

MacSwain Associates LLC

4401 Business Park Boulevard, Suite 22, Anchorage, Alaska 99503

APPRAISAL REPORT

Residential and Commercial/Industrial Property Rent Survey
City of Unalaska



Submitted To:

Erin Reinders
Director of Planning
City of Unalaska
P.O. Box 610
Unalaska, Alaska

Effective Date of Rent Study

February 18, 2014

Report Date

March 3, 2014

File No.

13-2633

MacSwain Associates LLC

*4401 Business Park Blvd., Suite 22
Anchorage, Alaska 99503
Telephone: 907-561-1965
Facsimile: 907-561-1955
E-mail: d.shantz@macswain.com*

March 3, 2014

Erin Reinders
Director of Planning
City of Unalaska
P.O. Box 610
Unalaska, Alaska

Re: Rent Survey
Residential Housing and Commercial/Industrial Properties
Unalaska, Alaska

Dear Mr. Reinders:

As requested, we prepared a *Rent Survey* that collects and analyzes terms, conditions, and market trends pertaining to monthly rent rates for residential housing and commercial/industrial properties located in Unalaska. Surveyed residential housing types include apartments with studio, one-bedroom, two-bedroom, three-bedroom, and four-bedroom units as well as single-family dwellings, duplexes/triplexes, and bunkhouses. The survey of commercial/industrial properties include office, retail, industrial, warehouse, service garage, institutional, and yard storage. The residential survey reports monthly rental data obtained from approximately 80-percent of the Unalaska inventory available to residents rather than employee housing. While the survey of commercial/industrial lease rates excluded owner-occupied properties, the inventory consists of 11 properties totaling 533,000± square feet.

We perform a comprehensive analysis of residential housing rents and commercial/industrial lease rates, terms, and conditions, but summarize our findings. As mutually agreed, we do not cite specific properties in our analysis or conclusions to protect proprietary information. The rent survey constitutes an *Appraisal Report* that complies with the requirements set forth in the *Uniform Standards of Professional Appraisal Practice* (USPAP). We understand the City of Unalaska will share the findings of this report with the City Council. Thus, the intended users of the appraisal report are the City of Unalaska and council representatives.

Tables 1 and 2 that follow summarize our finding regarding the range of monthly rent for residential housing and commercial/industrial lease rates. Chapter 1 of this report contains important facts pertaining to the appraisal process and scope of work. Chapters 2 and 3 discuss and analyze survey results pertaining to the Unalaska market for residential housing and commercial/industrial properties, respectively. These latter chapters set forth important findings, state property owner, manager, and/or tenant concerns, and emphasize problematic economic factors that may affect future market behavior.

Table 1: Summary of Unalaska Residential Housing Rents

Property Type	Unit Type	Low Rent	High Rent	Median Rent
<i>Apartment</i>	<i>Studio</i>	\$615	\$1,050	\$800
	<i>1-Bedroom</i>	\$900	\$1,350	\$1,000
	<i>2-Bedroom</i>	\$900	\$1,600	\$1,300
	<i>3-Bedroom</i>	\$1,100	\$2,100	\$1,600
	<i>4-Bedroom</i>	\$1,750	\$2,200	\$1,900
<i>Single-Family (includes mobile homes)</i>	<i>1-Bedroom</i>	\$950	\$950	\$950
	<i>2-Bedroom</i>	\$1,300	\$1,600	\$1,500
	<i>3-Bedroom</i>	\$1,600	\$2,100	\$1,800
	<i>4-Bedroom</i>	\$2,500	\$2,500	\$2,500
	<i>5-Bedroom</i>	\$2,800	\$2,800	\$2,800
<i>Duplex/Triplex</i>	<i>1-Bedroom</i>	\$850	\$1,300	\$1,100
	<i>2-Bedroom</i>	\$1,200	\$1,500	\$1,300
	<i>3-Bedroom</i>	\$1,450	\$1,930	\$1,600
<i>Bunkhouse</i>	<i>1-Person Room</i>	\$290	\$750	\$650
	<i>2 Person Room</i>	\$695	\$950	\$750


Table 2: Summary of Unalaska Commercial/Industrial Lease Rates

Market District	Occupancy Type	Lease Rate \$/SF/Mo.
<i>Dutch Harbor</i>	<i>Office</i>	\$1.69-\$2.09/SF
	<i>Warehouse</i>	\$1.00-\$1.25/SF
<i>Iliuliuk Harbor</i>	<i>Office</i>	\$1.75-\$3.05/SF
	<i>Warehouse</i>	\$1.00-\$1.45/SF
<i>Iliuliuk Harbor</i>	<i>Retail</i>	\$1.45-\$1.65/SF
<i>Iliuliuk Harbor</i>	<i>Office</i>	\$1.30
	<i>Warehouse</i>	\$0.83-\$1.10/SF
<i>Iliuliuk Harbor</i>	<i>Retail</i>	\$1.30-1.80/SF
	<i>Office</i>	\$1.35-1.90/SF
	<i>Warehouse</i>	\$0.50-\$0.95/SF
<i>Iliuliuk Harbor</i>	<i>Office/Warehouse</i>	\$0.89/SF
<i>Iliuliuk Harbor</i>	<i>Office/Retail</i>	\$1.32-\$145/SF
	<i>Warehouse</i>	\$1.10/SF
	<i>Special Purpose</i>	\$2.20/SF
<i>East Point</i>	<i>Office/Retail</i>	\$1.50-\$1.81/SF
	<i>Warehouse</i>	\$1.00-\$1.25/SF
<i>Downtown</i>	<i>Special Purpose</i>	\$5.21/SF
<i>Valley</i>	<i>Warehouse</i>	\$3.15-\$3.23/SF
<i>Captains Bay</i>	<i>Office</i>	\$1.00/SF
	<i>Retail</i>	\$1.25/SF
	<i>Warehouse</i>	\$0.60-\$1.00/SF
	<i>Freezer</i>	\$2.20/SF
<i>Captains Bay</i>	<i>Warehouse</i>	\$0.70-0.80/SF
<i>Yard Storage</i>	<i>Level Site</i>	\$0.15-\$0.25/SF

