provided by the Northwest Multiple Listing Service and shows the trends in residential real estate for Bainbridge over the past seven years. In general, the data shows a peak in home prices in 2007. After steep price declines in 2008 and 2009, the market decline slowed in 2010, and then escalated in 2011. However, in 2012 home prices showed strong appreciation. The trends for both average and median prices track very consistently, which indicates that both higher end and less expensive homes on the island have been subject to similarly steep declines in price.

Thus far in 2013 average home pricing is down from the same time in 2012. However, a more favorable indication for the continued positive rebound in the local real estate market is that more homes have sold in 2013 in comparison to the same period of 2012 and the time required to sell them has decreased. In 2012, the number of homes sold reached 385, which was the highest level since 2005. The average days on the market of homes sold also declined. Homes took an average of 90 days to sell in 2005, 87 days in 2006, 98 days in 2007, 110 days in 2008, 141 days in 2009 and 279 days in 2010. In 2011 the average days on the market for a house was 105 and in 2012 the average home was on the market for 104 days. Thus far in 2013 there have been 205 homes sold through June, which puts the current year on track to exceed the number of home sales in the previous year. Further, the average days on the market for each sale has decreased by over 10%.

The data discussed above pertains to improved residential property due to the fact that the NWMLS does not provide statistical archives for sales of vacant land. However, my own independent research that includes conversations with local brokers indicates that the general trends for vacant land in this market area generally track with the data for improved residential property. This is not surprising given that they are ultimately used for the same purpose. Numerous brokers have pointed out that the market for development land typically lags existing home sales to some extent because home builders are reluctant to

construct new homes until the inventory of existing homes is somewhat depleted. It appears that conditions in the Bainbridge Island market are beginning to favor speculative and custom home development as the number of existing homes available for sale is lower than it has been for years. Coupled with improved lending conditions for new homes and an improving economy, local brokers speak positively about the outlook for island homes sales and appreciation in prices.



RESIDENTIAL HOME MARKET - BAINBRIDGE ISLAND: NWMLS AREA #170									
<u>Average Home Price</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
	\$669,309	\$749,944	\$821,658	\$746,716	\$663,025	\$637,111	\$578,573	\$634,985	\$583,597
<u>Median Home Price</u>	\$569,000	\$661,000	\$680,000	\$589,000	\$548,000	\$539,000	\$493,000	\$524,300	\$495,000
<u>Change in Value</u>		<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>YTD 2013</u>
Average		12.0%	9.6%	-9.1%	-11.2%	-3.9%	-9.2%	9.8%	-8.1%
Median		16.2%	2.9%	-13.4%	-7.0%	-1.6%	-8.5%	6.3%	-5.6%
<u>Units Sold</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>YTD 2013</u>
	445	350	333	191	212	255	259	385	205
<u>Avg Days on Market</u>	90	87	98	110	141	103	105	104	90

### Conclusion and Summary

The subject property is located in an attractive residential area of Bainbridge Island. Although economic and market conditions have resulted in diminished sales in recent years, this is beginning to change as market conditions stabilize. Given the subject's good location near the downtown area and the ferry terminal, as well as being in close proximity to numerous schools it would be expected to meet with demand from buyers of residential development land as the market continues to improve.

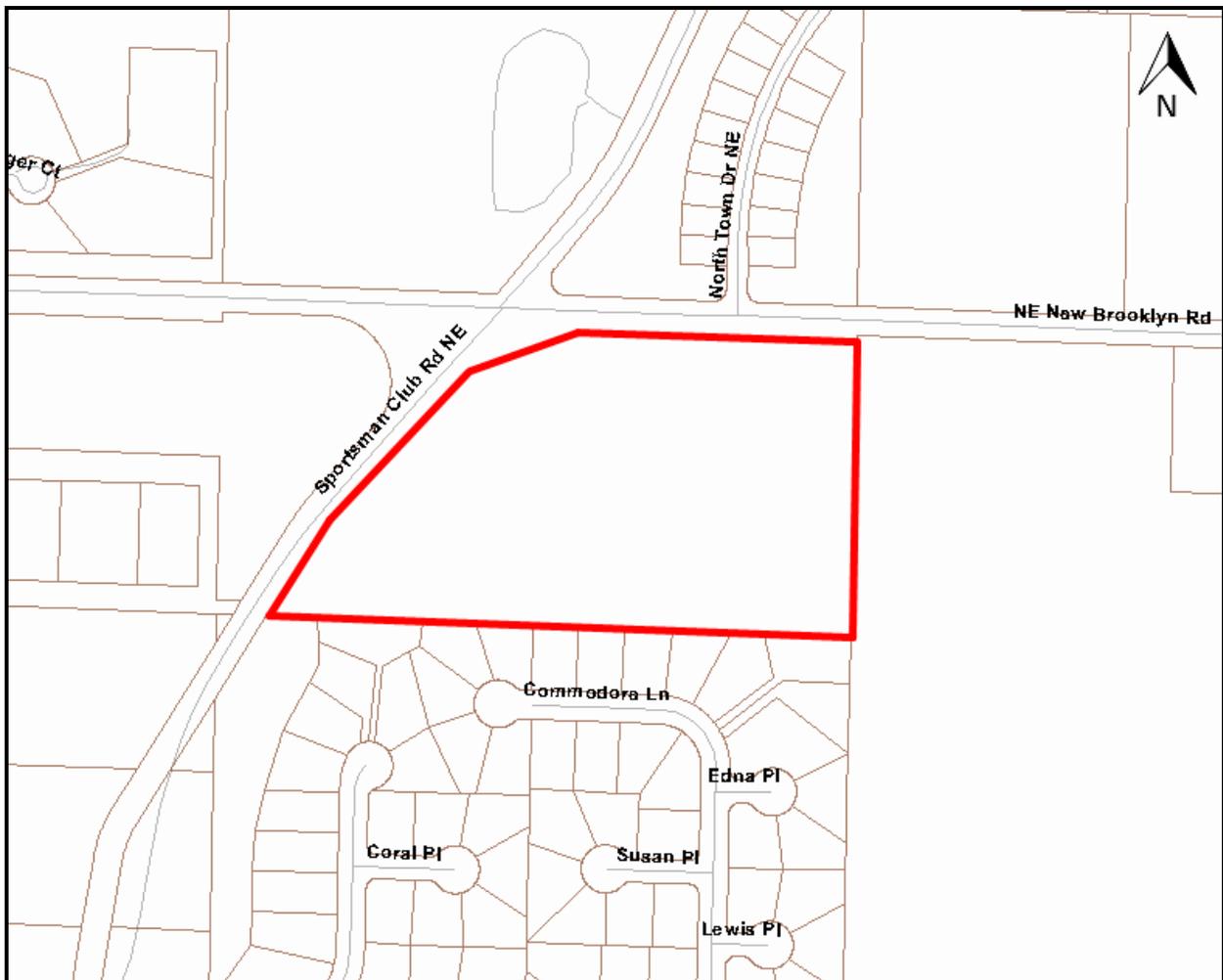
## **SITE DATA**

## SITE DATA

### Land Area

The general layout of the subject property may be visualized in the Kitsap County plat map provided below. According to county records the property consists of 13.83 acres, or approximately 602,435sf. However, the City of Bainbridge records indicate that the property is 14.33 acres, or approximately 624,215sf. Given the City's ownership of the property, I consider it to be the more accurate and have relied upon the city's size estimate in this valuation. It should be noted that the size of the subject is of significance in this analysis since a larger lot will result in a higher subdivision lot yield, which would have an overall positive affect on the subject's value. The most accurate means to determine size is through a survey, which has not been performed for this property to the best of my knowledge. As previously stated it is an extraordinary assumption of this report that the city's size estimate is correct.

