Market Rent Study
Roberts Field–Redmond Municipal Airport
2522 SE Jesse Butler Circle
Redmond, Oregon 97756

Date of Inspection – May 28, 2014
Date of Report – June 2, 2014

Prepared For:
Bob Noble
Interim Airport Director
Redmond Municipal Airport
2522 SE Jesse Butler Circle
Redmond, Oregon 97756

Prepared By:
Jeremy L. Cowan, Senior Vice President
Dana L. Bratton, MAI
Bratton Appraisal Group LLC
25 NW Hawthorne Avenue
Bend, Oregon 97701
June 2, 2014

Bob Noble, Interim Airport Director
Redmond Municipal Airport
2522 SE Jesse Butler Circle
Redmond, Oregon 97756

RE: Market Rent Study of Air Side Sites Located at Roberts Field –
Redmond Municipal Airport, 2522 SE Jesse Butler Circle, Redmond,
Oregon 97756

Dear Mr. Noble:

At your request, we have completed a market rent study of the property
identified above and provided the results within this document. The purpose
and intended use of this rent study is to estimate the annual fair market rent for
improved air side properties located at the Redmond Municipal Airport. The
effective date of value is May 28, 2014.

This rent study has been written to conform with the Uniform Standards of
Professional Appraisal Practice (USPAP) set forth by the Appraisal Standards
Board of the Appraisal Foundation and adopted by the State of Oregon
Appraiser Certification and Licensure Board.

In the course of research, we have completed a physical inspection of the subject
property, as well as a study of comparable rentals. Note that ground leases
located at airports outside of the Central Oregon region have not been physically
inspected by the appraisers; however, we have viewed Google maps of the
individual airports. Lease details have been verified by a knowledgeable party.

Summary descriptions and conclusion comments are contained within the body
of this report. Reference to the entire enclosed rent study is required for a full
understanding of the appraisers’ opinion of market rent.

All factors believed to have an impact on the market rent producing capability of
the improved air side sites located at the Redmond Airport have been examined.
Based on the rent study completed, it is our opinion that the annual rent per site
should be:

---Thirty-Four Cents per Square Foot---
($0.34/SF/Year)
The lease rate is based on a triple net basis and assumes that the tenant will pay utilities and operational expenses in the form of additional rent charges.

Photographs of the subject property and maps of the Redmond area have been included in the body and addenda of this rent study to assist the reader of this document in visualizing the subject property and comparables utilized for this rent study. Thank you for the opportunity to be of service.

Sincerely,

Jeremy L. Cowan, Senior Vice President  
State Certified General Appraiser #C-000889 (Exp. 4/15)

Dana L. Bratton, MAI  
State Certified General Appraiser #C-000021 (Exp. 3/15)
PRELIMINARY DATA

PROPERTY LOCATION

The subject property is identified as improved air side sites located at the Roberts Field - Redmond Municipal Airport, 2522 SE Jesse Butler Circle, Redmond, Oregon 97756.

The leased sites within the airport property are located on Deschutes County Assessor’s Maps #15 13 00 - tax lot 1500 and #15 13 22 - tax lots 100 and 200. Note that other tax lots are incorporated within the Redmond Airport property; however, these acreages are buffered land that are not considered to be improved sites. The map below highlights the property in relation to the city of Redmond.
LEGAL DESCRIPTION

We were not provided with legal descriptions for the various parcels that comprise the air side sites at the airport. The subject property encompasses improved parcels of land located on Deschutes County Assessor’s Maps #15 13 00 - tax lot 1500 and #15 13 22 - tax lots 100 and 200.

CLIENT AND INTENDED USER(s) OF THIS REPORT

The client of this report is Bob Noble, Interim Airport Director, Redmond Municipal Airport, 2522 SE Jesse Butler Circle, Redmond, Oregon 97756.

PURPOSE AND INTENDED USE OF THE RENT STUDY

The purpose of this document is to estimate the current fair market rent for improved air side sites at the Redmond Municipal Airport, in light of market conditions in effect on May 28, 2014.

The intended use of this document is to assist the client in establishing a fair market rental rate for current and future ground leases. Use of this rent study for any other purpose and by any other person or entity is not intended by the appraisers.

PRIOR SERVICES DISCLOSURE

Prior to accepting this assignment, the client was notified that the following services were performed by the appraisers within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity: None provided.
SCOPE OF WORK

The following steps were undertaken in arriving at a final estimate of market rent:

1. **The Degree to Which the Property Was Observed or Identified** - On May 28, 2014, Dana L. Bratton, MAI personally inspected the subject property. The airport property was viewed from several angles and photos were taken. The photos are presented in the addenda of the report. Jeremy L. Cowan viewed the property at a later date.

2. **The Extent of Research into Physical or Economic Factors That Could Affect the Property** - A review of the information with regard to the city of Redmond in general and the subject neighborhood in particular has been undertaken to determine recent trends of development, property values, and rents. Bratton Appraisal Group LLC maintains files and tracks economic conditions throughout the Central Oregon region. In addition, we have completed a number of appraisals/rent studies in this neighborhood in recent years and we are knowledgeable of the general state of the residential, commercial, and industrial marketplace.

3. **Extent of Data Research** - We have researched competitive airports throughout the Western United States in our search for comparable rental data. The primary focus of the search was for air side sites located inside the secure fence on FAA rated airports that are considered to be similar to the Redmond Municipal Airport (Part 139 – Class I). This search was undertaken in an effort to document a fair market rental rate for improved air side sites located at the Redmond Municipal Airport.

4. **The Type and Extent of Analysis Applied to Arrive at Opinions or Conclusions** - In order to arrive at a final estimate of market rent, we have compiled lease information in completing the comparative process, which included contrasting properties that are judged to be similar to the subject property. Important variables noted include the fact that most leases are written to reflect an annual rent on a dollar per square foot ($/SF) basis.
5. **Conclusion** - In conclusion, this document is considered to be a professional consultation assignment that focuses on a market rent for the subject property. This document has been written to conform with the Uniform Standards of Professional Appraisal Practice (USPAP) as set forth by the Appraisal Foundation and adopted by the State of Oregon. Delivery of this rent study to the client should be perceived as the completion of the assignment.

**SPECIAL ISSUES**

1. The appraisers are not qualified to detect the presence of toxic or hazardous substances or materials which may influence or be associated with the property or any adjacent properties, have made no investigation or analysis as to the presence of such materials, and expressly disavow any ability or liability to do so.

2. No structural improvements were valued within this rent study. Only the underlying land was considered in the estimation of market rent.

**WORK FILE**

Bratton Appraisal Group LLC maintains a large data base of information dealing with real estate in the local market. This data includes information on such items as sales, rents, costs, vacancies, expenses, absorption rates, capitalization rates, and other market factors. A system is in place to collect, compile, maintain, and store this information. This data is stored in various binders, folders, computer files, and cabinets, and where relevant, is considered to be part of the subject work file. Among those items included in the work file are files identified as: 1) Expense, Absorption, and Cost Comparables, 2) Vacancy Information, and 3) Those dealing with comparable properties. All such data is available for review by duly authorized parties upon request.
PURPOSE OF THIS DOCUMENT

This report provides a rent study in order to estimate a fair market rent for improved air side sites located at the Redmond Municipal Airport, in light of factors in effect on May 28, 2014.

DEFINITION OF MARKET RENT

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the specified lease agreement including term, rental adjustment and revaluation, permitted uses, use restrictions, and expense obligations; the lessee and lessor each acting prudently and knowledgeably, and assuming consummation of a lease contract as of a specified date and the passing of the leasehold from lessor to lessee under conditions whereby:

1. Lessee and lessor are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. The rent payment is made in terms of cash in United States dollars, and is expressed as an amount per time period consistent with the payment schedule of the lease contract.
5. The rental amount represents the normal consideration for the property leased unaffected by special fees or concessions granted by anyone associated with the transaction.

