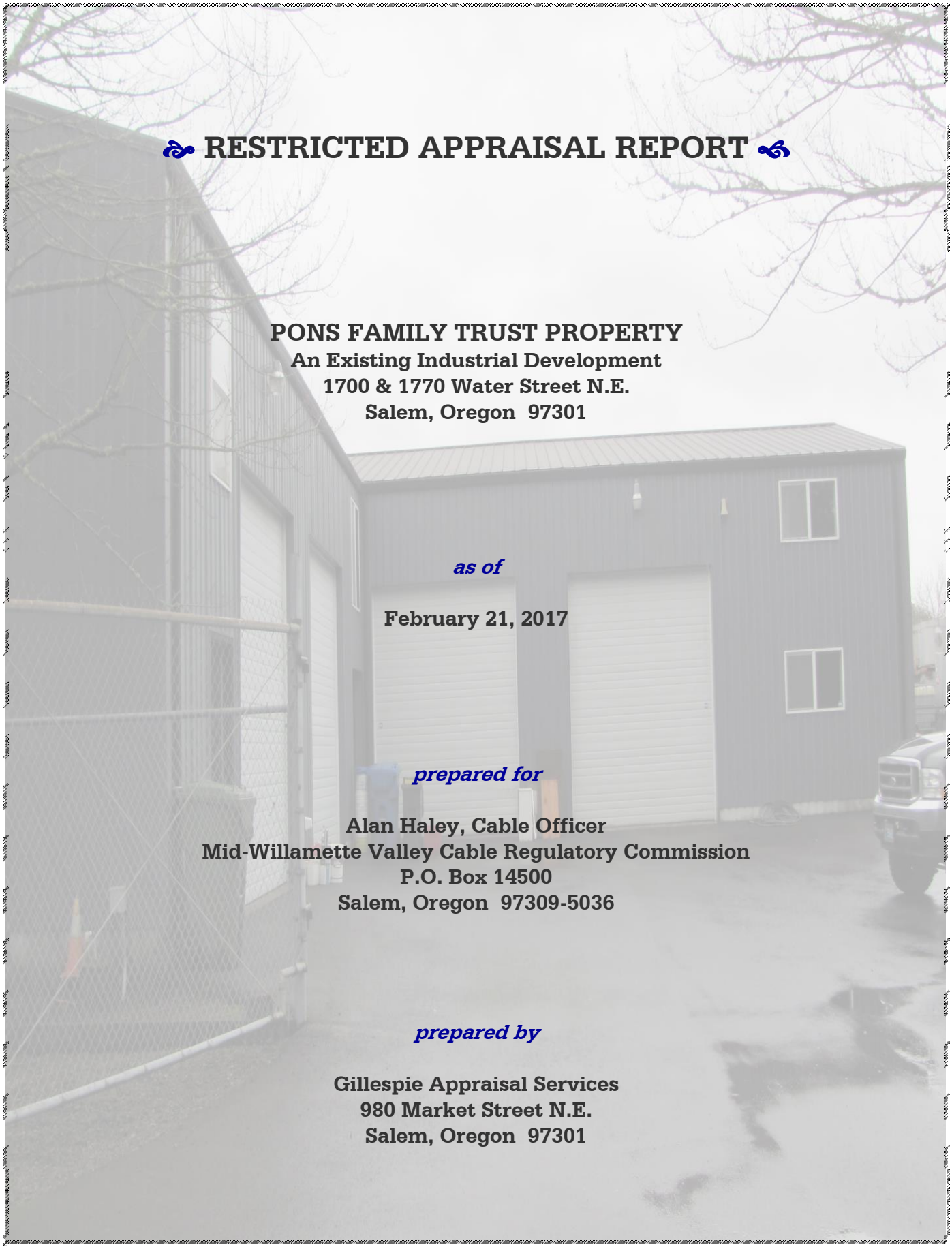

RESTRICTED APPRAISAL REPORT

PONS FAMILY TRUST PROPERTY
An Existing Industrial Development
1700 & 1770 Water Street N.E.
Salem, Oregon 97301

as of

February 21, 2017

prepared for

Alan Haley, Cable Officer
Mid-Willamette Valley Cable Regulatory Commission
P.O. Box 14500
Salem, Oregon 97309-5036

prepared by

Gillespie Appraisal Services
980 Market Street N.E.
Salem, Oregon 97301

Gillespie Appraisal Services Kenna D. Gillespie, MAI
Commercial ❖ Industrial ❖ Multifamily (503) 585 - 1906

February 27, 2017

Alan Haley, Cable Officer
Mid-Willamette Valley Cable Regulatory Commission
P.O. Box 14500
Salem, Oregon 97309-5036

RE: 1700 & 1770 Water Street N.E.
Salem, Oregon 97301
P.O. Number 1707

Dear Mr. Haley:

In accordance with your request, I have made an analysis of the above property, which is more specifically identified in the accompanying report. The purpose of the appraisal was to estimate the as-is market value of the fee simple interest of the property under market conditions existing as of February 21, 2017.