MacSwain Associates LLC

The effective date of the *Rent Survey* is February 18, 2014, which corresponds with the inspection date of the properties that comprise the survey. We appreciate the opportunity of prepare the *Rent Survey* that collects and analyzes data pertaining to the Unalaska residential housing and commercial/industrial property markets. We retain proprietary information obtained from the property owners on file that support our survey results and conclusions. As mutually agreed, we will not share confidential property information with the City of Unalaska unless authorized specifically by the property owner. If you have questions regarding the *Rent Survey*, we will be glad to discuss them with you.

Respectfully submitted,



Dan Shantz
Alaska State Certificate No. 47



Steve MacSwain, MAI
Alaska State Certificate No. 42


Appraiser Certification

We certify that to the best of our 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 they are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We 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.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined rent or direction in rent that favors the cause of the client, the amount of the rental opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The report analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- Dan Shantz made a personal inspection of a majority of the properties that are the subject of the rent survey considered an appraisal report.
- No one provided significant professional assistance to the persons signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
- As of the date of this report, Steve MacSwain, MAI has completed the continuing education program of the Appraisal Institute.
- Dan Shantz has completed the Standards and Ethics Education Requirement of the Appraisal Institute.

MacSwain Associates LLC

- As of the date of this report, Dan Shantz (47) and Steve MacSwain (42) are certified General Real Estate Appraisers in the State of Alaska and have completed the continuing education program requirements of the Appraisal Institute.



Dan Shantz
Alaska State Certificate No. 47



Steve MacSwain, MAI
Alaska State Certificate No. 42

Title Page	
Transmittal Letter	1
Appraiser Certification	4
Table of Contents	6
Chapter 1: Important Facts Pertaining to the Unalaska Rent Survey	7
Client	7
Appraisers	7
Intended Use	7
Intended Users	7
Rent Survey Location Boundaries	7
Inspection Date of Rent Survey Properties	8
Effective Date of Rent Survey Conclusions	8
Date of Appraisal Report	8
Scope of Work	8
Chapter 2: Residential Rent Survey, Analysis and Conclusions	10
Overview	10
Analysis of Residential Housing Rent Rates	10
Analysis of Residential Housing Rent Terms and Conditions	11
Important Findings Pertaining to Residential Rent Survey	12
Important Findings of Residential Rent Survey by Property Type	13
Market Conclusions and Problematic Economic Issues of Residential Rent Survey	13
Chapter 3 Commercial/Industrial Rent Survey Analysis and Conclusions	15
Overview	15
Analysis of Commercial/Industrial Lease Rates	15
Analysis of Commercial/Industrial Lease Terms and Conditions	16
Important Findings Commercial/Industrial Rent Survey	17
Market Conclusions and Problematic Economic Issues of Rent Survey	17
Addenda	
Appraiser Qualifications	

Chapter 1: Important Facts Pertaining to Unalaska Rent Survey

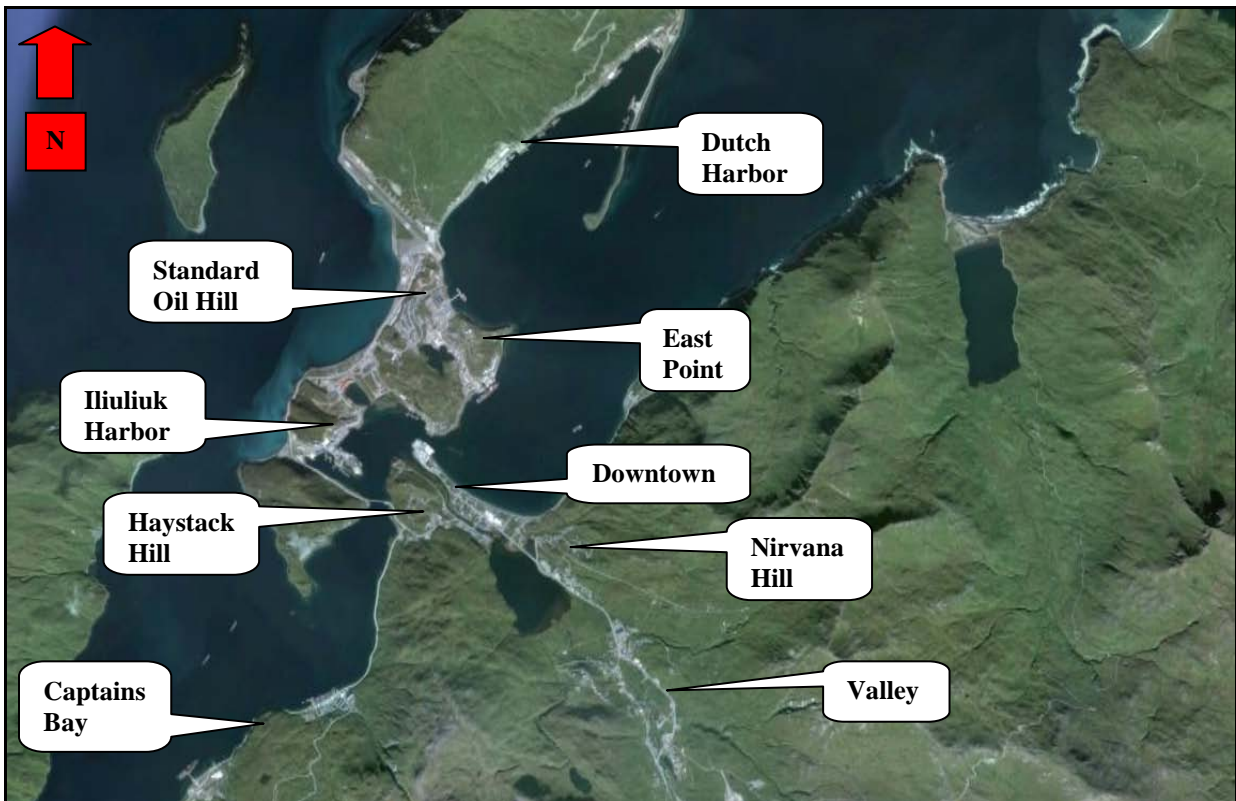
Client: City of Unalaska
Planning Department
P.O. Box 610
Unalaska, Alaska