(Appraisal Institute, the Dictionary of Real Estate Appraisal, Fourth Edition)

DATE OF RENT ESTIMATE/INSPECTION

May 28, 2014

DATE OF REPORT

June 2, 2014
COMPETENCY OF THE APPRAISERS

The appraisers have the appropriate knowledge and experience to complete this rent study competently. We have prepared appraisals and rent studies in the Central Oregon market area in recent history and we are knowledgeable of local market conditions and supply and demand factors. Bratton Appraisal Group LLC is a professional real estate appraisal firm employing appraisers licensed/certified by the State of Oregon. Work load is assigned on an individual basis with decisions made in regard to individual appraisers completing assignments with which they have adequate experience and/or training. The office profile emphasizes ongoing educational requirements with emphasis toward achieving professional designations with credible appraisal organizations.

PROHIBITED INFLUENCES

The assignment was not based upon a requested minimum valuation, specific valuation or approval of a loan. Employment of the appraisers was not conditioned upon the report producing a specific value or value within a given range. Neither employment nor compensation is based upon approval of any related loan application. The appraisers have no personal interest or financial investment in the subject property.

PERSONAL PROPERTY

Any personal property involved in the rent study has been excluded from the valuation of the real property. Should a transaction which includes personal property of sufficient value to affect the market value of the real property be evident, a separate assessment of the personal property, fixtures or intangible items will be included with the report as a separate valuation.

DELINEATION OF TITLE/SALES HISTORY

The current owner of record is City of Redmond. No prior sales on the underlying land have occurred in the past three years. The property is not listed for sale.
REGIONAL AND CITY DATA

Through regional and city analysis, the appraiser studies how value influences affect the subject property. This portion of the report analyzes the characteristics that tend to influence value within an area and, thus, the neighborhood and the subject property itself. The four factors which have an impact on human activity and the value of real property include social trends, economic circumstances, governmental/political controls and regulations, and environmental conditions. This portion of this report considers the Central Oregon region as a whole, with special emphasis on the city of Redmond and how these forces impact the subject property.

Location - The community of Redmond is located in the Central Oregon region on the east side of the Cascade Mountains near the geographic center of Oregon. The Central Oregon region is generally considered to consist of Deschutes, Jefferson, and Crook Counties. Major cities located within this area include Bend, Redmond, Madras, Prineville, Sisters, Sunriver, and LaPine. The area is known for its many varied recreational opportunities, moderate climate, and substantial amount of open space and government land. The city of Redmond is the second largest community in the Central Oregon region. It serves as a trade and retail center for northern Deschutes County and is a bedroom community for the city of Bend, 15 miles to the south.

Physical Characteristics - Redmond lies along the western border of Central Oregon's high plateau area. Forests and foothills of the Cascade Range begin approximately 10 - 15 miles southwest of the city and terrace upward to a crest ridge of 5,000 - 7,000 feet elevation. A few of these peaks remain partially snowcapped on a year-round basis. The most notable is Mt. Bachelor, a major ski resort area. These mountains have a significant amount of pine tree coverage, with many lakes which are popular recreational spots. To the east and south of Redmond is the high rolling plateau of the high desert. This is broken occasionally by hills and chains of relatively low mountains. The plateau to the north is cut by canyons of the Deschutes River and its various tributaries which flow into the Columbia River, the border between Oregon and Washington.
Redmond enjoys a predominantly dry climate of the high desert basin. The seasonal characteristics are well defined, and changes between seasons are gradual. Sunny days, low humidity, and cool nights provide the most common weather pattern. The average annual precipitation in Redmond is less than 12 inches. Over half of the precipitation falls between November and February, often as snow. Brief thunderstorms usually provide most of the light summer rain. The average annual snowfall is 24 inches. Snow rarely accumulates to more than a few inches depth or lies on the ground for an extended period. There is an average of 10 days per year with temperatures above 90°. There is rarely a day 100° is reached. About half the nights are freezing or lower; however, below zero readings average about three times a year. Because of the summer frost potential, the average growing season is only 88 days.

**Population** - The 2000 Census indicates the Redmond city population to be 13,481 persons. The current population is 26,590 (July 2013 – PSU). During the 1990’s, Deschutes County was the fastest growing county in the State. Jefferson County to the north was the third fastest growing county. Redmond’s population almost doubled in 10 years. These growth trends are expected to continue into the future, although at a slightly slower pace. The continued population growth will create continued demand for properties.

According to the Portland State University study, people move to Deschutes County primarily for recreational opportunities and the “quality of life.” The continuing population growth will likely create additional demand for commercial, industrial, and residential development in this city.

**Economic Factors** - The rapidly growing population base of Deschutes County and in both Bend and Redmond creates the most significant social trend which has an economic impact on the subject property. The increasing population base in this region has translated into an expanding economic and employment base. Deschutes County’s seasonally adjusted unemployment rate (8.9%) dropped below 9 percent for the first time since the summer of 2008. The rate dropped from November when it was 9.1 percent. Over the year, the unemployment rate fell from 10.4 percent in December 2012. Preliminary estimates from the Federal Bureau of Labor Statistics (BLS) for the Bend metropolitan area show a decrease of 300 jobs in December. This represents a seasonally adjusted gain of 140 jobs. Monthly losses were concentrated in seasonal industries that would typically see declines this time.
of year, such as mining, logging, and construction (-250) and accommodation and food services (-120). Significant gains were seen in private educational and health services (+110) and transportation, warehousing, and utilities (+70). Over-the-year job gains continued in December with the county up 1,680 jobs from last year. Professional and business services posted the largest over-the-year gains adding 540 jobs, followed by retail trade (+450) and private educational and health services (+360). The only significant losses were seen in leisure and hospitality (-170).

The estimated median household income in Deschutes County is approximately $42,433 (2007-2011 figures are the most recent from US Census Bureau Quick Facts.gov website). This is slightly less than the statewide average of $49,850 and also less than the national average of $52,760.

The top five major employers in the community of Redmond include the Redmond School District, Opportunity Foundation, St. Charles Medical Center - Redmond, Walmart, and Northview Hotel Group (formerly Eagle Crest). Additional major employers in the Central Oregon region include the Bend/LaPine School District, St. Charles Medical Center - Bend, Mt. Bachelor, Inc., Deschutes County Offices, the Deschutes National Forest, and Pozzi Window Company. The majority of these employers are located in the community of Bend to the south. There are many service employers in this market which serve the tourist industry. This is especially notable in Eagle Crest, approximately five miles west of the city of Redmond. This is a large recreational resort community which features three 18-hole golf courses, riding trails, condominiums, tennis courts, and other recreational facilities.

Downtown Bend, 15 miles south of Redmond, is the financial district of Central Oregon with major commercial banks such as U.S. Bank, Wells Fargo Bank, Bank of America, Bank of the Cascades, and Columbia Bank all located on prime commercial sites. In addition, many of these financial institutions have branch offices in the community of Redmond. The Deschutes County Courthouse, Courthouse Annex, and Justice Building are located on an elevated site at the north end of downtown Bend, and these public offices provide executive and clerical jobs for a large number of employees.
**Economic Development** - Redmond commercial and industrial growth has taken place primarily along U.S. Highway 97, which runs through the central portion of the city. U.S. Highway 97 is a primary north-south arterial serving the Central Oregon region. The commercial development has progressed in a strip fashion along both sides of this major arterial. Redmond is a complete service center which offers all types of retail stores including two large existing supermarkets (Safeway and Albertsons, along with a Fred Meyer Superstore and a Walmart Supercenter). The majority of the commercial growth has occurred along the U.S. Highway 97 corridor as well as along the Highland Avenue corridor. Several new recent projects in this area include Nolan Town Center Shopping Center, Walmart Supercenter, Home Depot, Lowes, medical office buildings, and several office and retail buildings scattered throughout the commercial district.