The property is irregularly shaped and follows the frontages of Sportsman Club Road NE and NE New Brooklyn Road on its west and north sides, respectively. The south and east property lines are generally perpendicular forming a right angle in the subject's southeastern corner.



## **Historic and Present Use**

The subject property is not currently improved, nor has the property ever been improved. Reportedly the City of Bainbridge Island purchased the property as a potential site for relocating the police department building. However, given legal restrictions regarding proximity to school district land, this site was not a viable police department location and I am unaware of any plans by the owner for development.

## **Location and Access**

The subject is located at the southeast corner of Sportsman Club Road and New Brooklyn Road. The subject is diagonally across this intersection from the Woodward Middle School and Sakai Intermediate School campus and adjacent to school district land that provides access to Ordway Elementary School and the Bainbridge High School. Thus, the location affords the subject easy pedestrian access to all levels of K-12 education facilities.

The property does not currently have developed access. Physically the property can be accessed from both NE New Brooklyn Rd and Sportsman Club Rd. Officials with the City of Bainbridge Island Department of Planning and Community Development have confirmed that access points on both roadways would be permitted for residential development of the site.

Sportsman Club Road and New Brooklyn Road are two lane arterials, with grass, gravel or paved shoulders, and provide the property with suitable frontage. There is a sidewalk on the south side of New Brooklyn Road, adjacent to the subject, as well as a bus stop. Both arterials serve as thoroughfares across the island. The subject is approximately half a mile west of State Highway 305, which provides direct access about two miles to the south to the island's central business district as well as a Washington State ferry terminal that provides commuter service to downtown Seattle. To the north this highway provides access to the Agate Pass Bridge leading off the island to north Kitsap County.

There is a gravel road located to the east of the subject on land owned by the Bainbridge Island School District. This road appears to provide access between the High School and the school district's bus storage/maintenance facility. To the best of my knowledge the use of this road has no impact upon the subject.

## **Utilities**

All necessary utilities are available to the subject property, including power, water, sewer service and telephone. There is no natural gas service on Bainbridge Island.

## **Zoning**

The subject property is zoned R-2. This is one of Bainbridge Island's rural residential zoning, suitable for single family development. According to the Bainbridge Island Municipal Code:

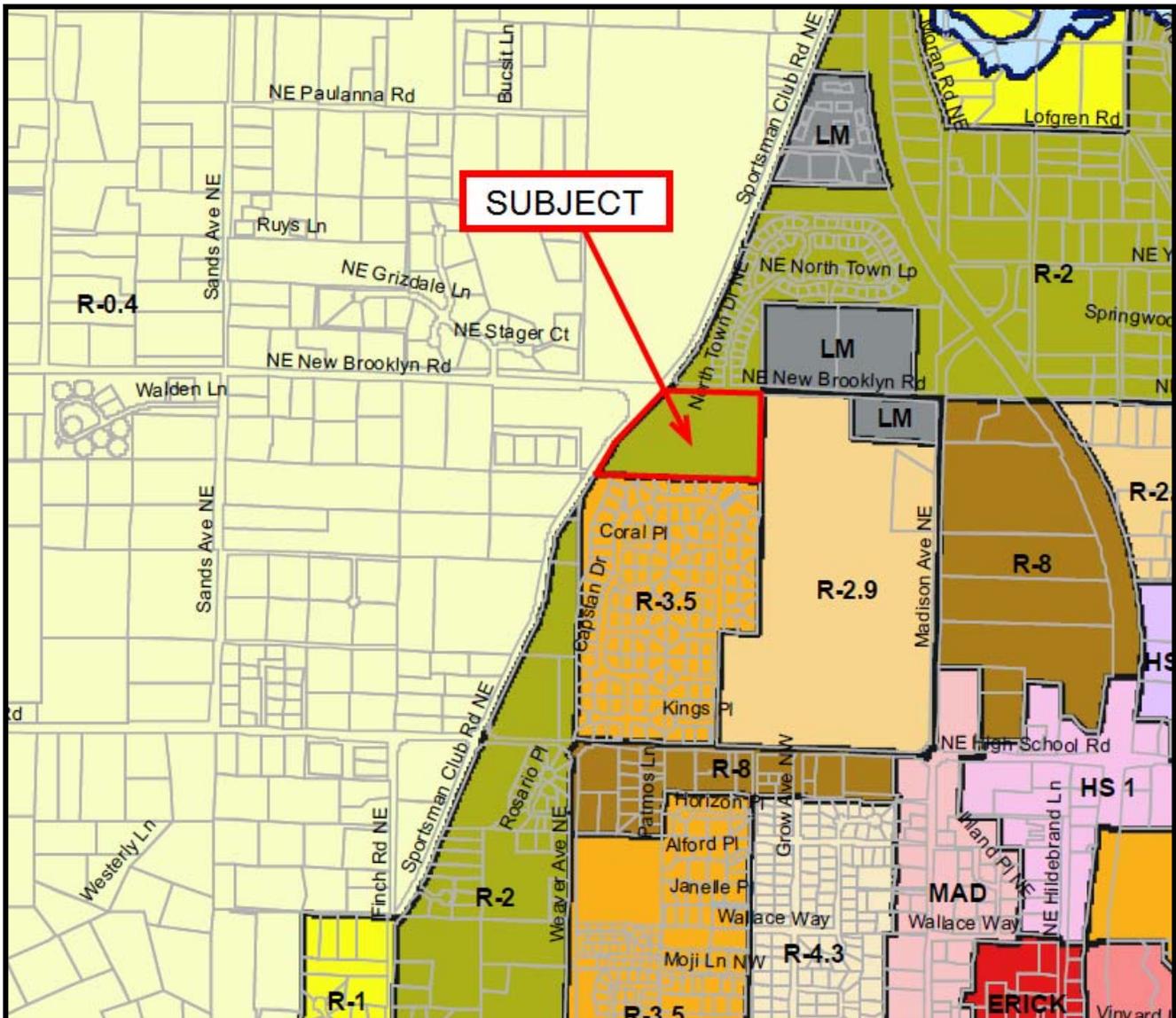
*The purpose of the R-2 zone is to provide for residential neighborhoods of increased density in a rural environment. (Ord. 92-08 § 2, 1992)*

Permitted uses in the R-2 zone include:

- Single family dwelling units;
- Accessory dwelling units;
- Family day care homes;
- Minor home occupations;
- Multifamily dwellings (on a conditional use basis);
- Parks, active recreation
- Parks, passive recreation;

The dimensional requirements of the R-2 zone are as follows:

- Development Density: Minimum of 20,000sf of land per unit (2-units per acre).
- Building Height: 30-feet; 35-foot conditional
- Maximum Site Coverage: 20%
- Front Setback: 25-feet
- Side & Rear Setback: 15-feet



As part of my appraisal investigation, I met with city staff including Katharine Cook, director of the Department of Planning and Community Development, Heather Beckmann, associate planner, and Morgan Smith, deputy city manager. In this meeting it was established that the city’s estimated lot yield for the subject through subdivision is 31 units. This is based upon a total property size of 14.33 acres (624,215sf) divided by the minimum lot size of 20,000sf allowed under the R-2 zone. The city’s regulations also allow for a reduction in lot size under a flexible lot or “clustered” development option. This requires a set-aside for expanded buffers and open space. The total lot yield can also be increased up to 50% beyond the base density of the R-2 zone with the provision of affordable housing units incorporated in a development project. For purposes of this appraisal there is no benefit considered for either clustering or affordable housing bonus density because these are generally available to the comparable as well as the subject.