This is a Restricted Appraisal Report which is intended to comply with the reporting requirements established under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice. It presents minimal discussion of the data, reasoning, and analyses that were used to develop the appraiser's opinions of value. Supporting documentation concerning the appraisal process has been retained in the appraiser's files. Use of this report is restricted to the client. The depth of discussion contained in this report is specific to the needs of the client and for the intended use stated. The rationale for the opinions and conclusions set forth is this report may not be properly understood without additional information in the appraiser's work file.

In my opinion, the subject property has a value representative of market conditions on February 21, 2017 of $550,000 (FIVE HUNDRED FIFTY THOUSAND DOLLARS). The basis for this conclusion is briefly explained in the attached appraisal. Thank you for the opportunity to be of service.

Sincerely yours,

Kenna D. Gillespie, MAI
State of Oregon, C000114

980 Market Street N.E. ❖ Salem, Oregon 97301
gillespieapp@comcast.net

PURPOSE OF THE APPRAISAL: The purpose of this appraisal is to estimate the **as-is market value** of the subject as of the date of valuation.

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 are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and acting in what they consider their own best interests;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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.[1]

The **"As Is" Market Value** is the "market value of real property in its current physical condition, use, and zoning as of the appraisal date." [2]

INTENDED USE OF THE REPORT: It is understood that this appraisal will be used to establish market value for the potential purchase of the subject. The report has been prepared for the sole use of the clients and intended users, the Mid-Willamette Valley Cable Regulatory Commission and the City of Salem.

INTEREST VALUED: The property rights appraised in this report represent the fee simple interest in the property.

EFFECTIVE DATE OF VALUE: The date of valuation is February 21, 2017 which is the date of the property observation.

DATE OF REPORT: February 27, 2017

SCOPE OF WORK: In completing this report, an examination of the subject was made. The neighborhood and community, and their impact on the subject were analyzed. A search of the Marion County assessment and sales records was conducted. Other

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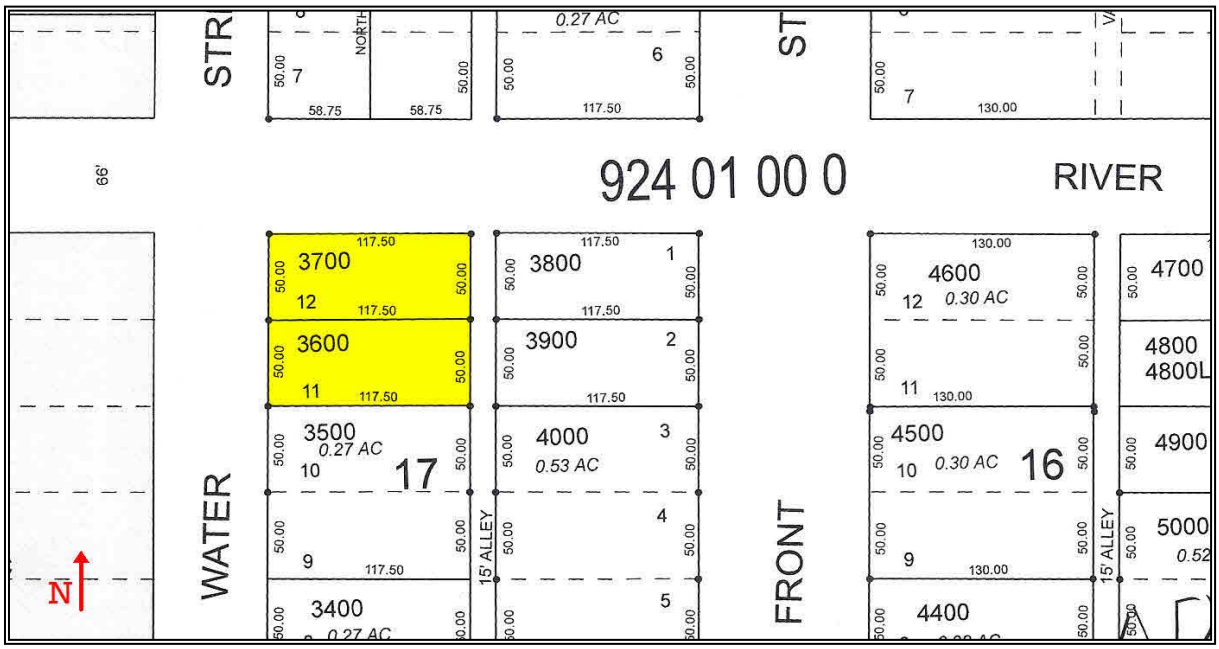
[1] Office of Comptroller of the Currency (OCC), Title 12 of the Code of Federal Regulation, Part 34, Subpart C - Appraisals, 34.42 (g).
[2] The Appraisal Institute, The Dictionary of Real Estate Appraisal, Fifth Edition, 2010, p. 12.