Industrial development includes over 1,000 acres of industrial land adjacent to municipally owned Roberts Field Airport. There has been a significant amount of new industrial development of both owner occupied and leased space.

Roberts Field-Redmond Municipal Airport (RDM) is owned and operated by the City of Redmond for the tri-county area. The City of Redmond’s website reports that “Redmond Municipal Airport (RDM) is located in the heart of Central Oregon and is served by three air carriers; Delta Airlines, Alaska Air, United and United Express, with daily direct flights to Denver, Portland, San Francisco, Salt Lake City, and Seattle. Delta, United, and United Express flights are handled by Delta Global Services. Alaska Air is handled by Horizon Air.” RDM also serves air cargo and general aviation traffic, including extensive corporate and business travel. The airport is home to the USDA Forest Service Redmond Air Center, Cascade Aviation Management, Life Flight, Butler Aviation, Les Schwab, Bonneville Power, and Henderson Aviation.

Enplanements have increased steadily over recent years. Many large motels and resorts provide shuttle service to the airport and recognize this airline travel as a valuable commodity in promoting the Central Oregon region. In addition, the community of Bend has a small airport which services many general aviation pilots.
**Housing** - Central Oregon has become a popular retirement area, with large numbers of people interested in moving to the area for retirement purposes. The income for many of these people is not contingent on local employment and, therefore, economic opportunities are not a major concern. Further, there is a high population of younger people who move to the area for recreational opportunities which abound in Central Oregon. Historically, Redmond has had slightly lower land prices than the Bend market area and residential homesites have had subsequent lower sales prices.

Many large developments of small tract style homes have been developed in the past within this community and Redmond was considered to be the affordable housing center for much of the Deschutes County area. Development of large, high quality custom homes has been increasing, with large amounts of new subdivision construction occurring throughout all neighborhoods of Redmond. Values in Redmond increased dramatically in the early 1990's and the area again experienced large increases in the early 2000’s. However, the end of 2006 noted a change in the overall market with a decline in the sales and building activity due to the economic recession that took a notable downturn in September 2008. Residential home and lot values declined substantially in response to the rapid appreciation experienced throughout Central Oregon in 2004–2006. Typical improved home prices appear to be rebounding, with the 2013 median per square foot home prices being similar to that achieved in the later part of 2008 and slightly less than values in the spring of 2005. There still appears to be an oversupply of vacant undeveloped residential land on the market and home/finished lot prices will need to continue to rise before significant, additional subdivision construction begins. The permit history in the community of Redmond has been researched for the past several years and indicates these changes. Some of the permit history is summarized in the following grids.
### Redmond - New Construction
(Number of Permits)

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<thead>
<tr>
<th></th>
<th>Single Family Dwellings</th>
<th>Manufactured Homes</th>
<th>Duplex-Triplex*</th>
<th>Apartments**</th>
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<tr>
<td>2012</td>
<td>62</td>
<td>3</td>
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</tr>
<tr>
<td>2011</td>
<td>31</td>
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<td>0</td>
<td>0</td>
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<tr>
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<td>767</td>
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<td>11</td>
<td>108</td>
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</table>

*Totals indicate number of units

**4-plex structures and larger - total number of units

### Total Building Permits
(All Residential, Commercial, Industrial, Other)

<table>
<thead>
<tr>
<th></th>
<th>All Residential</th>
<th>Commercial, Industrial, Other</th>
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</thead>
<tbody>
<tr>
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<tr>
<td>2007</td>
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<tr>
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</tbody>
</table>

New construction only
As can be seen from these grids, the amount of new residential construction in the Redmond community had increased annually by 10% - 15% in the early 2000’s, with the year 2004 experiencing a near doubling in the total number of residential permits. The number of new commercial and industrial permits had been relatively stable, with a decrease in the year 2003 as previous properties were absorbed. Overall, the permit numbers show steady and consistent growth within this community over previous years, with a softening in the residential market at the end of 2006 and 2007. Year-end 2007 decreased by nearly 50% from the previous year, with an additional 44% decrease in 2008 and continued decreases through 2011. Year-end 2012 showed an increasing trend for the first time in seven years for residential building permits, with 2013 continuing to show positive activity. While there were 28 apartment permits pulled in 2012, no permits were pulled in 2013. Commercial permits remained relatively steady throughout 2005-2007, with a 36% decrease for 2008 and a further decrease of 62% in 2009. Commercial permits remained steady from 2009-2012, with a slight decrease in 2013.

The average cost for rentals in Central Oregon is approximately $550 - $660 for a two bedroom, one bath apartment unit. Three bedroom apartments typically bring prices in the range of $720 - $835 per month. Rental costs for single family homes are approximately $100 - $200 per month higher than similar units which are located within apartment facilities or duplexes, yet they compete with the inventory of homes in the marketplace. Rental rates in both Bend and Redmond have remained relatively stable over the past several years, yet now the communities are able to slightly increase rents as vacancy rates are typically around 5%. Many are reporting good activity and pointing to the belief that the residential market is showing signs that it is recovering due to the uptick seen in prices and interest in the finished lot, improved homes, and/or multi-family units in Bend and Redmond.

**Health Facilities** - Redmond is served by the St. Charles Medical Center - Redmond, a full service 48-bed public hospital, which joined with St. Charles Medical Center in Bend to provide one large, unified medical service provider. St. Charles Medical Center - Redmond has an emergency room doctor on duty 24 hours a day. The medical staff includes a complete staff of doctors who practice in the community of Redmond, as well as many doctors who practice on a part time basis in both Bend and Redmond. In addition to emergency and surgery facilities, the hospital has a home health department,
wellness clinic, and a physical therapy department. Several family practice physicians and specialists involved in a wide range of fields serve Redmond residents.

The St. Charles Medical Center located in Bend provides a modern acute care hospital which was originally constructed in 1975 at its current location, yet with many additions over the years to now accommodate 261 patient beds, including an 18-bed inpatient rehabilitation center. The hospital is Oregon's only Level II Trauma Center east of the Cascades. This regional facility serves the residents of Deschutes, Crook, and Jefferson Counties. The next closest comprehensive medical facility would be in Portland or Eugene areas in the Willamette Valley. All of the major specialties are represented, including kidney dialysis and a cancer treatment center.

Transportation - Surface transportation in the Redmond area is primarily centered along U.S. Highway 97. This is a primary north-south arterial which serves the entire Central Oregon region. U.S. Highway 97 has some of the highest traffic counts within the State. Redmond has the U.S. Highway 97 Reroute and Business Highway 97. The majority of commercial development in this area is located along this primary arterial. Highway 126 connects with U.S. Highway 97 near the center of Redmond. Highway 126 leads to the community of Sisters and the cities located in the Willamette Valley area of Western Oregon. U.S. Highway 20 connects to U.S. Highway 97 near the north end of the city of Bend. U.S. Highway 20 connects with Highway 126 in the community of Sisters. This arterial also provides linkage to the community of Boise, Idaho to the east. Rail shipping is available; however, there is no rail passenger service.

Government - The city of Redmond operates under a home rule charter adopted in 1980 with an elected mayor and six members of the council. The City has a full time city administrator who maintains a small staff of planners, financial experts, and clerical help. Bend is the county seat for Deschutes County, as well as the location for several State satellite offices. City and county provide an array of municipal services including police and fire protection, parks, library, and sewer and water services.

Local government is financed primarily through property taxes. An owner occupied home in the city of Redmond is taxed at a rate of $18.8565 per $1,000 of assessed value in 2013/2014. State government is financed
primarily through income tax, with rates of 5% - 9% of adjusted gross income.