### Topography and Soils

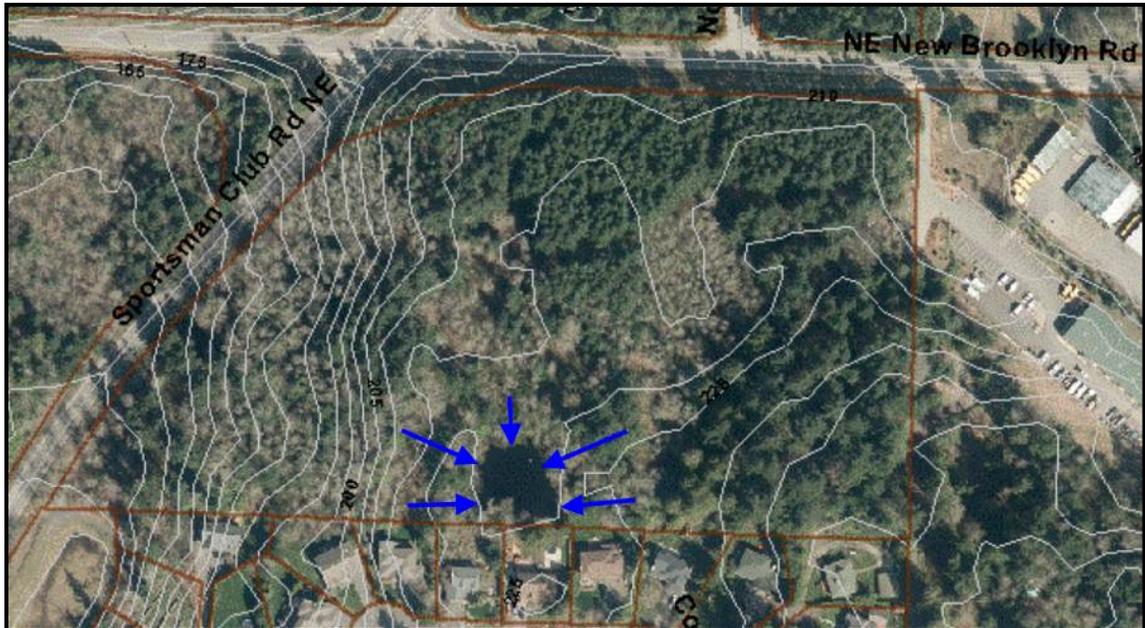
The map below was provided by the Kitsap County Geographic Information System and shows that the property slopes moderately downward from east to west. The highest point on the property is about 240’ at the subject’s southeast corner and the lowest point is about 150’ at the subject’s southwest corner. The subject is slightly above grade with NE New Brooklyn and Sportsman Club Rd NE. However, there are no indications of any steep slopes on the site and there are no anticipated issues with respect to gaining access to these streets.

I am not in possession of a soils survey for the subject. Typical issues associated with soils pertain to the ability to support improvements and accommodate septic systems. The subject is served by public sewer so there is no need of a septic system. With regard to the ability of the soils to bear improvements, this also does not appear to be an issue as evidenced by the successful development of the neighboring Commodore and North Town Woods residential development projects.



## Environmentally Critical Areas

The City of Bainbridge Island critical areas map reveals no wetlands or other sensitive areas on the property and the subject is not in a flood zone. There is a small pond in the south central area of the subject as shown in the image below. However, city planning officials have confirmed that this pond is man-made and no setback requirements or other restrictions to residential development would apply. I have assumed that the pond would not be removed as it may be considered to provide an aesthetic benefit to the property and the area that it occupies can be counted toward the subject's total allowable development density.



## Hazardous Materials

The appraiser is unaware of any toxic contaminating materials either in the subject soils or within any of the subject premises. This appraisal assumes that the subject properties are free and clear of all contamination that may be associated with any hazardous material. However, this assumption should not be construed as a guarantee that this is the case.

## Real Estate Taxes and Assessments

The Kitsap County real property assessments and taxes and charges for 2012 and 2013 are shown on the following table.

222502-4-006-2005 Tax Year	Assessed Value			Taxes and Charges		
	Land	Improvement	Total	Tax	Charges	Total
2013	\$492,490	\$0	\$492,490	Exempt	\$0.00	\$0.00
2012	\$527,160	\$0	\$527,160	Exempt	\$0.00	\$0.00
2013 Tax if non-Exempt		2013 Mill Rate: 11.0609		\$5,447.38	\$0.00	\$5,447.38

Please note that the subject is currently tax exempt owing to the public ownership of the property. I have calculated the subject's approximate tax burden were the property to be sold to a private market participant, based on the current mill rate (11.0609) to be \$5,447.38. However, I would further note that the assessed value of the property is well below the conclusion of market value derived in this report. Based on the conclusion of the subject's value in this report and the current mill rate, the tax burden, under private ownership, would be about \$21,500.

## **HIGHEST AND BEST USE**

## HIGHEST AND BEST USE

"Highest & Best Use" is defined by The Appraisal Institute 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 profitability."*

*Source: The Dictionary of Real Estate Appraisal, Fourth Edition, Copyright 2002, published by the Appraisal Institute.*

The highest and best use analysis provides the foundation for a value conclusion by identifying the specific market position of a subject and thereby specifying appropriate market comparisons for it, as well as the relevant approaches to value. If the property is improved, the process requires separate analysis of the land as though vacant and the land as improved. This provides the basis for a conclusion as to whether the improvements adequately contribute to overall value as to continue to be the preferred use, or whether an alternate use would better support the land value. In this instance, the subject property is vacant.

A property's legal possible use is typically guided by the underlying zone. The subject's R-2 zoning designation allows for some diversity of use but does not allow for commercial applications other than those associate with home occupations. Among the other allowable uses the most productive use of this property is a residential subdivision to the maximum density permitted by code. The subject's R-2 zone allows for a development yield of one lot per 20,000sf for a total of 31 lots as confirmed with city staff (excluding any bonus density). Other relevant legal considerations pertain to critical areas regulations. However, there are no such constraints on the subject.

With regard to physical feasibility the subject has frontage on two minor arterial roads and all public utilities are available to the site. It is within walking distance of four schools and about a two mile drive to the island's central business district and the Washington State ferry terminal. These are all highly desirable attributes for residential subdivision land.

In terms of economic feasibility, Bainbridge Island has not seen the development of a major subdivision of single-family residences for at least five years since the bursting of the housing bubble. The result is that the current inventory of available development lots is quite low. Data provided by the Northwest Multiple Listing Service as well as discussions with local real estate agents indicates that there is a dearth of existing homes available for sale at the present time after years of surplus available housing subsequent to the housing bust and through the recessionary years. Current conditions suggest that the local market is poised for renewed interest from land developers to serve the anticipated surge in demand for new homes as the economy continues to improve and home buyers return in greater force into the market.

Additional considerations with respect to the subject's highest and best use is that the property could conceivably be of appeal for institutional uses such as schools (both public and private) as well as churches and other civic uses. In fact, the City of Bainbridge Island has considered developing the