resources included the Willamette Valley and Regional multiple listing services; various county records; Data Tree; the City of Salem Planning Department; real estate brokers and property owners. These data supplemented the information available in my office files.

At the subject, the exterior and interior of the building were viewed. Portions of the building were measured and some building plans were reviewed. Characteristics applicable to valuation of the property were noted. The highest and best use of the subject, as though vacant and as improved, was determined. The three approaches to value were considered. With the age, design, and condition of the subject, the most appropriate valuation techniques were the Sales Comparison and Income Capitalization Approaches.

A sufficient quantity and quality of data were available to complete this assignment. The search for comparable leases and improved sales was conducted throughout the Salem-Keizer community. In estimating the subject's value, the comparable properties were viewed and photographed. The transactions were then verified and analyzed. This Restricted Appraisal Report sets forth the appraiser's conclusions with minimal discussion. Supporting documentation is retained in the file.

REAL ESTATE APPRAISED: 1700 & 1770 Water Street N.E. in Salem, Marion County, Oregon. The subject is legally identified as Lot Eleven (11) and Lot Twelve (12), Block Seventeen (17), RIVERSIDE ADDITION to Salem, Marion County, Oregon. It is located at the southeast corner of Water and River streets. According to the Marion County Assessor's office, the site contains a total of 11,750 square feet.



The property is not located in a known flood zone (FEMA panel number 41047C0333H, dated January 2, 2003). There is a full range of public and private utilities. Police and fire protection are also available.

The subject is zoned General Industrial (IG) by the City of Salem. No adverse easements or encroachments were noted during the inspection, and I assume there are none. I have no knowledge concerning the presence of hazardous materials on the property as of the date of the appraisal and have assumed that the site and improvements are free from hazardous waste.

The site was developed with an industrial flex building in 1995. The metal-clad building is divided into four shop and storage spaces. Three are accessed from the front of the building and a fourth storage area has access along the abutting alley. There is a studio apartment and more storage on the second level. In addition, the southerly space has a two-level office. The gross building area is estimated at 5,270 square feet. Of this figure, about 39 percent represents finished areas such as rest rooms, offices and the apartment. The shop areas are insulated and finished with sheetrock on the walls and ceilings. Grade level loading is available with several roll-up doors. All rest rooms on the ground floor are ADA accessible.

The subject is in good condition. Its remaining economic life is estimated to be about 20 to 25 years.

The Marion County Assessor identifies the subject as Tax Lots 3600 and 3700 on Map 7S-3W-15DD. For the 2016-17 tax year, the assessed value is $145,470. Real estate taxes are $2,575.39.

The property has not sold in the past five years, but has been marketed for sale at $625,000. There is a pending sale at $550,000. Terms will be cash. The subject was observed by the appraiser on February 21, 2017.

HIGHEST AND BEST USE: If it were vacant, the site would be developed with a smaller industrial use.

The location, topography, and site size together with the design and layout of the improvements indicate that the existing industrial building is the highest and best use of the subject. The most likely purchaser is an owner-occupant needing industrial, office and storage space.

INDICATED EXPOSURE TIME: 6 to 12 months.

ESTIMATED MARKETING TIME: One year or less.

SALES COMPARISON APPROACH: Although the sales used in this analysis are similar to the subject overall, they are not directly comparable. Potential differences in value resulting from financing terms, conditions of sale, market conditions, location and physical characteristics are analyzed. A summary table is on the following page.