**Community Resources** - The Redmond School District serves the city and a wide area surrounding Redmond. This extends from Terrebonne to the north, Tumalo to the south, Alfalfa to the east, and part way to the community of Sisters to the west. This district distinguishes itself by having one of the highest average SAT scores of all schools in the region. Redmond is part of the Central Oregon Community College district. This two year college has a main campus in Bend, 15 miles to the south. Additional classes are held at the high schools and at COCC's Redmond Center. The Central Oregon University Center located at COCC offers Bachelors and Masters degrees, and licensing programs from public and private four year colleges and universities located in other cities in the State. Central Oregon Community College recently joined with Oregon State University to provide fully accredited four year degree programs. This is expected to significantly increase enrollment in the coming years.

The Redmond Spokesman is a weekly newspaper which serves the city and outlying area. Utilities available include two major electrical suppliers (Pacific Power and Central Electric Co-op), Cascade Natural Gas, City of Redmond water and sewer, and City of Redmond garbage services. Other utilities include CenturyLink telephone and TV cable. It should be noted that not all of these services are extended to each property within the area. However, the capacity of most services is believed to be adequate to meet the existing and projected growth within this community.

Perhaps the primary resource of the Central Oregon area is its natural beauty and abundant recreational opportunities, which include hunting, fishing, camping, and skiing. The volcanic origins of the area created many of these recreational opportunities. Mt. Bachelor is perhaps the best known landmark in the region. It is approximately 20 miles west of Bend. Progressive expansion efforts at the Mt. Bachelor Ski Area have included the construction of a chairlift to transport skiers to the summit of Mt. Bachelor. This feature extends skiing terrain and total number of skiable days. This attracts skiers from the entire West Coast and elevates the Mt. Bachelor Ski Area to one of the largest ski resorts in the United States, typically handling in excess of 590,000 skiers per year. The Cascade Mountain Range also provides the lakes and forests for many other outdoor activities. Residential
resort areas are popular in Central Oregon and these include Sunriver, located 15 miles south of Bend; Black Butte Ranch, 25 miles northwest of Bend; and the Seventh Mountain Resort, between Bend and Mt. Bachelor. Most have restaurants, golf courses, horseback riding, swimming, tennis, as well as various lodging accommodations.

Another important recreational amenity impacting the community of Redmond is the development and expansion of the Eagle Crest Resort. Eagle Crest can be added to Central Oregon's resort community base of Sunriver, Black Butte Ranch, Seventh Mountain Resort, Kah-Nee-Ta, and Mt. Bachelor Village, and it is advertised as Central Oregon's 5-star resort. The resort features single family lots, exceptional quality completed residences, timeshare units, fractional units, multi-family townhouses, chalets, and hotel rooms. Strong market interest has historically been noted on an ongoing basis. Recreational amenities available to residents include three 18-hole golf courses, a full scale restaurant, and access to the Deschutes River, tennis, swim pools, and on-property jogging trails. In addition, ball fields and open areas are established.

**Summary** - The physical, social, economic, and political forces in effect within the Central Oregon region and particularly within the community of Redmond indicate that the area has many attractive amenities which has created one of the highest growth rates within the State of Oregon. What was once a small farming community has grown into one of the larger cities in the Central Oregon region. Along with the expanding population base has come a diversification of the economic base of the community. There has been a significant amount of new commercial and industrial growth within the city limits. In addition, many new residential subdivisions have been successfully developed, which has encouraged further expansion of the community. Most population forecasts anticipate that the population base in Central Oregon and Redmond will continue to grow into the foreseeable future. Based upon a review of the Regional and City Data, ownership of the subject property as a real estate investment is believed to be a reasonable choice at this time.

*As indicated previously, the overall real estate market in Central Oregon has stalled, with a decrease in sales activity. Residential home and lot values have declined in the Redmond area from levels attained in 2004–2006 and there is an oversupply of development land on the market at this time. Land*
Parcels in commercial and industrial markets have also dropped in value from previously achieved values in the height of the market and significant appreciation is not expected until the supply of existing vacant sites is absorbed. Improved commercial/industrial property values have also declined due to availability of existing product for lease, lower rents being achieved reflecting the ample supply of space available, a restricted lending environment, and overall current economic conditions. It is our opinion that the Redmond market is self-adjusting due to the rapid appreciation experienced throughout 2004-2006. Market participants believe we are seeing an upward turn in most of the improved real estate market segments, yet for raw development land, an additional 12 – 18 months is estimated for this sector to rebound.

**NEIGHBORHOOD ANALYSIS**

Through neighborhood analysis, an appraiser studies how value influences affect property. A neighborhood is defined as a group of complementary land uses. Factors such as social, economic, governmental, and environmental forces influence property value in the vicinity of the subject property which, in turn, directly affect the value of the subject property itself. Therefore, it is necessary to delineate the boundaries of the area of influence to conduct a thorough analysis. These boundaries are identified by determining the area within which the four forces listed above affect all surrounding properties in the same way they affect the property being appraised. Although physical boundaries may be drawn, the significant boundaries are those that fix the limits of influences on property values. By coincidence, these limits may be physically observable.

**Location** - The subject property’s neighborhood is considered to be the City of Redmond Municipal Airport. The airport is located in the southeast quadrant of the community of Redmond. This commercial airport recently expanded the existing terminal, upgraded the control tower and runways, and upgraded navigational systems. The investment in the airport was significant. Direct access to the airport is via a loop road known locally as Airport Way. Secondary access to land areas on the north side of the airport includes Salmon Avenue and Veterans Way. Redmond is equipped with Central Oregon's only commercial airstrip. U.S. Highway 97, the major
north-south arterial road through Central Oregon, is located along the extreme western boundary of the subject neighborhood and the Burlington Northern Railway runs parallel to the U.S. Highway 97 corridor. This industrial development has transportation access from truck, rail, and airlines. All city services are available to meet the needs of an expanding industrial development and major corporations have located structures in this area. Each corporation has a large commercial warehouse/office building with asphalt pavement and landscape amenities. Development has been completed in an orderly manner.

**Improvements** - Several "speculation" industrial buildings have been constructed, providing a variety of flex space. Additionally, many buildings have also been built to the specific needs of individual tenants. Most of the buildings in this neighborhood typically range in size from 5,000 - 20,000 square feet. Several larger industrial buildings have been built for owner occupancy including the JT Shavings buildings, TNT Reddaway and Oak Harbor Freight Lines, Roadway Package Services, DeLeone Corporation, Pacific-Detroit, and Quality Heating.

Hangar buildings constructed at the Redmond Airport typically range from 4,000 – 5,000 square feet in size and are freestanding, steel frame/metal clad buildings with eave heights of 20 - 22 feet. Most of the buildings were constructed in the mid 2000’s. Hangar buildings have been typically constructed for owner occupancy.

A large parcel of land that was owned by the City of Redmond has been subdivided and smaller parcels of industrial land are being sold and developed. Buildings constructed in this area include large facilities for West Coast Paper, Parton Press, D.E.C.K. Prod., and an industrial condominium complex. Two good quality, industrial flex buildings have also been constructed within this area and are considered high quality industrial space for the Redmond area.

The Airport Business Center is a new, upscale industrial park for this market area. It is being improved with good quality streetscape landscaping which enhances the appeal. The developer has attempted to market this project for professional office buildings, as well as some industrial flex and manufacturing buildings. This portion of the industrial area is moving toward a business park characteristic and is expected to offer more
commercial office space in the future. This is considered to be one of the first “business park” neighborhoods for the city of Redmond and large employers in this area include Jeld-Wen and ADP.