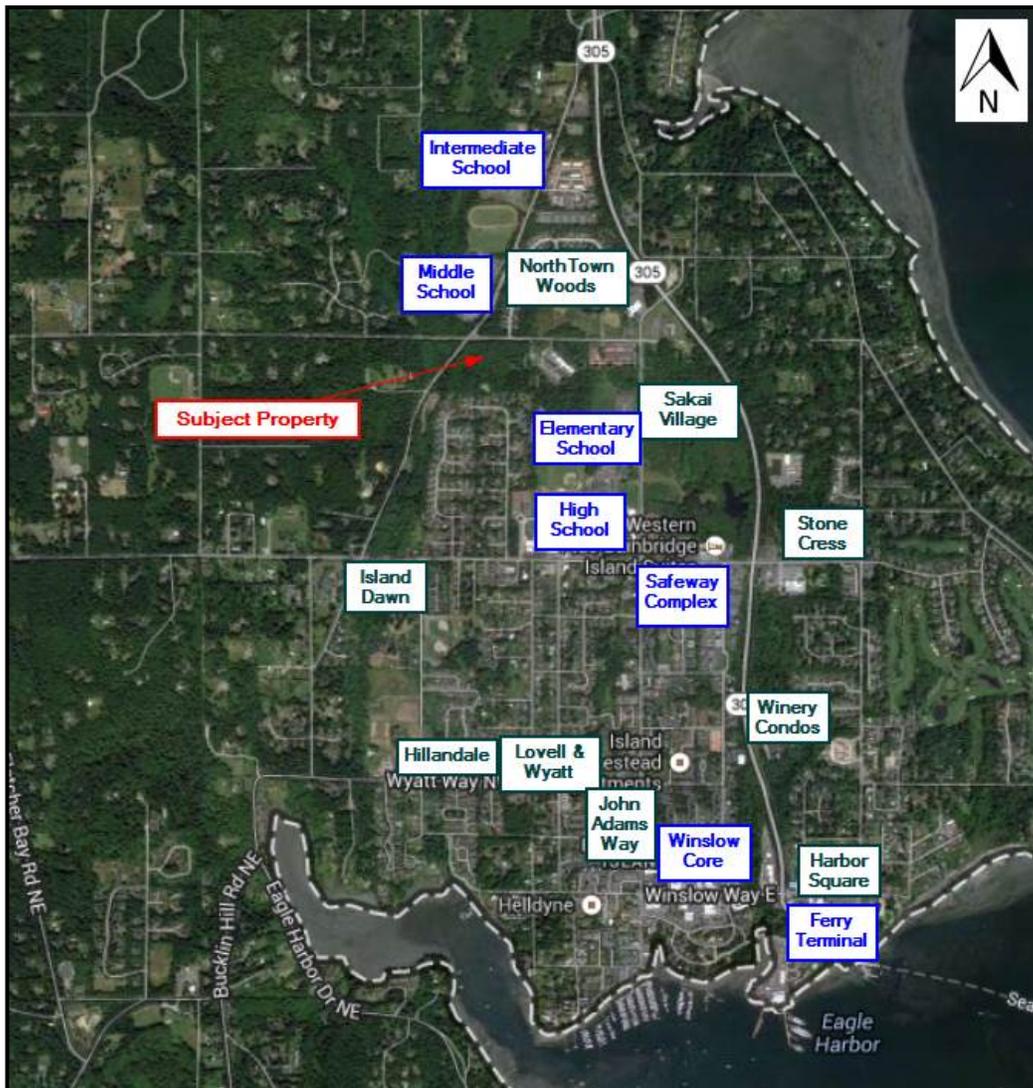
property for public purposes. However, pricing for these types of uses would be dictated by the most logical private economic use, which is single-family residential subdivision use. Alternately, interest from commercial developers is conceivable given the given the strength of the recent developments in and around the Sportsman Club Business Park and the site's prominent corner location. However, a rezone of the site from residential to commercial is highly speculative. In such a scenario the market is unlikely to recognize the use as feasible and any additional value that might be derived from a prospective rezone of the site would be heavily discounted.

Based upon the foregoing analysis the maximally productive highest and best use of the subject is residential subdivision for 31 lots in a time frame that is in accord with market demand. Given the positive recent change in market conditions and the reduced inventory of residential lots on Bainbridge Island it is expected that if placed on the market the subject would receive interest from developers.

# PROPERTY VALUATION

## DIRECT SALES COMPARISON APPROACH

The most typical valuation methodology for vacant subdivision land is the direct sales comparison approach. However, the credibility of the result of such an analysis is only as good as the market data that is available. I was unable to find any recent sales of subdivision property on Bainbridge with characteristics reasonably similar to the subject. The map below shows the location of residential subdivision parcels on the island that sold between 1996-2007 with property and transaction details provided in the table on the following page. Owing to significant time lapse between the date of these sales and the date of value of this report they do not provide a credible basis upon which to estimate the subject's current market value. However, in order to provide a historical perspective I have applied annualized market conditions adjustments to each sale based upon price data provided by the Northwest Multiple Listing Service in order to estimate the current sale price of these properties after accounting for changes in market conditions. As shown on the table the range is \$17,400/lot-\$67,429/lot. Once again, these sales do not provide a credible basis upon which to establish a value for the subject property and are included here as a general check on value derived through the subdivision analysis that follows.