Appraisers: Dan Shantz and Steve MacSwain, MAI, Certified General Real Estate Appraisers, State of Alaska

Intended Use: City of Unalaska will use the rent survey to evaluate the current monthly rent schedules of various city-owned properties as well as for strategic planning for future housing and commercial/industrial development.

Intended Users: City of Unalaska and Unalaska City Council

Rent Survey Location Boundaries: Surveyed properties are located within City of Unalaska boundaries, extending from the industrial port district fronting Dutch Harbor to the “Valley” residential district that extends three miles southeast of the mixed-use Downtown district. Marine industrial development fronting the west shore of Captains Bay is also part of the survey area. The inserted aerial image provides an overview of the survey area with call-outs identifying the various market districts of Unalaska.



Inspection Date of Rent Survey Properties: February 18, 2014

Effective Date of Rent Survey Conclusions: February 18, 2014

Date of Appraisal Report: March 3, 2014

Scope of Work: We collected and analyzed monthly rent rates for the various types of residential housing and commercial/industrial properties that comprise the Unalaska market. Initial property owner or manager contact was by telephone with respondents given the option of providing information verbally or by e-mail. Important facts pertaining to the collection and analysis of the rental data follow:

Residential Housing: The residential database totaled 76± properties rented to private parties in the open market as well as those intended for employee use. The appraisers had direct contact with 42 property owners or managers with 39 willing to share their rent rates and monthly terms. Thereafter, we interviewed several property owners, managers, and/or tenants during the inspection of surveyed properties. While only 51-percent of our residential database provided rental information, the respondents totaled nearly 80-percent of the housing inventory.

Commercial/Industrial Properties: Since a majority of commercial/industrial inventory involves an owner-occupant, the rental database is much smaller. We contacted 11 property owners or managers willing to discuss lease rates and terms, although their responses were less transparent because of proprietary concerns. Regardless, we collected and analyzed rental data from nearly 70-percent of the commercial/industrial inventory occupied by tenants.

During the course of the rental survey, we performed the following functions summarized in bullet-point format.

- Reviewed *Comprehensive Plan 2020, Unalaska, Alaska*, adopted in February 2011
- Reviewed *Comprehensive Plan 2020, Housing Plan Unalaska, Alaska*, adopted in February 2011
- Contacted Aleutian Housing Authority to discuss their rental units and programs as related to Unalaska housing
- Reviewed a residential housing database provided by the City of Unalaska that totaled 61 properties
- Reviewed a residential housing database compiled by MacSwain Associates LLC for work performed in 2006
- Initiated contact with owners and/or managers of residential properties and requested rental data pertaining to monthly rents, terms, conditions, and anticipated trends
- Inspected a majority of the residential rental housing inventory available for private and employee use on February 18, 2014

MacSwain Associates LLC

- Analyzed residential housing data to determine the range of monthly rent rates by housing type, tenant expenses, security deposits, rent restrictions, wait lists, etc.
- Initiated contact with owners and/or managers of commercial/industrial properties and requested data pertaining to lease rates, terms, conditions, and anticipated trends
- Inspected a majority of the commercial/industrial property inventory available for lease on February 18, 2014
- Analyzed commercial/industrial rent data to determine the range of lease rates, tenant expenses, term of lease, rate escalation, renewal clause, etc.
- Reported our findings and conclusions regarding the various types of residential housing that comprise the Unalaska rental market
- Reported our findings and conclusions regarding the commercial/industrial market of Unalaska

Chapter 2: Residential Rent Survey Analysis and Conclusions

Overview: As stated, we contacted owners, managers, and/or tenants to prepare a residential housing survey to determine the range of monthly rents for the various types of units that comprise the Unalaska market. We collated this data into four property types based on bedroom count. The four residential categories are as follows.

- ***Apartments - Four or More Dwelling Units***
- ***Single-Family Dwellings***
- ***Duplexes/Triplexes***
- ***Bunkhouses***

The survey data includes monthly rent rates, tenant expenses, terms, and policies regarding security deposits, furnishings, wait lists, pets, smoking, etc. In addition, we collected data pertaining to the size of the unit, style of entry, laundry facilities, and type of parking. We also requested data regarding past, current, and anticipated vacancy rates. Further, we inquired about near-term expectations to increase unit rents or change lease terms. Finally, we offered the survey respondent to state concerns or opinions regarding the Unalaska rental housing market. The last inquiry produced varied responses, although one central theme evolved from comments. Specifically, escalating utility costs are a major concern of owners, managers, and tenants of residential housing in Unalaska.

The first step of the residential housing survey is an analysis of monthly rent rates. Thereafter, we analyze rent terms and conditions, then summarize important findings, and finally communicate market conclusions and problematic economic issues that affect the Unalaska residential housing market.