**Economic** - Most of the buildings which have been built over the past decade have been fully occupied shortly after completion. There was a significant amount of new flex industrial development during 2001, with much of this new space being leased during 2002 - 2003. New construction slowed in 2002, with some increased construction activity in 2003. As industrial land in Bend became scarce, industrial activity in 2004 - 2006 dramatically increased in order to keep up with the demand, and many owner/user facilities have been constructed. Currently, there is little demand for new industrial buildings as a result of overbuilding in 2006 - 2007 and the current nationwide economic condition.

**Government** - The subject neighborhood is zoned M-1 (light industrial) and M-2 (heavy industrial). These zones allow for both commercial and industrial development. Properties near the airport may also have Park Reserve-Open Space (OSPR) and Airport Control (AC) zones. The OSPR zone is to preserve and provide for open space areas and the AC zone is to provide for safety and use of land coincident with the airport and prevent man-made or natural objects from encroaching into necessary aviation airspace.

Available utilities within this area include City of Redmond sewer and water lines, natural gas lines, electricity, telephone, and TV cable. The capacity of these services is adequate for existing users. However, in many areas, city water and sewer lines have not been extended to serve platted sites and extension costs are important to analyze in discussing the feasibility of specific uses. Airport Way, Veterans Way (formerly Sisters Avenue), and Salmon Avenue are asphalt paved roads built to Deschutes County standards that provide direct access to industrially zoned acreages. SE 1st Street, Timber and Umatilla Avenues, and 4th and 6th Streets were recently improved to city standards with an asphalt paved road, concrete curbs, and gutters. All roadbeds are constructed to allow surface waters to drain off roads into street side gutters. The City of Redmond Road Department maintains roadbeds and plows wintertime snows.
Environmental - Area topography is level to gently rolling, with most sites on grade with the existing streets. There are areas of large rock outcroppings, which is typical to the Central Oregon region. Asphalt paved parking areas and landscape beds are generally sloped to provide for adequate drainage of surface waters. Examination of Federal Emergency Management Agency flood/mud slide hazard boundary maps reveals that none of the subject neighborhood is located within an established flood/mud slide hazard area. Native vegetation throughout the area consists of mature juniper trees and low growing sagebrush. In addition, some developer installed landscaping is located around the perimeter of existing industrial structures.

No existing or potential adverse influences that would have a negative effect on the market value of properties in this neighborhood have been noted.

Conclusion - In conclusion, the subject neighborhood is well located for the development of many types of industrial/commercial uses. Growth trends in the subject neighborhood have stabilized, and the outlook for ownership of investment real estate is good at the present time.

REDMOND AIRPORT DESCRIPTION

Roberts Field - Redmond Municipal Airport (RDM) is owned and operated by the City of Redmond for the tri-county area. The City of Redmond’s website reports that Redmond Municipal Airport is served by four air carriers; American Airlines, Delta Airlines, Alaska Air, United and United Express, with daily direct flights to Denver, Los Angeles, Portland, San Francisco, Salt Lake City, and Seattle. Delta, United and United Express flights are handled by Delta Global Services. Alaska Air is handled by Horizon Air. RDM also serves air cargo and general aviation traffic, including extensive corporate and business travel. The airport is home to the USDA Forest Service Redmond Air Center, Cascade Aviation Management, Life Flight, Butler Aviation, Les Schwab, Bonneville Power, and Henderson Aviation.
Roberts Field was originally built in 1922 for use as a military airfield and a WWII bomber hangar is still in existence at the airport (utilized by Butler Aircraft). At the end of the war the airport began commercial flights. In its current form, the airport consists of an approximate 140,000 square foot terminal that was expanded to the current size in 2009. The terminal includes eight aircraft gates, ticket counters, FAA managed security checkpoints, baggage claims, and administration areas. A second level was added that includes a restaurant and waiting areas. The air terminal includes two runways, both of which will be repaved in the upcoming year, an ATC radar facility with recent upgrades and modifications, a parking lot that was expanded to facilitate over 1,000 cars, and a rental car parking facility. The Redmond Airport has an Air Traffic Control (ATC) Tower that facilitates the use of commercial jet service at the airport. In addition, this airport is the only facility in Central Oregon that offers precision instrument landing system (ILS) approach capabilities.

Approximately 15 daily flights depart Redmond. Passenger traffic has increased steadily in recent months following steep drops as a result of the recession of 2007/08. In April 2014, 19,479 passengers departed Redmond, a nearly 11% increase year over year. Enplanements have been assisted by the addition of daily non-stop air service to Los Angeles that began in June 2013. It was recently announced that United Express would end its three daily flights to Portland; however, this is not expected to materially impact passenger traffic at the airport, as other carriers will likely pick up the void left by the elimination of these flights.

General aviation and commercial uses at the Redmond Airport provide an important financial impact to the city of Redmond. There are numerous hangars and T-hangars that are owned by the city and leased to private parties. In addition, ground leases are in place to private tenants. These sites are primarily developed with executive box hangars or aviation related industrial buildings. The majority of the leased sites are located at the north side of the airport or to the east. The USFS Redmond Air Center operates on an approximate 50 acre site that is partially located “inside the fence” along the northeast boundary of the airport. Sites offered for lease are improved with all utilities required for typical development. These include water and sewer lines, electrical, natural gas, and telecommunications. There is asphalt paving for aprons and taxiways. Sites are generally level and do not require significant excavation work prior to development.
All of the subject property is zoned M-1 (light industrial) with an OSPR, AC (Airport Control) and Airport-L overlay zoning. The city of Redmond zoning ordinance states that M-1 zoned land is to be utilized to create and preserve areas for industrial uses and services supplying the needs of large segments of the area population. Outright permitted uses within this zone include a variety of industrial warehouse/manufacturing buildings such as concrete manufacturing plants, lumber manufacturing, petroleum and plastic products, stone cutting, repair garages, contractors’ yards, lumber yards, and trucking or freighting yards. In addition, a wide variety of uses are also permitted with a conditional use permit.

The subject also has an overlay zone of Park Reserve-Open Space (OSPR) and Airport-L (Airport Limited). The OSPR zone is to preserve and provide for open space areas and the AC zone is to provide for safety and use of land coincident with the airport and prevent man-made or natural objects from encroaching into necessary aviation airspace. The subject property is considered to be an appropriate use within the M-1 zone and OSPR and Airport-L overlay zones.

City of Redmond water and sewer lines serve this property with an adequate size to accommodate large industrial development. Fire hydrants are located in the vicinity and have adequate water pressure for fire flow. Additional utilities include Cascade Natural Gas lines, Pacific Power Company electric power lines, CenturyLink telephone lines, and private television cable. Veterans Way and Highway 126 are asphalt paved streets that are improved to City of Redmond road standards. Maintenance of all utilities and roads is expected to be completed through the appropriate municipal and/or private crews.

In conclusion, the airport is centrally located in a region that is experiencing positive growth trends. The Central Oregon region is typically the fastest growing in the state and Deschutes County ranks as one of the fastest growing counties in the nation. Passenger traffic continues to rebound with additional flights being added to serve new cities. The airport has recently been upgraded and modernized and now ranks as the fourth largest commercial airport in the state. Many large motels and resorts provide shuttle service to the airport and recognize this airline travel as a valuable commodity in promoting the Central Oregon region.
HIGHEST AND BEST USE

The Dictionary of Real Estate Appraisal, 5th edition, copyright 2010, by the Appraisal Institute defines **highest and best use** as “The reasonably probable and legal use of vacant land or an improved property that 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 productivity.”

The highest and best use must meet four tests which are as follows:

1. **Physically possible use.** What uses of the site in question are physically possible?
2. **Legally permissible use.** What uses of the site are permitted by zoning and deed restrictions?
3. **Financially feasible use.** What possible and permissible uses will produce the highest net return or the highest present worth?
4. **Maximally Productive Use.** Among the feasible uses, what use will produce the highest net return or the highest present worth?

The highest and best use of the land or site if vacant and available for use may be different from the highest and best use of the improved property. This is true when the improvement is not an appropriate use, but it makes a contribution to the total property value in excess of the value of the site.