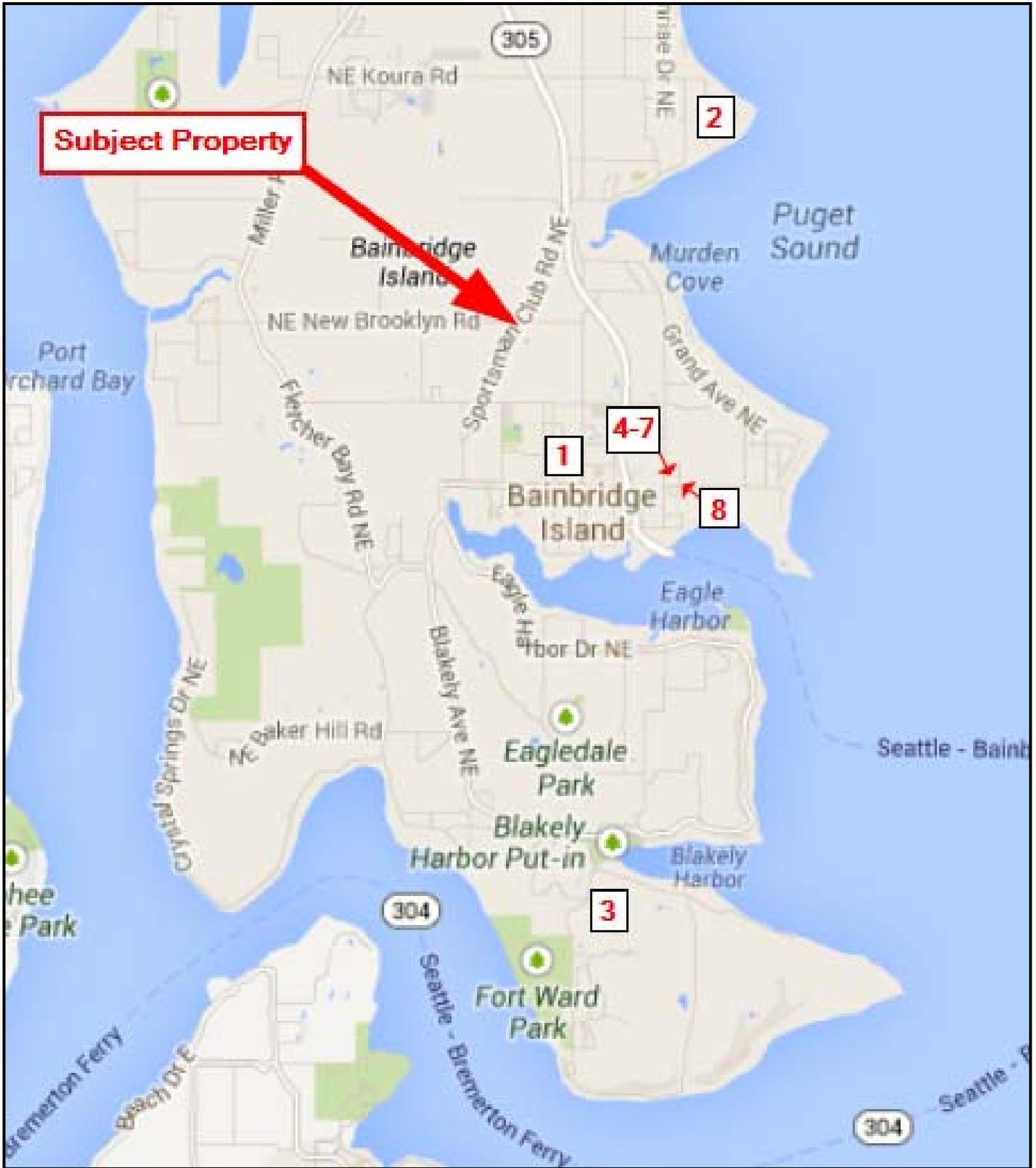


## Land Sales Comparisons

### Sales Data, Time adjustment and Value Analysis

### Lot Characteristics

No.	Owner Location	Zoning Entitled	Usable Size	Proposed Units	Avg Lot SF	Sale Date	Price	Adjustment	Adj Price	\$/sf	\$/unit	
												Units/acre
<b>Winslow Area Sales</b>												
L-1	Hillandale Weaver & Wyatt	R-3.5 No	605,920sf 13.91ac	36	2.59/ac 16,831sf	Mar-96	\$ 660,000	2.048	\$1,352,000	\$2.23/sf	\$37,556/lot	
L-2	North Town Woods	R-2 No	1,339,906sf 30.76ac	70	2.28/ac 19,142sf	Jun-98	\$ 700,000	1.740	\$1,218,000	\$0.91/sf	\$17,400/lot	
L-3	New Brooklyn & Sportsman Club Sakai Village Phase I	R-8 No	272,250sf 6.25ac	50	8.00/ac 5,445sf	Jul-99	\$ 1,000,000	1.609	\$1,609,000	\$5.91/sf	\$32,180/lot	
L-4	Madison Ave Sakai Village Phase II	R-8 No	504,860sf 11.59ac	93	8.02/ac 5,429sf	Mar-99	\$ 2,050,000	1.649	\$3,380,000	\$6.69/sf	\$36,344/lot	
L-5	Winery Purchase Hwy 305	GATEWAY No	126,324sf 2.90ac	40	13.79/ac 3,158sf	Jul-02	\$ 950,000	1.295	\$1,231,000	\$9.74/sf	\$30,775/lot	
L-6	Stonecess Condominium High School Road	R-8 No R-2 No	406,415sf 9.33ac 406,415sf 9.33ac	45 6	4.82/ac 9.031sf 0.64/ac 67,736sf	Oct-02 Oct-02	\$ 1,300,000 \$ 307,130 \$ 1,607,130	1.268 1.268	\$1,649,000 \$389,000	\$4.06/sf \$0.96/sf	\$36,644/lot \$64,833/lot	
L-7	Harbor Square E Winslow Way	FTD Partial	198,198sf 4.55ac	180	39.56/ac 1,101sf	Jul-01	\$ 4,254,000	1.392	\$5,921,000	\$29.87/sf	\$32,894/unit	
L-8	Island Dawn Phase I High School Road	FTD Partial R-8 No	198,198sf 4.55ac 72,745sf 1.67ac	180 11	39.56/ac 1,101sf 6.59/ac 6,613sf	Jun-05 Oct-02	\$ 6,500,000 \$ 390,000	1.019 1.269	\$6,622,000 \$495,000	\$33.41/sf \$6.80/sf	\$36,789/unit \$45,000/lot	
L-9	Island Dawn II High School Road	R-8 No	51,796sf 1.19ac	7	5.89/ac 7,399sf	Feb-04	\$ 410,000	1.151	\$472,000	\$9.11/sf	\$67,429/lot	
L-10	Lovell and Wyatt	R-3.5	153,767sf 3.53ac	14	3.97/ac 10,983sf	Jan-06	\$ 625,000	0.931	\$582,000	\$3.78/sf	\$41,571/lot	
L-11	Government Way John Adams	R-14	229,126sf 5.26ac	74	14.07/ac 3,096sf	Jul-07	\$ 6,000,000	0.798	\$4,786,000	\$20.89/sf	\$64,676/lot	
<b>Non-Winslow Sales</b>												
L-1	1 Lynwood Ctr/Baker Hill Area	R-5	568,022sf 13.04ac	65	4.98/ac 8,739sf	Jan-06	\$ 3,700,000	0.934	\$3,456,000	\$6.08/sf	\$53,169/lot	



## SUBDIVISION LOT COMPARISONS MAP

## Finished Lot Comparables

Address # Parcel #(s)	Size Of Property	Sale Date	Sale Price	Adjusted for Physical Cond	Adjusted for Location
1 3029 NE Yankee Girl Circle 548900-2-006-0009	22,052sf 0.51ac	7/31/2012	\$150,000 \$6.80	Similar None	Similar None
2 Manitou Beach Drive NE 417400-1-015-0102	15,246sf 0.35ac	10/9/2012	\$150,000 \$9.84	Util Exten/Smaller Upward	View: Superior Downward
3 2068 Douglas Drive NE 414800-1-037-0000	10,890sf 0.25ac	7/19/2012	\$98,000 \$9.00	Buyer Paid HookUps/Smaller Upward	Inferior Upward
4 849 Taurnic Place NW 543400-0-009-0006	11,437sf 0.26ac	5/31/2012	\$120,000 \$10.49	Forest/Smaller Upward	Similar None
5 Lot 2 Ferncliff Avenue NE 557500-0-002-0002	15,006sf 0.34ac	5/31/2012	\$135,000 \$9.00	Smaller Upward	Similar None
6 Lot 7 Ferncliff Avenue NE 557500-0-007-0007	21,015sf 0.48ac	2/23/2012	\$130,000 \$6.19	Similar None	Inferior: Traffic Upward
7 Lot 4 & 6 Ferncliff Avenue NE <i>Average Lot</i>	9,148sf, 11,351sf <i>10,250sf</i> 0.24ac	5/24/2012	\$230,248 <i>\$115,124</i> \$11.23	Smaller Upward	Inferior: Traffic Upward
8 Four Lots @ Tiffany Meadows + Wing Point <i>Average Lot</i>	55,757sf 1.28ac <i>13,939sf</i> 0.32ac	9/16/2010	<b>\$600,000</b> \$10.76 <i>\$150,000</i>	Smaller Upward	Similar None