IMPROVED SALES ADJUSTMENT GRID				
	Sale 1	**Sale 2**	**Sale 3**	**Sale 4**
Address	245 Division St NE	1775 Baker St NE	1485 20th St SE	1360 Tandem Ave NE
City	Salem	Salem	Salem	Salem
Date of Sale	January 2017	September 2016	March 2016	Active
Sale Price/Terms	$420,318 – Contract	$200,000 – Cash	$319,000 - Cash	$795,000
Marketing Time	2.75 Years	20 Months	4 Months	6 Months
Verification	Real Estate Broker	Real Estate Broker	Real Estate Broker	Real Estate Broker
Capitalization Rate	6.81%	7.93%	6.51%	5.41%
Year Built	1966	1987	1985	1994
Property Condition	Average	Average	Average	Average/Good
Gross Building Area	5,166 SF	2,400 SF	2,012 SF	6,527 SF
Building Height	14'	10'	8' & 12'	14'
Site Size	6,891 SF	4,879 SF	11,814 SF	30,056 SF
Land-to-Building Ratio	1.33 to 1	2.03 to 1	5.87 to 1	4.60 to 1
Zoning	CB	CG	IG	IC
Adjustments:				
Financing Terms	=	=	=	=
Conditions of Sale	=	=	=	=
Land-to-Building Ratio	+ $45,000	=	($35,000)	($75,000)
Market Conditions	=	=	=	=
Physical Condition	Inferior	=	=	=
Effective Age	Inferior	=	=	=
Quality	=	Inferior	Superior	Slightly Superior
Building Size	=	Smaller	Smaller	=
Zoning	Slightly Superior	Slightly Superior	=	Slightly Superior
Location	=	=	=	=
Final Adjusted Price	**$465,318**	**$200,000**	**$284,000**	**$720,000**
Adjusted Price/SF	**$90.07**	**$83.33**	**$141.15**	**$110.31**

Summary and Value Conclusion

Three sales of smaller industrial properties and a current listing are used to determine the value of the Water Street property by the Sales Comparison Approach. The sales are similar to the subject in financing terms, conditions of sale, market conditions, and location. Specific adjustments are made for land-to-building ratios. General comparisons for physical condition, effective age, quality, building size, and zoning are completed. The listing and sales define a range from $83.33 to $141.15 per square foot. Given the subject's size, location, and overall quality, a final value of $100 per square foot is concluded and calculates the following estimate of market value:

5,270 SF @ $100/SF = $527,000

INCOME CAPITALIZATION APPROACH: The Income Capitalization Approach converts net operating income into a value with a capitalization rate. The net operating income is arrived at by first determining the market rent level applicable to the property. From this estimate of potential gross income is deducted the vacancy and expenses which a typical purchaser would anticipate. The result is a forecast of net operating income. A capitalization rate has been calculated based on market data.

Rental	Location	Size	TN Rent	Date
1	2166 Wayside Terrace NE Salem	3,750 SF	$.70	March 2016
2	1125 Salem Industrial Dr. NE Salem	6,000 SF	$.75	Listing
3	1232 Commercial Street NE Salem	3,088 SF	$.66	Sept. 2016
4	1775 Baker Street NE Salem	2,400 SF	$.68	Nov. 2015
5	114 50th Avenue NW Salem	4,000 SF	$.66	Feb. 2017
6	3220 Pringle Road SE Salem	2,350 SF	$.60	Right of Refusal

The rentals surveyed define a range of $.60 to $.75 per square foot of building area. The subject is located at the corner of River and Water streets. The site is fenced and has gated access along both streets. The building has nearly 40 percent of finished space and the shop/storage areas are insulated. The overall quality and condition are good. Given these attributes and current market conditions, the subject's market rent is forecast at $3,500 per month which averages $.66 per square foot.

For this analysis, stabilized vacancy and credit loss are included at six percent which represents a vacancy of three to four months for each five-year lease period.

Lease terms are triple net in which the lessor pays property management, operating expenses when vacant, and a reserve for replacement. The tenant(s) would be responsible

for real estate taxes, fire insurance, building and yard maintenance, janitorial expense, and all utility services.

Sales and listings of smaller industrial properties in the Salem-Keizer community have had capitalization rates from 5.41 to 7.93 percent. Given the current market conditions, together with the quality, condition and location of the subject, an overall rate of 6.50 percent is utilized.

The income and expense projection, and direct capitalization are presented on the following page.