The following tests must be met in estimating highest and best use. The use must be legal and probable, not speculative or conjectural. A demand for the use must exist and it must yield the highest net return to the land for the longest period. These tests are applied to the improved and vacant property. To arrive at an estimate of highest and best use, the subject site is analyzed, 1) as though vacant and available for development, and 2) as presently improved (if applicable).

Only the underlying land has been valued. The highest and best use of the land located at the Redmond Airport (if vacant) is for development with aviation-related uses.
VALUATION PROCESS (MARKET RENT)

This report has been written in an effort to estimate a current market rent for ground parcels located “inside the fence” at the Redmond Municipal Airport. It should be clearly noted that structural improvements are valued within this rent study. The method for determining a fair market rent includes a survey of similar sized commercial and non-commercial airports located throughout the Western United States. Airport officials have been interviewed and questions regarding the underlying land leases have been asked. The lease rates and terms have been studied and compared with the subject in an effort to determine an appropriate annual fair market rent for all sites located within the fenced area of the airport.

The ground lease rates apply to sites that are fully improved with all necessary utilities for development. A leased parcel typically includes the hangar footprint as well as side setbacks (5’ – 10’) from the building, parking areas, and an apron area at the rear of the structure. Lease rates are typically written on 10-30 year terms with some type of renewal option. Upon expiration of renewal options, improvements will either revert to the ownership of the airport’s controlling entity or be extended. Lease rates often increase annually at rates of 2% - 3% or by the CPI (consumer price index) and are adjusted periodically through market rent studies performed by independent third parties.

Particular attention is focused on airports that offer commercial service; however, large non-commercial airports that have active rental markets have also been included. All data has been confirmed by an individual knowledgeable of the rent negotiation and/or listing data, and important market variables for each comparable are summarized and analyzed in the table presented on the following page.
Ground Rent Comparables

<table>
<thead>
<tr>
<th>#</th>
<th>Tenant/Location</th>
<th>Lease Rate</th>
<th>Commercial Service</th>
<th>Year Set</th>
<th>Basis</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Redmond Municipal Airport</td>
<td>$0.34/sf*</td>
<td>Yes</td>
<td>NA</td>
<td>Triple Net</td>
<td>*Lease rate projected for subject property. Part 139, Class I airport.</td>
</tr>
<tr>
<td></td>
<td>2522 Jesse Butler Circle Redmond, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lease terms are typically over 20 years with no reversion. 3% annual</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>escalations. Non-commercial airport.</td>
</tr>
<tr>
<td>2</td>
<td>Bend Municipal Airport</td>
<td>$0.29/sf</td>
<td>No</td>
<td>2010</td>
<td>Triple Net</td>
<td>Non-commercial, state owned airport that is tower approved. All leases</td>
</tr>
<tr>
<td></td>
<td>63136 Powell Butte Hwy. Bend, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>at the airport are smaller in size, with a standard rent rate of $0.29/sf.</td>
</tr>
<tr>
<td>3</td>
<td>Aurora State Airport</td>
<td>$0.29/sf</td>
<td>No</td>
<td>Various</td>
<td>Triple Net</td>
<td>Part 139, Class IV airport with no commercial flight service at this</td>
</tr>
<tr>
<td></td>
<td>23115 Airport Road Aurora, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>time. 30 year leases with reversion.</td>
</tr>
<tr>
<td>4</td>
<td>McNary Field – Salem Airport</td>
<td>$0.33/sf</td>
<td>Not Currently</td>
<td>2013</td>
<td>Triple Net</td>
<td>Triangle, Class IV airport. Commercial airport.</td>
</tr>
<tr>
<td></td>
<td>2990 25th Street SE Salem, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Mahlon Sweet Field - Eugene Airport</td>
<td>$0.32/sf -</td>
<td>Yes – 2nd largest</td>
<td>2013</td>
<td>Triple Net</td>
<td>Part 139, Class I airport. Commercial</td>
</tr>
<tr>
<td></td>
<td>Eugene, Oregon</td>
<td>$0.34/sf</td>
<td>in state</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Corvallis Municipal Airport</td>
<td>$0.25/sf</td>
<td>No</td>
<td>2011</td>
<td>Triple Net</td>
<td>Category 2, non-commercial, uncontrolled tower airport. Reversion</td>
</tr>
<tr>
<td></td>
<td>5695 SW Airport Avenue Corvallis, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>clause at lease expiration; however, leases are typically renewed.</td>
</tr>
<tr>
<td>7</td>
<td>Walla Walla Airport</td>
<td>$0.266/sf</td>
<td>Yes</td>
<td>Unk.</td>
<td>Triple Net</td>
<td>For ground leases of one acre or less. Lower rate for larger parcels.</td>
</tr>
<tr>
<td></td>
<td>310 A Street Walla Walla, Washington</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Klamath Falls Airport</td>
<td>$0.20/sf -</td>
<td>Yes</td>
<td>2013</td>
<td>Triple Net</td>
<td>Towered, Part 139 airport. Latest rate set by survey of competing</td>
</tr>
<tr>
<td></td>
<td>6775 Arnold Airport</td>
<td>$0.36/sf</td>
<td></td>
<td></td>
<td></td>
<td>airport rates in NW and was renewed in 2013. Annual adjustments based</td>
</tr>
<tr>
<td></td>
<td>Klamath Falls, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>on CPI. $0.20/sf includes parking and aprons. $0.36/sf includes hangar</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>footprint only.</td>
</tr>
<tr>
<td>9</td>
<td>Hillsboro Airport</td>
<td>$0.40/sf</td>
<td>No</td>
<td>2013</td>
<td>Triple Net</td>
<td>Non-commercial airport owned by the Port of Portland. Highest lease</td>
</tr>
<tr>
<td></td>
<td>3355 NE Cornell Road</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>rates in state (outside of PDX). Two runways, serves corporate aviation.</td>
</tr>
<tr>
<td></td>
<td>Hillsboro, Oregon</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lease rate was set by a rent survey completed in 2013.</td>
</tr>
</tbody>
</table>

Maps that show the location of all the rent comparables are included on the following pages.
**Analysis** - We have confirmed lease details with individual airport managers during telephone conversations made in the search for comparable lease data. The comparables are discussed in relation to the subject in the following text.

**Comparable #1 – Bend Municipal Airport**
This non-commercial airport serves general aviation enthusiasts and some corporate aviation. It does not offer commercial air service. The airport is owned and operated by the City of Bend and is located approximately three miles east of the city limits. It includes one runway but there is not an air traffic control tower at this time. The current lease rate for the airport is $0.29 per square foot and this was established by a 2010 rent study. Leases are generally written for 20-30 years with renewals. The airport manager reports that leases are generally extended upon expiration. This airport provides a good comparison to the subject due to the similarity of location; however, the Redmond Airport notes superior services and a lease rate above $0.29 per square foot is believed to be appropriate.

**Comparable #2 – Aurora State Airport**
This airport serves general and corporate air traffic and is generally considered to be one of the largest non-commercial airports in Oregon. The airport notes a non-precision instrument approach with a single runway. All leases within the airport are set at a rate of $0.29 per square foot on a triple net basis. The lease term is typically 25-30 years with a reversion; however, leases are often renewed if improvements are maintained in good condition. The Redmond Airport offers superior amenities when compared to this airport. The lease rate of $0.29 per square foot is judged to be a low indicator.