**Comp 1: Yankee Girl Circle**



**Comp 2: Manitou Beach Rd**



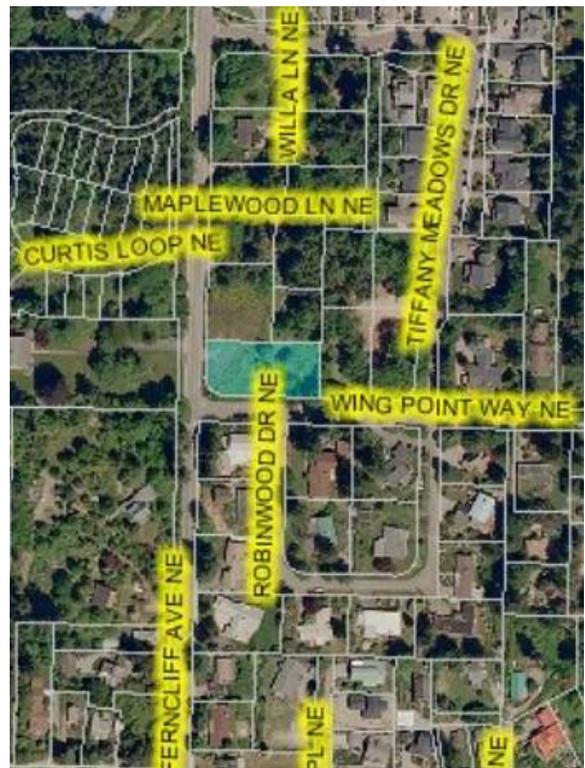
**Comp 3: Douglas Drive NE**



**Comp 4: Taurnic Place**



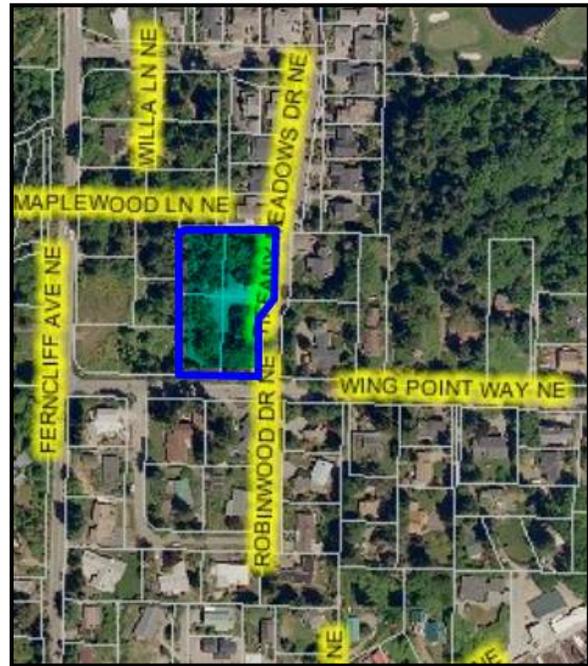
**Comp 5: Lot 2 Ferncliff Ave**



**Comp 6: Lot 7 Ferncliff Ave**



**Comp 7: Lots 4 & 6 Ferncliff Ave**



**Comp 8: Four Lots @ Wing Point & Tiffany Meadows**

## SUBDIVISION ANALYSIS

While there are no appropriate recent sales of land of similar size and mix of attributes in this market upon which to derive a value for the entire subject through the direct sales approach, there are recent sales of development lots generally similar to those that can be subdivided on the subject. Therefore, I have utilized these lot sales in a development approach. This approach is considered to be an appropriate alternate means to derive a credible value opinion for the subject as it is typically relied upon in the marketplace by developers.

The development approach (also known as subdivision analysis) can be performed through both a direct analysis and a discounted cash flow analysis. Both arrive at a conclusion through enumeration of the retail sellout prices of the subject's individual lots, along with an accounting of costs and an estimate of profit incentive. The key difference is that the direct analysis is a simplified scenario in which the developer's profit is taken as a separate line item. The simplicity of this approach is its strength as it requires few speculative inputs. Conversely, the discounted cash flow analysis lays out the development costs and sales receipts over the time period in which they are anticipated to occur and accounts for the developer's profit as a function of the internal rate of return that a typical investor would apply. This approach accounts for the design and permitting time as well as the absorption period. I have undertaken both approaches.

### **Finished Lot Prices**

The first step in both analyses requires establishing the price at which the subject property's lots would sell into the marketplace. On the previous pages I have provided a map and data summary table showing the location and relevant details of 7 lot sales comparables and an eighth comparable that is a small four-lot subdivision. All of the sales occurred in 2012 except for number 8, which transacted in 2010. All of the properties are all located on Bainbridge Island.

Comparables 1-4 are single lots in developed neighborhoods. Comparable 1 is located on Yankee Girl Circle, which is a cul-de-sac in a private community. The property sold for \$150,000 in July of 2012. It is similar in size to the subject's potential lots and in a similar neighborhood. It is considered to be a good value indicator for the subject's development lots. Comparable 2 is located on an easement road off Manitou Beach Drive. The surrounding neighborhood is developed with older homes. The property has some filtered views of Murden Cove but it is smaller than the subject's lots. The listing broker reported that the buyer would have to bring some utilities to the site at his expense but was unsure of the cost. The property sold for \$150,000. The view more or less balances the required utility extensions and smaller lot size such that this is considered to be a good value indicator for the subject's lots.

Comparable 3 is located in the Fort Ward neighborhood, which is considered inferior to the subject. It is also about half the size of the subject's development lots. The listing broker reported that the buyer was responsible for water and sewer hookup fees. The property sold for \$98,000 and is considered to be a very low value indicator for the subject's lots. Comparable 4 is located near the downtown area of Bainbridge Island off Grow Avenue. The lot is in area of nice homes and is covered with trees. It sold for \$120,000 and is considered inferior to the subject lots as it is smaller and also requires clearing and grading whereas the subject is considered to have finished lots in this analysis.

Comparables 5 and 6 are lots along Ferncliff Avenue between Wing Point Way and Tiffany Meadows. The lots sold for between \$120,000 and \$135,000. Comparable 7 is the sale of two interior lots that are surrounded by other homes. It sold for an average price of \$115,000. The Ferncliff lots are located within walking distance to the ferry terminal, however traffic along Ferncliff is a significant inferior characteristic of these properties and the subject location is considered superior to these lots as a result, with the proximity to the schools balancing these properties' proximity to the ferry. Comparables 5 and 7 are also smaller than the subject's lots. Overall, they are considered to be somewhat low value indicators for the subject's lots.

The final comparison is the sale of four lots in the same area as comparables 4-7. Comparable 8 is buffered from the busier Ferncliff Avenue and is located on the corner of Wing Point and Tiffany Meadows. This property sold for \$150,000/lot, with an average lot size of about 13,939sf. The sale is from 2010 and is considered to be somewhat superior to the subject after adjustment for market conditions. However, this is offset by the fact that it is significantly smaller than the subject's development lots. On balance, it is considered to be a good value indicator for the subject.

Based upon the foregoing lot sales comparison analysis I have concluded with a retail price for finished lots in the potential subdivision of the subject at \$150,000/lot.

### **Total Retail Sellout Price**

Applying the \$150,000/lot retail sale price to the subject's 31 lots results in a total sell out price of \$4,650,000 as shown on the development approach summary on the page 38.

### **Costs**

From the potential gross revenue derived above all relevant costs must be deducted. These include all costs associated with marketing, development and entrepreneurial profit.

#### *Marketing and Sales Costs*

The marketing cost of the individual retail lots assumes a real estate brokerage commission of 6%. This cost is based upon the market rates stipulated by real estate agents for the comparables used in this analysis. Closing costs (including excise tax) are estimated at 2%. Marketing and sales costs are estimated at \$12,000/lot, or a total of \$372,000.

#### *Development Costs*

Development costs for subdivisions include the soft costs associated with entitlement including permitting, surveying, engineering and legal services necessary to create a subdivision. The subject is raw land and no entitlement work has been completed. Based upon discussions with city officials as well as developers who are active in the Bainbridge Island market I have projected soft costs at \$15,000/lot. This figure includes the City's \$17,360 subdivision fee as well as the \$1,145 per lot fee and the \$158 per lot utility hookup fees. The total estimated soft cost expenditures amount to \$465,000.

Hard costs cover the provision of necessary infrastructure. Hard costs include sitework, water, sanitary sewer, public and private stormwater, roadway improvements, and power extension. Discussion with local developers indicates that the hard costs for a subdivision of the subject's size are about \$30,000/lot.

This considers that the subject does not have extraordinary features that would increase the costs significantly. The total estimated hard costs for the subdivision are \$930,000.

The total hard and soft development costs are estimated at \$45,000/lot, or \$1,395,000.

### **Developer's Margin & Profit**

A typical target for margin and profit is between 15% and 30%. Selection of an appropriate rate is largely a function of risk assessment, which may be affected by location, the presence of critical areas, proximity to infrastructure, the state of the economy and the size of the project with respect to potential long term holding costs. While the subject has a desirable rural location on Bainbridge Island, it currently faces some challenges with respect to the slowly recovering economy and still yet unproven comeback of the residential market. Additionally, the lead time for design, engineering and permitting is expected to be about 18 months with sales of lots not occurring until closer to 22-24 months from the date of value. On the other hand, the subject is located in a close-in location to the commercial core and abuts school district land providing K-12 education within walking distance. Further, the property is opposite a very successful subdivision at North Town Woods with other successful subdivisions in the nearby vicinity. These factors reduce the risk to a buyer.

Based upon the foregoing considerations, I have selected a profit margin of 20%, which amounts to an estimated \$930,000, or \$30,000/lot.