Analysis of Residential Housing Rent Rates: Table 3 on the following page summarizes monthly rent rates for apartments, single-family dwellings, duplexes/triplexes, and bunkhouses. Importantly, we found tenant expenses, condition of unit, bath count, and unit size are the principal comparative factors affecting residential rent rates in the Unalaska housing market. The table establishes the low and high monthly rent by property and unit type as well as lists an estimate of median rent. We report a median rent estimate rather than mean rent because of the following market factors.

- Largest owner of apartment units has the lowest unit rents
- Several property types have a small sample size
- Several property types differ significantly in condition and functional utility
- Median rent estimate, typically, reflects tenant paying utilities
- Reporting mean monthly rent tends to skew indicators downward
- Reporting mean monthly rent may cause misleading interpretation of the survey data

Table 3: Summary of Monthly Rent Rates for Unalaska Residential Housing

Property Type	Unit Type	Low Rent	High Rent	Median Rent	# Vacant ¹
Apartment	Studio	\$615	\$1,050	\$800	2
	1-Bedroom	\$900	\$1,350	\$1,000	2
	2-Bedroom	\$900	\$1,600	\$1,300	1
	3-Bedroom	\$1,100	\$2,100	\$1,600	1
	4-Bedroom	\$1,750	\$2,200	\$1,900	0
Single-Family (includes mobile homes)	1-Bedroom	\$950	\$950	\$950	0
	2-Bedroom	\$1,300	\$1,600	\$1,500	0
	3-Bedroom	\$1,600	\$2,100	\$1,800	0
	4-Bedroom	\$2,500	\$2,500	\$2,500	0
	5-Bedroom	\$2,800	\$2,800	\$2,800	0
Duplex/Triplex	1-Bedroom	\$850	\$1,300	\$1,100	0
	2-Bedroom	\$1,200	\$1,500	\$1,300	1
	3-Bedroom	\$1,450	\$1,930	\$1,600	0
Bunkhouse	1-Person Room	\$290	\$750	\$650	0
	2 Person Room	\$695	\$950	\$750	0

Notably, we omit rent rates of government-subsidized housing from Table 3 because income dictates their level rather than market behavior. While the monthly rent rates reported in the table has a rather diverse range, a majority of the surveyed properties indicate a tight-knit market dynamic with minimal rent variation between similar residential housing units. As stated, analysis indicates economic influences pertaining to tenant benefits and unit amenities are the principal cause of variance in residential rent rates.

After analysis of the Unalaska residential housing market, we found justification for the wide range of monthly rent rates. In other words rent deviation from the “norm”, typically, has a distinct cause that reflects market behavior.

Analysis of Residential Housing Rent Terms and Conditions: Residential rent agreements range from a minimum of a one-year term to a month-to month basis. However, the latter agreement is evolving as a more common market practice because it gives the landlord greater flexibility in managing problem tenants. Since the demand for most types of residential housing is greater than available supply, rent differentiation between a one-year lease term and month-to-month rates is marginal.

Tenant expenses vary from one property type to another. However, a majority of apartment rents require the tenant to pay water, sewer, electricity, telephone, and cable. Thus, most

¹ Vacant units represent any unoccupied unit available for private sector tenancy as of the date of property owner provided rental data. Most vacant units were awaiting occupancy by tenants within a 20-day period. The remainder was undergoing renovation or repair with occupancy anticipated within 30 days of completion.

apartment owners pay for heat, which is a costly operating expense that causes economic uncertainty. In contrast, a majority of single-family dwellings and duplexes stipulate the tenant pay all utilities. Accordingly, these types of rental units protect the owner as the cost of utilities increase, but inflict a higher rent burden on the tenant. Importantly, tenants, property managers, and owners expressed concern that increasing utility expenses are forcing relocation to less costly housing alternatives.

Security or damage deposits are typically equivalent to one-month rent, plus a key deposit of \$50 to \$150. Although most of landlords prohibit pets, those that allow them require a \$500 to \$1,000 deposit.

Important Findings Pertaining to Residential Rent Survey: A bullet-point listing of facts pertaining to the residential rent survey follows.

- Residential housing database totals 76 properties, including several property owners with more the one property type
- Survey resulted in direct contact of 42 property owners or their representatives with all but two providing pertinent rental data
- Of the 39 survey respondents, two stated they no longer had rental units and three others stated employees occupied their rental units
- Survey results contain rental housing data from 34 property owners or managers
- Survey includes data from 227 housing units, representing nearly 80-percent of the residential housing inventory available for rent on the open market
- Survey indicated an overall vacancy rate of 3-percent with a wait list of potential tenants the norm
- Survey indicated the typical vacancy period between tenancy of less than 1 month
- Survey indicated one major property owner increased rent rates in past 12 months
- Survey indicated several property owners and managers, including the largest owner of apartment units, may increase rent rates in next 6 months because of increase in operating expenses
- Survey indicated property owners and managers felt rent increases may cause tenant relocation and an increase in vacancies
- Survey indicated future rent increase may be necessary, but owners and managers feared this action could affect the rental market because of minimal change to tenant wages and an overall decline in their disposable income
- Increasing utility expenses common concern of property owners, managers, and tenants

Important Findings of Residential Rent Survey by Property Type: A bullet-point listing of facts pertaining to each property type that comprises the residential rent survey follows.