**Comparable #3 – McNary Field, Salem Airport**
This airport is owned and operated by the City of Salem. It is well located approximately two miles southeast of the downtown corridor. The airport is equipped for commercial air service; however, since the cessation of Delta flights to Salt Lake City, there is currently no commercial carriers at the airport. The airport does offer precision instrument approaches. The leases were re-set in 2013 after a rent study concluded that the market rent for ground spaces is $0.33 per square foot on a triple net basis. The leases typically increase by 2.5% annually. Leases are written for 20 year terms with a 10 year option and a reversion clause upon termination. However, the
leases can be extended further if improvements are maintained. This airport offers similar amenities as the subject and the current rate of $0.33 per square foot set in 2013 provides a very strong indicator for the subject. This comparable has been strongly weighted in selecting a market rent for the Redmond Airport.

**Comparable #4 – Mahlon Sweet Field, Eugene Airport**
This commercial airport is owned and operated by the City of Eugene, Oregon. The airport is the second largest commercial airport in the state and offers daily flights to a number of large metropolitan areas in the Western United States. It has an operating air traffic control tower. The airport facilities manager was interviewed regarding current lease rates and it was reported that rates range from $0.32 - $0.34 per square foot for air side sites at the airport. The rates were set in 2013. Lease terms are typically 10 years with a 10 year option. There is a reversion at the end of the lease; however, the airport remains open to offering 5 year renewal options. Strong weight has been placed on this lease comparable when selecting a market value for the subject due to the similarity in amenities offered.

**Comparable #5 – Corvallis Municipal Airport**
The Corvallis Airport is identified as a Category 2, non-commercial and uncontrolled tower airport. The airport is owned by the City of Corvallis. The airport manager was interviewed and it was reported that the current rate for air side leases is $0.25 per square foot. The current lease rate was set in 2011 and is somewhat dated. The lease terms are typically 30 years with renewal options. Although there is a reversion at the termination of the lease, the airport manager revealed that it is airport policy to extend leases rather than take ownership of improvements. The leases escalate annually by the CPI.

**Comparable #6 – Redding Municipal Airport**
This is a towered, Part 139 airport that is located in Redding, California. It is owned and operated by the City of Redding. The airport currently offers commercial air service with daily flights to San Francisco. The airport facilities representative was interviewed and it was reported that new air side leases at the airport start at $0.34 per square foot on a triple net basis. Leases are written for 5-10 year terms with options totaling up to 20-30 years and a reversion at the termination of the lease. There are annual 3% increases.
This comparable provides a very strong indicator of market rent for the Redmond Municipal Airport.

**Comparable #7 – Walla Walla Regional Airport**
This is a smaller commercial airport that serves the northern Oregon and southern Washington area with commercial air service to Seattle, Washington. The airport is owned by the Port of Walla Walla and notes a tiered leasing schedule based on the size of the property. For smaller sites, the current lease rate is $0.266 per square foot on a triple net basis. Based on the amenities offered, the Redmond Airport should achieve a higher rent.

**Comparable #8 – Crater Lake-Klamath Regional Airport**
This small commercial airport is located in Klamath Falls, Oregon. The airport currently offers daily flights to Portland and San Francisco. The current lease rate is $0.20 per square foot on a triple net basis. Small hangar sites are leased by the footprint size at $0.36 per square foot. The lease term is typically 20-30 years with a reversion that is not enforced. The current ground lease rate of $0.20 per square foot is a low indicator.

**Comparable #9 – Portland-Hillsboro Airport**
This non-commercial airport primarily serves corporate aviation for the Portland metro region. There is no commercial air traffic. The airport is improved with two runways, FAA traffic control tower and has precision instrument approach. The current lease rate is $0.40 per square foot and this rate was set by a 2013 rent survey. Lease terms range from 20-30 years with a reversion fee required to extend leases. This airport is considered to be slightly superior to the subject and ground lease rates at the Redmond Airport are expected to be lower than $0.40 per square foot.

**Conclusion** - We have surveyed a large number of airports throughout Oregon, Washington, and California in an effort to find market data applicable to the subject property. The most applicable data has been presented in the Rent Comparable grid shown above. Greatest weight has been placed on Comparables #3, #4, and #6, which are all current rents of similar quality airports that offer or have the capability of commercial air service. Comparable #3, the Salem Airport, is judged to be an excellent indicator for the subject due to the fact that the current lease rate of $0.33 per square foot was established in 2013 and is a strong indicator of current market value. Comparable #4, the Eugene Airport, is a commercial airport
that offers similar amenities as the subject. The rent rate range of $0.32 - $0.34 per square foot establishes a good range of market rents for the Redmond Airport. Finally, Comparable #6, which is the Redding Airport, notes starting rents of $0.34 per square foot. All of these comparables have been strongly weighted in selecting a market rent for the subject’s improved air side sites. Comparable #9 is judged to be a high indicator due to the Portland metro region influence. All rents were established in 2013 and thus are reflective of current market conditions.

Comparable #1, which is the Bend Airport, has also been strongly considered due to the proximity and regional similarities. The amenities offered by this airport are rated as inferior to the subject due to the lack of an air traffic control tower and precision landing instruments. Thus, it is reasonable to expect that the Redmond Airport’s air side sites should achieve lease rates higher than $0.29 per square foot.

Based on the comparable data presented above, it is our opinion that a fair market rent for the air side sites located at the Redmond Airport is $0.34 per square foot on an annual basis.

**Market Rent = $0.34 per Square Foot, Annually**

**Basis:**  Triple Net – All expenses, including the real estate taxes, liability insurance premiums, utilities, maintenance, and management are to be paid by the tenant.
CERTIFICATE OF RENT STUDY

We certify that, to the best of our knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial and unbiased professional analyses, opinions and conclusions.
3. 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.
4. We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this report.
7. Our analyses, opinions and conclusions were developed, and this report has been prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
8. We have made a personal inspection of the exterior and interior (if improved) of the property that is the subject of this report, unless specifically stated. (If more than one person signs the report, this certification will clearly specify which individuals did and which individuals did not make a personal inspection of the subject property.) Unless otherwise noted in the report, we have physically inspected at least the exterior of any sale and/or rent comparables from the street.
9. No one provided significant professional assistance to the person(s) signing this report.
10. We certify that, to the best of our knowledge and belief, 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 the Standards of Professional Appraisal Practice of the Appraisal Institute.
11. We certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
12. As of the date of this report, the designated appraisers signing below have completed the requirements under the continuing education program of the Appraisal Institute.
13. Prior to accepting this assignment, we informed the client that the property has not been appraised previously by the appraisers within the past three years.

Jeremy L. Cowan (exp. 4/15) Dana L. Bratton, MAI (exp. 3/15)
State Certified General Appraiser #C-000889 State Certified General Appraiser #C-000021

X Did Inspect Property X Did Inspect Property
Did Not Inspect Property Did Not Inspect Property

Date of Report: June 2, 2014
PHOTOGRAPHS OF THE SUBJECT PROPERTY
PHOTOGRAPHS OF THE SUBJECT PROPERTY
PHOTOGRAPHS OF THE SUBJECT PROPERTY
Bob - Thank you for your appraisal order. I will open a file and schedule this important work with a projected delivery date of June 3. We look forward to assisting you with this research and analysis. Dana

On 5/7/14 8:20 AM, "Bob Noble" <bob.noble@flyrdm.com> wrote:

>Dana,
>
> Your expertise is appreciated. I would like to open a file and have
> you complete this assignment for the agreed amount of $3,000.00. We
> have a target date for completion of June 3rd (25 days). Please
> consider this your notice to proceed. Thank you, in advance, for your
> effort on this project.
>
> Regards,
>
> BN
>
> -----Original Message-----
> From: Dana Bratton <dana.bratton@brattonappraisal.com>
> Sent: Tuesday, May 06, 2014 4:41 PM
> To: Bob Noble
> Subject: Re: scope of work
>
> Bob -
>
> I concur with your thoughts. We will use K-Falls, Medford, Eugene,
> Corvallis, Salem, Portland (Suburban), Pendleton, Aurora and some
> Washington regional airports as comps. Our thoughts are also that one
> rent rate should work for all those sites.
Dana,

Thank you for the reply,

Yes, I am interested in having you complete the assignment, but want to make sure we are on the same page.