Referring to the development approach summary for the subject's 31 units on the following page, the total estimate of costs and profit amounts to \$2,697,000. Deducting this figure from the total retail sell-out price of \$4,650,000 indicates a value for the subject land of \$1,953,000, or \$63,000/lot.

### **Direct Subdivision Analysis Conclusion**

**\$1,953,000**  
**\$63,000/lot**

### Direct Subdivision Analysis

		Per Lot	\$ Total
<b>Total Retail Sell-Out Price</b>	<b>31 Total Lots</b>	<b>\$150,000</b>	<b>\$4,650,000</b>
<b>Expenses and Development Costs</b>			
Marketing Costs	% Retail Sell-Out	<b>Per Lot</b>	<b>\$ Total</b>
Marketing & Commission Costs	6.0%	\$9,000	\$279,000
<u>Closing Costs</u>	<u>2.0%</u>	<u>\$3,000</u>	<u>\$93,000</u>
<i>Subtotal Selling Costs</i>	<i>8.0%</i>	<i>\$12,000</i>	<i>\$372,000</i>
<b>Development Costs</b>		<b>Per Lot</b>	<b>\$ Total</b>
Soft Costs		\$15,000	\$465,000
Hard Costs		<u>\$30,000</u>	<u>\$930,000</u>
<i>Subtotal Development Costs</i>		<i>\$45,000</i>	<i>\$1,395,000</i>
<b>Subtotal Selling Costs and Development Costs</b>		<b>\$57,000</b>	<b>\$1,767,000</b>
Develop's Margin & Profit (% of Retail Sell-Out)	20.00%	<u>\$30,000</u>	<u>\$930,000</u>
<b>Total Expenses, Development Costs and Profit</b>		<b>\$87,000</b>	<b>\$2,697,000</b>
<b>Value of Land As Is to Developer</b>		<b>31 Total Lots</b>	<b>\$63,000/lot</b>
<b>Raw Land Value as a Percentage of Total Retail Value</b>			<b>\$1,953,000</b>
			<b>42.0%</b>

## DISCOUNTED CASH FLOW ANALYSIS

The discounted cash flow (DCF) analysis considers the timing in which both development and lot sales would occur with specific projections regarding when costs would be paid and when lots would be sold. The DCF model that follows is based upon 6-month increments. Considering the historic rate of residential real estate price escalation on Bainbridge Island during stable economic conditions I have applied an appreciation rate of 2.5% per 6-month interval to the lot prices. Assuming that inflation will remain below 3% annually I have pegged the rate of cost increases at 1.5% per 6-month interval.

In terms of timing, officials with the City of Bainbridge Planning Department expect that design, engineering and permitting would take about 18 months. Therefore, site work would not begin until at least 18 months from the date of the sale of the property to a developer. Lots sales are projected to begin in the fourth period with some lots probably transacting as 'pre-sales' prior to the completion of site work and infrastructure. The remaining lot sales would occur after all site work was finished.

Five lots are projected to sell in the fourth period. Twelve lots are projected to sell in the fifth period and the remaining fourteen lots are projected to sell in the sixth period. The increase in lots sales is expected to result once the project is well established with homes at or near completion and some having sold. All of the subject lots are expected to be sold out by 36 months. This is consistent with historical subdivisions on Bainbridge of similar size to the subject project. Garibaldi Loop, a 27-lot subdivision, sold out in three years and Hillandale, a 35-lot subdivision also sold out in three years. Stetson Ridge, a 31-lot subdivision took six years to sell out but is a more rural subdivision with much larger lots and garnered less publicity than other projects. Northtown Woods, on the other hand, a 70-lot subdivision that is across the street from the subject, took only four years to be absorbed.

The project requires out of pocket expenditures in the first, second and third period for design, engineering, environmental studies and other 'soft' costs. The DCF anticipates that these costs would be more or less equally divided over these periods with slight increases over time pegged to the escalation rate. In the fourth period, after receiving the subdivision plat, two-thirds of the site development work is expected to be completed. The final third of development work is expected to be completed in the fifth period by the end of 30 months, which will facilitate the sale of 12 lots in the fifth period and the sale of the final 14 lots in the sixth period.

The discounted cash flow analysis relies on bringing net income received over the duration of the project to a present value indication of the subject land by the use of a discount rate, also known as the internal rate of return (IRR). Price Waterhouse Coopers' (formerly Korpacz) investor survey is widely regarded as an authoritative source for rates of investors' projected returns. The most recent survey for land developers indicates expected rates of return from 15% to 25%. The subject property, though a large subdivision for Bainbridge Island market, is a relatively small sized subdivision in terms of lot count compared to subdivisions in larger urban market in which most development occurs. This results in a shorter absorption period and therefore lower risk of holding costs over time. The internal rate of return includes developer's profit. I have reconciled to an IRR of 8.75% per 6-month interval (or 17.5% annually) for the subject recognizing the lower than average anticipated risk associated with this subdivision project. The table on the following page details the subject's projected discounted cash flow and indicates a value for the subject of \$2,035,000, or \$65,645/lot.

**Discounted Cash Flow Approach Conclusion**

**\$2,035,000**

**\$65,645/lot**

### Discounted Cash Flow Analysis

Period	0	1	2	3	4	5	6
Holding Length Period Ending	0-mo 7/11/2013	6-mo 1/11/2014	12-mo 7/11/2014	18-mo 1/11/2015	24-mo 7/11/2015	30-mo 1/11/2016	36-mo 7/11/2016
Lot Appreciation		2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Avg. Retail Sale Price	\$150,000	\$153,750	\$157,594	\$161,534	\$165,572	\$169,711	\$173,954
Lot Sales		0	0	0	5	12	14
Lot Sales Revenue	\$0	\$0	\$0	\$0	\$827,860	\$2,036,535	\$2,435,356
Total Lots Sold Period End	0	0	0	0	5	17	31
Lots Remaining Period End	31	31	31	31	26	14	0
Sales Costs							
Marketing & Commission Costs	\$0	\$0	\$0	\$0	\$49,672	\$122,192	\$146,121
Closing Costs	\$0	\$0	\$0	\$0	\$16,557	\$40,731	\$48,707
Total Sales Costs	\$0	\$0	\$0	\$0	\$66,229	\$162,923	\$194,828
<b>Retail Revenue Less Sales Costs</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$761,631</b>	<b>\$1,873,612</b>	<b>\$2,240,528</b>
Cost Escalations		1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Development Costs	\$0	\$157,325	\$159,685	\$162,080	\$0	\$0	\$0
Soft Costs	\$0	\$0	\$0	\$0	\$658,045	\$333,958	\$0
Hard Costs	\$0	\$157,325	\$159,685	\$162,080	\$658,045	\$333,958	\$0
Total Development Costs	\$0	<b>-\$157,325</b>	<b>-\$159,685</b>	<b>-\$162,080</b>	<b>\$103,585</b>	<b>\$1,539,654</b>	<b>\$2,240,528</b>
<b>Net Income</b>	<b>\$0</b>						

IRR (Discount Rate)	8.75%
Present Value	\$2,035,000
	\$65,645/lot

**RECONCILIATION**  
**&**  
**FINAL VALUE ESTIMATE**

## RECONCILIATION AND FINAL VALUE ESTIMATE

As previously discussed, the most typical valuation methodology applicable to residential development land such as the subject is the direct sales comparison approach. However, the credibility of the result of such an analysis is only as good as the market data that is available. I was unable to find recent sales of property with characteristics reasonably similar to the subject, which comprises a potential subdivision of 31 lots, located centrally on the Bainbridge Island. While there are a number of sales of older subdivision sites on the island, given the significant vacillations in market conditions over the last fifteen years in which these sales occurred, reliance upon them in a direct sales comparison approach would not produce a credible opinion of value for the subject with a current date of value.