- Excluding bunkhouses, few rental units have furnishings other than kitchen equipment and window coverings
 - Most apartment owners pay for heat, but require the tenant to pay water, sewer, electricity, telephone, and cable
 - Apartment owners and managers reported six units dedicated to employee use
 - Apartment owners and managers indicated a month-to-month agreement rather than one-year lease term an evolving trend
 - Apartment owners and managers indicated no rent discount or incentive offered for one-year lease term
 - Apartment owners and managers indicated a wait list for potential tenants the norm, but noted many on the wait list already secured housing
 - Few apartment owners and managers allow pets, minimum \$500 deposit required
 - Single-family owners contribute the fewest units to the Unalaska residential rental inventory
 - Most single-family owners require the tenant to pay all operating expenses except taxes and insurance
 - Duplex owners that occupy one unit are more selective in evaluating potential tenants
 - Most duplex owners require the tenant to pay heat, electricity, telephone, and cable
 - Bunkhouse inventory declined significantly in past two years because of conversion to employee housing, essentially bunkhouse rental units no longer contribute to the residential inventory other than for employee use
-

Market Conclusions and Problematic Economic Issues of Residential Rent Survey: A bullet-point listing of conclusions pertaining to the residential rent survey follows.

- Current demand for residential housing in Unalaska, particularly one, two, and three-bedroom units exceeds available supply
- Apartment inventory will increase by 8 units in 2014 with completion of a project by Ounalashka Corporation
- Several modular duplex units planned for construction in the Valley market district for 2014-2015
- Increases in near-term rent rates anticipated, but rising tenant utility expenses may cause tenants to relocate causing a potential increase in vacancy rate

- Property owners and managers expressed need to increase monthly rent to offset increased operating expenses, but expressed concern about tenant income absorbing higher rent
- Unalaska construction projects and conversion of bunkhouses into employee housing has eliminated bunkhouse units as a potential supply source for rental housing
- Rental market in past several years influenced by major construction projects and oil industry mobilization in Unalaska
- Since current residential rents do not support the cost of constructing new inventory, housing development for private sector tenants not a prudent financial investment
- Data pertaining to the Unalaska economy indicates demand for residential housing will likely decline over the next 12 months, creating a more balanced market dynamic with rent increases problematic
- Escalating utility expenses represents the most problematic economic factor affecting the residential housing market, particularly if expense increases continue at similar pace

Chapter 3: Commercial/Industrial Rent Survey Analysis and Conclusions

Overview: We conducted a comprehensive lease rate survey of commercial/industrial properties that comprise the Unalaska market. We contacted property owners, managers, and tenants to prepare this survey. We found the unit measurement of lease rates is price per square foot of occupied area. As stated, a majority of commercial/industrial development represents owner-occupied properties. Leased properties range from 300± square feet to over 20,000 square feet of space. In addition, there is significant demand for yard storage with many properties used primarily for this purpose. Based on occupancy, we identified five general types of commercial/industrial properties summarized as follows.

- *Office*
- *Retail*
- *Warehouse*
- *Special Purpose*
- *Yard Storage*

The data collected from the commercial/industrial property survey includes monthly lease rates, expense allocation, lease term, renewal clause, rent escalation, and vacancy rates. In addition, we inquired about anticipated rent increases. Lastly, we offered the property owners, managers, and tenants to state concerns or opinions pertaining to the Unalaska commercial/industrial rental market. The last inquiry produced varied responses, although two primary concerns evolved from comments. First, current lease rates made recapture of high land rent expenses difficult. In other words, speculative owners of commercial/industrial properties in Unalaska face an economic challenge to recapture a return on their investment if located on leased land. Secondly, increasing utility expenses are a major concern of owners, managers, and tenants,

The first step of the commercial/industrial property survey is an analysis of monthly lease rates. Thereafter, we analyze lease terms and conditions, then summarize important findings, and finally communicate market conclusions and problematic economic issues that affect the Unalaska commercial/industrial market.

Analysis of Commercial/Industrial Lease Rates: Table 4 on the following page summarizes monthly lease rates generated by office, retail, warehouse, special purpose, and yard storage properties. While many commercial/industrial properties available for lease offer a mix of occupancy type, all leased space reflects a monthly rate on a per square foot basis. Importantly, we found tenant expenses, available utilities, size of leased area, and condition are the principal comparative factors affecting commercial/industrial lease rates in the Unalaska market. Table 4 establishes survey results of Unalaska commercial/industrial properties by location and occupancy type, and then reports leases rates as a range. We do not identify the property by name or address; instead describe location by market district.

Table 4: Summary of Monthly Lease Rates for Unalaska Commercial/Industrial Properties