INCOME & EXPENSE PROJECTION
AND DIRECT CAPITALIZATION

Rental Income:		
Potential Annual Rent - $3,500/Month	$42,000	
Vacancy & Credit Loss	($2,520)	
Effective Rental Income		$39,480
Operating Expenses:		
Property Insurance	Tenant(s)	
Real Estate Taxes	Tenant(s)	
Repairs & Maintenance	Tenant(s)	
Management & Administration	($1,974)	
Expense on Vacancy	($ 455)	
Reserve for Replacements	($1,054)	
Services -		
Janitorial	Tenant(s)	
Trash Removal	Tenant(s)	
Utilities -		
Electricity & Gas	Tenant(s)	
Sewer & Water	Tenant(s)	
Total Operating Expenses		($3,483)
Net Operating Income		$35,997
Capitalization Rate		6.50%
Value Indication		$553,800
Rounded To		**$554,000**

RECONCILIATION AND FINAL VALUE CONCLUSION: This appraisal is made to express an opinion of the market value of the fee simple interest in the subject real estate. The preceding analyses result in the following indications of market value:

Sales Comparison Approach	$ 527,000
Income Capitalization Approach	$ 554,000

The Sales Comparison Approach included a current listing and three sales of smaller industrial buildings. The transactions were analyzed regarding changes in market conditions, location, quality and physical condition. The analysis based on the gross building area concluded with a unit value of $100 per square foot for the property on Water Street. The value conclusion of $527,000 provides a good indication of market value for the subject.

The Income Capitalization Approach estimated the income potential of the subject property. The rent survey included leases and listings of similar industrial properties. Market rent was forecast at $3,500 per month on a triple net basis. Vacancy deductions and operating expenses were based on the market experience of similar properties. An overall rate of 6.50 percent was used in the direct capitalization. The conclusion of $554,000 is also a credible estimate of the subject's market value.

There is a pending sale of the subject property at $550,000. It had been marketed at $625,000. The listing broker reported there were other offers to purchase, but declined to disclose those terms. The pending transaction has an average price of $104.36 per square foot. At the projected market rent, the capitalization rate is 6.54 percent. These indications of value are within the ranges established by the current listing and comparable sales.

As a result of this investigation and analysis, it is my opinion that the market value of the property as of February 21, 2017 is:

FIVE HUNDRED FIFTY THOUSAND DOLLARS

$550,000

ASSUMPTIONS AND LIMITING CONDITIONS: This is a Restricted Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice. As such, it does not include discussions of the data, reasoning, and analyses that were used in the appraisal process to develop an opinion of the property's value. Supporting documentation concerning the data, reasoning and analyses is retained in the appraiser's file.

The statements of value and all conclusions shall apply as of the dates shown herein. No responsibility is assumed for matters legal in nature, nor is any opinion rendered as to the title, which is assumed to be good and marketable.

All existing liens and encumbrances have been disregarded, and the property is appraised as though free and clear unless otherwise stated. Responsible ownership and competent property management are also assumed.

The legal description and property plat are assumed to be correct. No survey has been made and no responsibility is assumed in connection with such matters. The maps, photographs and sketches included in this report are meant to assist the reader in visualizing the property.

The information furnished by others is believed to be correct and reliable. A reasonable effort has been made to verify such information; however no warranty is given for its accuracy.

No hazardous material inspection has been made. As none was noted on the property, no responsibility is assumed for the impact of hazardous waste material. If such materials are found on the property, the appraiser reserves the right to amend the value conclusion(s) in this report.

No hidden or unapparent conditions of the property, subsoil, or structures exist that render it more or less valuable. No responsibility is assumed for such conditions or for engineering studies required to discover or correct them. In addition, the appraiser is not responsible for any costs incurred to discover or correct any deficiency in any improvements, existing or proposed.

This report shall be used for its intended purpose only, and by the parties to whom it is addressed. Possession of this report does not include the right of publication. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news, sales, or other media without the prior written consent and approval of the appraiser.

The report must be used in its entirety. Reliance on any portion of the report independent of others may lead the reader to erroneous conclusions regarding the property values. No portion of the report stands alone without approval from the author.

There is no obligation or liability to any third party. If this report is given to anyone other than the client, the client shall make such party aware of all assumptions and limiting conditions of the appraisal.

Acceptance of and/or use of this appraisal report constitutes acceptance of the above assumptions and limiting conditions.

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, 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 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 report is subject to review by the authorized representatives of the Appraisal Institute.
- I have made a personal observation of the property that is the subject of this report, and at least an exterior viewing of the comparables included in the valuation.
- No one provided significant real property appraisal assistance to the person signing this certification.
- As of the date of this report, I have completed the requirements under the continuing education program for designated members of the Appraisal Institute.
- I am a Certified Appraiser in the State of Oregon, C000114 (expires 10/31/2017).

Kenna D. Gillespie, MAI