Conversely, there are recent sales of development lots generally similar to those that can be created on the subject and I have therefore undertaken a development approach. This approach is considered to be an appropriate alternate means to derive a credible value opinion for the subject. As the project is expected to take 18 months to design and permit, in addition to a direct analysis I have also performed a discounted cash flow analysis. Both approaches rely on the establishment of retail sellout prices for the subject's individual lots as though hypothetically finished and ready to be sold as of the date of value, along with an accounting of costs and an estimate of profit incentive. The key difference is that the direct analysis is a simplified snapshot of the total subdivision scenario in which the developer's profit is taken as a separate line item. The simplicity of this approach is its strength as it requires few speculative inputs. Conversely, the discounted cash flow analysis lays out the development costs and sales receipts over the time period in which they are anticipated to occur and accounts for the developer's profit as a function of the internal rate of return that a typical investor would apply.

Both approaches have sufficient market data to provide credible indications of value for the subject. The direct analysis indicates a value of \$1,953,000. The discounted cash flow analysis indicates a value of \$2,035,000. These approaches provide a tight range with a variance of less than 5%. I have reconciled toward the middle of the two approaches recognizing that they would carry equal weight with potential buyers of the subject site. The rounded value amounts to \$2,000,000 or \$64,516/development lot. In arriving at this conclusion I would note that it is within the upper end of the range denoted by the historic sales discussed on pages 29-30.

<i>Developer's Snapshot Approach</i>	<i>\$1,953,000 (\$63,000/lot)</i>
<i>Discounted Cash Flow Approach</i>	<i>\$2,035,000 (\$65,645/lot)</i>
<b>FINAL VALUE ESTIMATE (ROUNDED)</b>	<b>\$2,000,000 (\$64,516/lot)</b>

### Date of Value

July 11, 2013

# ***ADDENDA***

*Appraiser's Experience Data*

**STEPHEN SHAPIRO COMMERCIAL APPRAISAL, LLC**

**P.O. Box 11757  
Bainbridge Island, WA 98110**

**Stephen Shapiro, MAI  
(206) 855-1090  
Email: [stephen@ssappraiser.com](mailto:stephen@ssappraiser.com)  
Website: [ssappraiser.com](http://ssappraiser.com)**

In January of 2011, Stephen Shapiro established the firm **Stephen Shapiro Commercial Appraisal, LLC**. Prior to that he worked with Anthony Gibbons in his firm RE•SOLVE from 1999-2010.

Mr. Shapiro has developed a broad range of experience over a wide variety of property types. Appraisals have been performed on office and industrial buildings; commercial and industrial land; residential subdivision property; natural resource and habitat land, including timberland and wetland property; and high-end estate homes. In addition, he has provided mediation and expert witness services for legal purposes.

Mr. Shapiro is licensed as a certified general real estate appraiser by the State of Washington (license no. 1101561) and is listed on the Washington State Department of Transportation's Approved List of Appraisers and Reviewers. He was awarded the highly regarded **MAI** (Designated Member of the Appraisal Institute) in June 2006 (member no. 12394). He has successfully completed the following Appraisal Institute courses, as well as numerous additional professional seminars:

- Appraisal Principles
- Appraisal Procedures
- Standards of Professional Appraisal Practice, Parts A and B
- Highest and Best Use and Market Analysis
- Basic Income Capitalization
- General Applications
- Advanced Sales Comparison and Cost Approaches
- Report Writing and Valuation Analysis
- Advanced Applications
- Advanced Income Capitalization
- Uniform Appraisal Standards for Federal Land Acquisitions
- Condemnation Appraising: Advanced Topics and Applications
- Attacking and Defending an Appraisal in Litigation
- Forestland Road Cost Obligations
- Common Errors and Misconceptions in Yellow Book Assignments
- Valuation of Easements and Other Divided Partial Interests
- Appraisal Review Under UASFLA

Education:

University of Washington, B.A. Communications, *Honors*; Major in Journalism with Minor in Economics, 1986.

Mr. Shapiro has performed appraisal services for a wide variety of clients, and a partial client list follows:

### Law Firms

- Tousley Brain Stephens PLLC
- Ryan, Swanson and Cleveland, PLLC
- Riddell Williams P.S.
- Michael A. Goldfarb Law Office
- Lawler Burroughs & Baker, P.C.
- Preston Gates & Ellis LLP
- Livengood, Fitzgerald & Alskog PLLC
- McGavick Graves Attorneys at Law
- Williams Kaster, Attorneys at Law
- Law, Lyman, Daniel, Kamerrer & Bogdanovich, P.S.
- Cullen Law Office LLP
- Rodgers Deutsch & Turner
- Aoki Sakamoto and Grant LLP
- Montgomery Purdue Blankinship & Austin PLLC
- Ogden Murphy Wallace PLLC
- Kenyon P. Kellogg, Attorney at Law
- Mundt MacGregor PLLC
- Oldfield & Helsdon, PLLC
- Faubion, Johnson, Reeder & Fraley, P.S.
- Lee Smart, P.S., Inc.

### Municipal and Public

- City of Bainbridge Island
- WA State Department of Natural Resources
- Port of Seattle
- U.S. Forest Service
- Tulalip Tribes
- Central Kitsap School District
- Kitsap County Dept. of Public Works
- Washington State Parks Commission
- City of Port Townsend
- City of Eatonville
- City of Tumwater
- City of Burien
- Kitsap County Dept. Parks and Recreation
- City of Edmonds Parks and Recreation
- WA State Department of Transportation
- Port of Allyn
- Port Gamble S'Klallam Tribe
- Kitsap County Dept. of Admin. Services
- Port of Olympia
- Bainbridge Public Library
- WA State Office of the Attorney General
- King Count Dept. Natural Resources & Parks
- City of Poulsbo
- Colville Confederated Tribes

### Insurance Companies

- First American Title Insurance Co.
- Transnation Title Insurance Co.
- Lawyers Title Insurance Corp.
- Commonwealth Land Title Insurance
- Old Republic Title Co. Farm Bureau Life Insurance Co.
- Pacific Northwest Title Insurance Co.
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### Banks

- Commerce Bank

- American Marine Bank
- Washington First International Bank
- Frontier Bank
- Credit Suisse First Boston
- GMAC Commercial Mortgage
- Column Financial
- Kitsap Bank

### Private Companies

- NC Power Systems Co.
- Pope Resources, Inc.
- Harnish Group, Inc
- Development Services of America
- Pacific Investment Co.
- Batavia Holdings LLC
- Kinzer Real Estate Services
- Knowles/Turner Real Estate Group
- Warren G. Harding Temple Board Assoc.
- GEM1 LLC
- American Eagle Communities
- Wal-Mart
- Black Equities Group LTD
- Seattle Yacht Club
- The Ketcham Family
- McCormick Land Company
- Trammell Crow Co.
- Pike Place Market PDA
- MacMillan-Piper, Inc.
- Pacific Medical Center and Clinics
- Madison Ave Real Estate, LLC
- Olympic Property Group
- Prosperity Treatment Center
- The Mountaineers
- Starbucks
- Seattle Automotive Distributors, Inc.
- Puget Sound Real Estate Services
- Puget Sound Energy
- JWJ Group
- Pioneer Human Services

### Institutions

- Bainbridge Island Parks and Recreation
- Group Health Cooperative of Puget Sound
- City University
- The Mark A. Robinson Trusts

### Conservation Organizations

- Trust For Public Land
- Bainbridge Island Land Trust
- Cascade Land Conservancy
- Great Peninsula Conservancy
- Whidbey Camano Land Trust
- Methow Conservancy
- Northwest Watershed Institute
- Open Space Resources
- Kitsap Conservation District
- Capitol Land Trust
- Jefferson Land Trust
- Nisqually Land Trust
- North Olympic Land Trust
- PCC Farmland Trust