Market District	Occupancy Type	Gross Leasable Area	Lease Rate \$/SF/Mo.
<i>Dutch Harbor</i>	<i>Office</i>	<i>59,600± SF</i>	<i>\$1.69-\$2.09/SF</i>
	<i>Warehouse</i>		<i>\$1.00-\$1.25/SF</i>
<i>Iliuliuk Harbor</i>	<i>Office</i>	<i>86,000± SF</i>	<i>\$1.75-\$3.05/SF</i>
	<i>Warehouse</i>		<i>\$1.00-\$1.45/SF</i>
<i>Iliuliuk Harbor</i>	<i>Retail</i>	<i>42,000± SF</i>	<i>\$1.45-\$1.65/SF</i>
<i>Iliuliuk Harbor</i>	<i>Office</i>	<i>37,000± SF</i>	<i>\$1.30/SF</i>
	<i>Warehouse</i>		<i>\$0.83-\$1.10/SF</i>
<i>Iliuliuk Harbor</i>	<i>Retail</i>	<i>25,900± SF</i>	<i>\$1.30-1.80/SF</i>
	<i>Office</i>		<i>\$1.35-1.90/SF</i>
	<i>Warehouse</i>		<i>\$0.50-\$0.95/SF</i>
<i>Iliuliuk Harbor</i>	<i>Office/Warehouse</i>	<i>3,701± SF</i>	<i>\$0.89/SF</i>
<i>Iliuliuk Harbor</i>	<i>Office/Retail</i>	<i>54,600± SF</i>	<i>\$1.32-\$1.45/SF</i>
	<i>Warehouse</i>		<i>\$1.10/SF</i>
	<i>Special Purpose</i>		<i>\$2.20/SF</i>
<i>East Point</i>	<i>Office/Retail</i>	<i>32,700± SF</i>	<i>\$1.50-\$1.81/SF</i>
	<i>Warehouse</i>		<i>\$1.00-\$1.25/SF</i>
<i>Downtown</i>	<i>Special Purpose</i>	<i>3,519± SF</i>	<i>\$5.21/SF</i>
<i>Valley</i>	<i>Warehouse</i>	<i>3,208± SF</i>	<i>\$3.15-\$3.23/SF</i>
<i>Captains Bay</i>	<i>Office</i>	<i>137,000± SF</i>	<i>\$1.00/SF</i>
	<i>Retail</i>		<i>\$1.25/SF</i>
	<i>Warehouse</i>		<i>\$0.60-\$1.00/SF</i>
	<i>Freezer</i>		<i>\$2.20/SF</i>
<i>Captains Bay</i>	<i>Warehouse</i>	<i>48,000± SF</i>	<i>\$0.70-0.80/SF</i>
<i>Yard Storage</i>	<i>Level Site</i>	<i>NA</i>	<i>\$0.15-\$0.25/SF</i>

After analysis, we determined Unalaska commercial/industrial property lease rates are generally consistent when comparing location, occupancy type, tenant expenses, and available utilities. Furthermore, deviation from the norm, typically, has a distinct cause that reflects market behavior. For example, unheated warehouse space has a considerable lower lease rate; or office space leased on full service basis has a significantly higher rate than when the tenant pays utilities.

Analysis of Commercial/Industrial Lease Terms and Conditions: Lease agreements range from month-to month to 10-year terms for government agencies. However, a three-year lease term is common in the Unalaska market for occupancy by Unalaska businesses. Stevedoring operations typically lease space on a month-to-month basis with flexible space requirements dependent on the seasonal needs of the fishing fleet. Most warehouses comprised of industrial

bays require the tenant to pay utilities. Conversely, a majority of office space reflects a full service rate. Generally, properties with metered utilities will pass utility expenses to the tenant.

Important Findings Pertaining to Commercial/Industrial Rent Survey: A bullet-point listing of facts pertaining to the commercial/industrial rent survey follows.

- Commercial/industrial survey collected data from 11 properties located in six different market district
 - Survey includes 533,000± square feet intended for office, retail, industrial bay, automotive services, warehouse, freezer storage, and institutional use
 - Survey indicated an relatively high vacancy rate for retail and warehouse use of approximately 15-percent, attributed to two building that record over 50-percent vacancy
 - Demand for commercial/industrial properties in Unalaska varies by property type
 - Survey indicated absorption of vacant space ranges from 6 to 12 months
 - Survey indicated one major property owner increased lease rates in the past 12 months
 - Survey indicated no significant change in lease rate parameters in past 12 months despite an increase in operating expenses
 - Survey indicated several property owners may increase lease rates in the next 6 to months to offset increased operating expenses
 - Increasing utility expenses common concern of property owners, managers, and tenants
 - Harsh environment increases maintenance and repair expenses
-

Market Conclusions and Problematic Economic Issue of Commercial/Industrial Rent Survey: A bullet-point listing of conclusions pertaining to the commercial/industrial rent survey follows.

- Inventory of commercial/industrial space not expected to increase in 2014
- Increases in lease rates anticipated in next 12 months, but rising utility expenses may cause tenants to relocate and increase the vacancy rate
- Rental market in past several years influenced by major construction projects and oil industry mobilization in Unalaska
- Since current commercial/industrial lease rates do not support the cost of construction, new speculative inventory not a prudent financial investment alternative

MacSwain Associates LLC

- Data pertaining to the Unalaska economy indicates demand for commercial/industrial properties may decline over the next 12 months, causing higher vacancy and problematic rent increases
- Commercial/industrial properties located on lease land record high operating expenses making recapture of investor capital more difficult, risky, and less profitable
- Escalating utility expenses represents the major problematic economic factor affecting the commercial/industrial lease market, particularly if expense increases continue at similar pace

Addenda

MacSwain Associates LLC

4401 Business Park Boulevard, Suite 22, Anchorage, Alaska 99503

Appraiser: Steve MacSwain, MAI

Member of Appraisal Institute - No. 5700

State of Alaska, Certified General Real Estate Appraiser - No. 42

Professional Experience: 1986 to Present - MacSwain Associates LLC

1976 to 1986 - Appraisal Company of Alaska - President

1970 to 1975 - Real Estate Services Corporation – Appraiser

1969 to 1970 - State of Alaska Department of Highways - Right of Way Agent

Real estate appraiser and consultant analyzing all property types throughout Alaska, including commercial, industrial, subdivisions and special-purpose properties. Appraisals have been performed for financing, leasing, insurance, condemnation, taxation, property damages, investment analysis, and buy-sell decisions. Appraisals include valuation of both real property and business enterprises. Professional experience totals 43 years.

Education: Bachelor of Business Administration, Finance (1969), University of Alaska Fairbanks

Appraisal Education: The following is a list of completed appraisal courses and seminars.

2013 – *Complex Litigation Appraisal Case Studies* by the Appraisal Institute

2013 – *Uniform Appraisal Standards for Federal Land Acquisitions (Yellow Book)* by the Appraisal Institute

2012 – *Appraisal Curriculum Overview* by the Appraisal Institute

2012 – *Business Practices and Ethics* by the Appraisal Institute

2012 – *Uniform Standards of Professional Appraisal Practice – Update* by the Appraisal Institute

2011 – *Uniform Standards of Professional Appraisal Practice – Update* by the Appraisal Institute

2010 – *Reviewing Appraisals in Eminent Domain* by the International Right of Way Association

2010 – *Commercial Appraisal Engagement and Review Seminar for Bankers and Appraisers* by the Appraisal Institute

2009 – *The Appraiser as an Expert Witness: Preparation and Testimony* by the Appraisal Institute

2009 – *Attacking and Defending an Appraisal in Litigation* by Whitmer Education

2008 – *Uniform Standards of Professional Appraisal Practice* by the Appraisal Institute

2007 – *Business Practices and Ethics* by the Appraisal Institute

2007 – *Eminent Domain Law for Right of Way Professionals* by the International Right of Way Association

2007 – *Appraisal Review for Federal Aid Programs* by the International Right of Way Association

2007 – *Analyzing Operating Expenses* by the Appraisal Institute

2007 – *Forecasting Revenue* by the Appraisal Institute

2007 – *Case Studies in Highest and Best Use* by the Appraisal Institute

2002 – *Uniform Standards for Federal Land Acquisitions: Practical Applications for Fee Appraisers* by the Appraisal Institute

2002 – *Legal Aspects of Easements* by the International Right of Way Association

2001 – *Partial Interest Valuation Undivided* by the Appraisal Institute

2001 – *Special Purpose Properties Divided* by the Appraisal Institute

1969-2000: Numerous appraisal classes pertaining to principles, income capitalization, cost analysis, sale comparison approach, and highest and best use analysis by the Appraisal Institute, Society of Real Estate Appraisers, International Right-of-Way Association, International Association of Assessing Officers, and Marshall Valuation Service

Membership and Organizations: Member of Appraisal Institute – No. 5700

Member of International Right of Way Association

Member of Building Owners and Managers Association (BOMA), Anchorage

Public Service: Past Chairman of the State Board of Certified Appraisers

Past member of Board of Equalization, Municipality of Anchorage

Past member of National Experience Review Committee of the Appraisal Institute

Past member of Regional Ethics and Counseling Panel of the Appraisal Institute

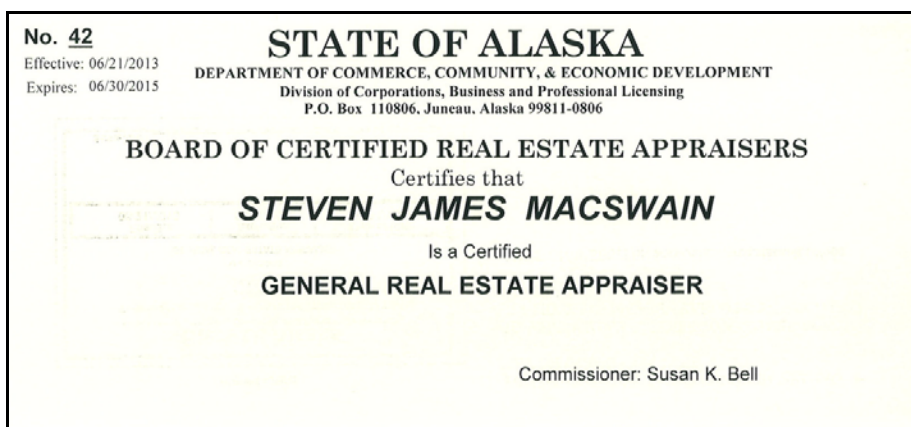
Past president of Alaska Chapter 57 of the Appraisal Institute

Significant Assignments:

- ➔ Appraised Calais Company, Inc., a real estate holding company consisting of 39 commercial parcels in Anchorage.
- ➔ Principal real estate consultant and expert witness for all lands affected by the *Exxon Valdez* oil spill. Project involved over 2,000,000 acres of remote land and nearly 2,000 private property owners.
- ➔ Appointed as a representative of a three-member panel that analyzed and valued over 1,000,000 acres and 8,000 parcels for the Mental Health Lands Settlement.
- ➔ Contract assessor for the North Slope Borough, Kodiak Island Borough, City of Nome, and the City of Valdez.
- ➔ Represented Seibu Alaska, Inc. (Alyeska Resort and Alyeska Prince Hotel) in preparing of their property tax appeal with the Municipality of Anchorage that resulted in a \$65 million reduction in assessed value.
- ➔ Appraised submerged tideland parcels and wetlands parcels located in Womens Bay on Kodiak Island for the purpose of an exchange between Koniag, Inc. and U.S. Fish and Wildlife Service
- ➔ Appraised Common Carrier Pipeline right-of-ways leased and operated by BP Transportation Alaska and ConocoPhillips Alaska.
- ➔ Appraised 3,600 acres consisting of the former Adak Naval Air Station and Submarine Base conveyed to the City of Adak and the State of Alaska.
- ➔ Appraised and/or provided consulting services on properties throughout Alaska including numerous financial institutions, Native corporation lands, and real estate holding companies both public and private.

Expert Witness Experience: Steve MacSwain is qualified as an expert witness in both the United States Federal Court and the State of Alaska Superior Court. Steve has testified as an expert witness in State and Federal courts. In addition, Steve has testified as expert witness in numerous Alaskan municipal tax courts, public hearings, and depositions on matters related to real property.

Arbitrator Experience: Appointed a Master by the Superior Court of Alaska and Municipality of Anchorage to serve as an arbitrator in determining just compensation.



MacSwain Associates LLC

4401 Business Park Boulevard, Suite 22, Anchorage, Alaska 99503

Appraiser: Dan Shantz

State of Alaska, Certified General Real Estate Appraiser - No. 47

Professional Appraisal Experience: 1990 to Present - MacSwain Associates LLC

1983 to 1990 - Appraisal Company of Alaska

1981 to 1983 – Municipality of Anchorage

Real estate appraiser and consultant analyzing all property types located throughout Alaska. Intended use of appraisal includes financing, leasing, insurance, condemnation, taxation, property damages, investment analysis, litigation, and buy-sell decisions. Professional experience analyzing and valuing real estate entitlements totals 34 years. Specialize in analyzing remote and rural properties, pipeline right-of-ways, corridor evaluations, conservation easements, partial interests, eminent domain, and litigation support.

Education: Bachelor of Arts, Economics (1974), University of Washington, Seattle, Washington

Appraisal Education: The following is a list of recently completed appraisal courses and seminars.

2013 – *Uniform Appraisal Standards for Federal Land Acquisitions* by the Appraisal Institute

2013 – *Uniform Standards of Professional Appraisal Practice Update 2012-13* by the Appraisal Institute

2013 – *Real Estate Finance, Statistics, and Valuation Modeling* by the Appraisal Institute

2011 – *The Lending World in Crisis* by the Appraisal Institute

2011 – *National Uniform Standards for Professional Appraisal Practice* by the Appraisal Institute

2008 – *Valuation of Conservation Easements* by the Appraisal Institute

2007 – *Analyzing Operating Expenses* by the Appraisal Institute

2007 – *Forecasting Revenue* by the Appraisal Institute

2007 – *Case Studies in Highest and Best Use* by the Appraisal Institute

2005 – *Business Practices and Ethics* by the Appraisal Institute

2002 – *Uniform Standards for Federal Land Acquisitions: Practical Applications for Fee Appraisers* by the AI

2002 – *Land Valuation Adjustment Procedures* by the Appraisal Institute

2001 – *Partial Interest Valuation Undivided* by the Appraisal Institute

2001 – *Partial Interest Valuation Divided* by the Appraisal Institute

1999 – *Eminent Domain and Condemnation Appraising* by the Appraisal Institute

1999 - *Valuation of Detrimental Conditions in Real Estate* by the Appraisal Institute

1999 - *Special-Purpose Properties* by the Appraisal Institute

1996 – *Dynamics of Office Building Valuation* by the Appraisal Institute

1996 – *Appraisal of Retail Properties* by the Appraisal Institute

1981-1995 - Various appraisal classes pertaining to principles, income capitalization, cost analysis, sale comparison approach, and highest and best use analysis

Membership and Organizations: Associate Member, Appraisal Institute

Significant Assignments: Partial listing of representative assignments follows.

- ➔ Principal real estate appraiser, consultant, and expert witness for all lands damaged by the *Exxon Valdez* oil spill. Project involved over 2,000,000 acres of remote land and nearly 2,000 private property owners.
- ➔ Represented Seibu Alaska, Inc. (Alyeska Resort and Alyeska Prince Hotel) in preparing their property tax appeal with the Municipality of Anchorage that resulted in a \$65 million reduction in assessed value.
- ➔ Appraised 35 properties acquired by the State of Alaska affected by the East 92nd Avenue Road Improvement Project pertaining to construction of New Seward Highway on and off-ramp to improve traffic circulation in the South Anchorage retail district. The right-of-way project involved full and partial takings, including mitigating damages.
- ➔ Appraised submerged tideland parcels and wetlands parcels located in Womens Bay on Kodiak Island for the purpose of an exchange between Koniag, Inc. and U.S. Fish and Wildlife Service
- ➔ Appraised Common Carrier Pipeline right-of-ways leased and operated by BP Transportation Alaska and ConocoPhillips Alaska. Appraised Nikiski Pipeline right-of-way operated by Tesoro that extends from the Tesoro Refinery in Nikiski to Anchorage International Airport. Appraised KKPL natural gas pipeline right-of-way operated by NORSTAR Pipeline Company right-of-way that extends from Soldotna to Ninilchik.
- ➔ Appraised Kodiak Launch Complex located on Kodiak Island for Space and Missile Defense.
- ➔ Appraised all lands, road right-of-ways, utility easements, watershed, airport, small boat harbor, conservation easement, and submerged tidelands that The Aleut Corporation conveyed to the State of Alaska and City of Adak. Assignment totaled 3,600± acres encompassing the former Adak Naval Air Station and Submarine Base.
- ➔ Appraised remote lands (65,000± acres) owned by three Native Corporations damaged by the *Selendang Ayu* grounding and subsequent oil spill.
- ➔ Appraised fiber optic right-of-ways for various telecommunication companies crossing uplands and submerged lands located throughout the State of Alaska.
- ➔ Review appraiser for proposed Doyon Land Exchange located within the Yukon Flats National Wildlife Refuge involving nearly 300,000± acres of fee simple entitlements and 95,000± acres of oil and gas rights.
- ➔ Appraised 40,000± acres, including the contribution of merchantable timber, located on Afognak Island owned by four Native Corporations for potential acquisition by EVOSTC.
- ➔ Appraised Trans Alaska Pipeline System (TAPS), a FERC-regulated 800-mile pipeline that transport crude oil from Prudhoe Bay to Valdez, for TAPS owners.

Expert Witness Experience: Dan Shantz has testified as an expert witness involving Federal, State, and Municipal jurisdictions. Clients involved in the litigation include numerous law firms, oil companies, insurance companies, Native corporations, Alaska/Lower 48 corporations, as well as government agencies such as the Department of Justice and State Attorney General.