The FAA has us under their watchful eye to make sure we clean up some RDM's inconsistent and irregular leases/lease terms.

For the properties inside the fence, we are trying to establish a fair market value for ground leases that is uniform so that we can eventually get all the lessees paying the same. So we may have a lease that has frontage that is close to the ramp/taxiways/runways (ie Les Schwab) or you may have a lease that is for a hangar in the very corner whereby the location may not be quite as desirable. We still want to have one value.

The other thing I want to make sure is that we are evaluating the value of comparable properties from around the region/state, but the comparison must be include like airports with like amenities. I would think of airports like Medford and Eugene vs. Prineville or Madras.

If that makes sense, let me know. I am eager to get started.

Regards,

BN

-----Original Message-----
From: Dana Bratton [mailto:dana.bratton@brattonappraisal.com]
Sent: Tuesday, May 06, 2014 9:34 AM
To: Donelle Snider
Cc: Bob Noble
Subject: scope of work

Good morning Donelle -

By now I think you know that Cushman Wakefield completed the land rent analysis back in '09. I downloaded their report off the City of Redmond website and read it last night. The "scope of work" is scanned and attached to this e-mail. I am pleased to say that I can match this scope and analysis for a total fee of $3,000. The report can be completed and delivered within 25 days of your approval to begin.

Thank you,
On 5/6/14 12:36 PM, "Bob Noble" <bob.noble@flyrdm.com> wrote:

>> Dana,
>>
>> Thank you for the reply,
>>
>> Yes, I am interested in having you complete the assignment, but want
>> to make sure we are on the same page.
>>
>> The FAA has us under their watchful eye to make sure we clean up some
>> RDM's inconsistent and irregular leases/lease terms.
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>> market value for ground leases that is uniform so that we can
>> eventually get all the lessees paying the same. So we may have a lease
>> that has frontage that is close to the ramp/taxiways/runways (ie Les
>> Schwab) or you may have a lease that is for a hangar in the very
>> corner whereby the location may not be quite as desirable. We still
>> want to have one value.
>>
>> The other thing I want to make sure is that we are evaluating the
>> value of comparable properties from around the region/state, but the
>> comparison must be include like airports with like amenities. I would
>> think of airports like Medford and Eugene vs. Prineville or Madras.
>>
>> If that makes sense, let me know. I am eager to get started.
>>
>> Regards,
>>
>> BN
>>
>> ----- Original Message -----
>> From: Dana Bratton [mailto:dana.bratton@brattonappraisal.com]
>> Sent: Tuesday, May 06, 2014 9:34 AM
>> To: Donelle Snider
>> Cc: Bob Noble
>> Subject: scope of work
ASSUMPTIONS AND LIMITING CONDITIONS

1. The legal description used in this report is assumed to be correct. The appraiser assumes no responsibility for matters of a legal nature affecting the property appraised or the title thereto, nor does the appraiser render any opinion as to the title, which is assumed to be good and marketable. All existing liens, encumbrances and assessments have been disregarded, unless otherwise noted, and the property is appraised as though free and clear, under responsible ownership and competent management.

2. No survey of the property has been made by the appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property. If further verification is required, a survey by a registered surveyor is advised.

3. Information, estimates and opinions furnished to the appraiser, and contained in the report, were obtained from sources considered reliable and believed to be true and correct. No responsibility for accuracy of such items furnished the appraiser can be assumed by the appraiser.

4. Unless otherwise noted herein, it is assumed that there are no encroachments, zoning, or restrictive violations existing in the subject property. It is assumed there is full compliance with all applicable federal, state and local environmental regulations and laws unless non-compliance is stated, defined and considered in the appraisal report and that all applicable zoning and use regulations and restrictions have been complied with, unless a non-conformity has been stated, defined and considered in the appraisal report.

5. The appraiser will not be required to give testimony or appear in court because of having made this appraisal, with reference to the property in question, unless arrangements have been previously made therefore.

6. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

7. The appraiser assumes that there are no hidden or unapparent conditions of the property, subsoil, or structures, which would render it more or less valuable. The appraiser assumes no responsibility for such conditions, or for engineering which might be required to discover such factors.

8. On all appraisals, subject to satisfactory completion, repairs, or alterations, the appraisal report and value conclusion are contingent upon completion of the improvements in a workmanlike manner as described herein.

9. Subsurface rights (mineral and oil) were not considered in completing this appraisal.
10. All furnishings or equipment, except those specifically indicated and typically considered as part of the real estate, have been disregarded. Only the real estate has been considered.

11. The statements of value and all conclusions shall apply as of the dates shown herein.

12. The appraiser has no present or contemplated future interest in the property which is not specifically disclosed in this report.

13. The valuation stated herein assumes professional management and operation of the buildings throughout the lifetime of the improvements, with an adequate maintenance and repair program.

14. The valuation is based on the projection that the property will maintain the projected occupancy level over its remaining economic life, with tenants paying fair market level rents.

15. The leased fee or leasehold interest as reported may or may not be marketable as a partial interest.

16. Income and expense information provided by the owner, his representative, or third parties, is assumed to be current and accurate.

17. The liability of Bratton Appraisal Group LLC and employees is limited to the client only. Further, there is no accountability, obligation, or liability to any third party. If this report is placed in the hands of anyone other than the client, the client shall make such party aware of all limiting conditions and assumptions of the assignment and related discussions. The appraiser is in no way responsible for any costs incurred to discover or correct any deficiency in the property. In the case of limited partnerships or syndication offerings or stock offerings in real estate, the client agrees that in case of lawsuit (brought by lender, partner, or part owner in any form of ownership, tenant, or any other party), any and all awards, settlements, or cost, regardless of outcome; the client will hold Bratton Appraisal Group LLC completely harmless.

18. The appraiser is not qualified to detect the presence of toxic or hazardous substances or materials which may influence or be associated with the property or any adjacent properties, has made no investigation or analysis as to the presence of such materials, and expressly disclaims any duty to note the presence of such materials. Therefore, irrespective of any degree of fault, Bratton Appraisal Group LLC and employees shall not be liable for any costs, expenses, damages, assessments, or penalties, or diminution in value, property damage, or personal injury (including death) resulting from or otherwise attributable to toxic or hazardous substances or materials, including without limitation hazardous waste, asbestos material, formaldehyde, or any smoke, vapors, soot, fumes, acids, alkalis, toxic chemicals, liquids, solids, or gasses, waste materials or other irritants, contaminants, or pollutants.
19. The Americans with Disabilities Act (ADA) became effective January 26, 1992. The appraiser has not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property together with a detailed analysis of the requirements of the ADA could 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 effect upon the value of the property. Since the appraiser has no direct evidence relating to this issue, no consideration has been given to possible noncompliance with the requirements of ADA in estimating the value of the property.

20. Disclosure of the contents of this appraisal report is governed by the by-laws and regulations of the Appraisal Institute. The party for whom this appraisal report was prepared may distribute copies of this appraisal report, in its entirety, to such third parties as may be selected by the party for whom this report was prepared; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Reliance on any portion of the report independent of others, may lead the reader to erroneous conclusions regarding the property values. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media or other media for public communication without the prior written consent of the signatories of this appraisal report. This applies particularly to value conclusions and to the appraiser and the firm with which he is connected.
Jeremy L. Cowan
Oregon State Certified General Appraiser # C000889

jeremy.cowan@brattonappraisal.com
Office: (541) 389.2233
Fax: (541) 389.6677
25 NW Hawthorne Avenue, Bend, OR 97701

Jeremy provides excellence in research, analysis, and communication of appraisal conclusions for investment grade real estate.

Jeremy has a deep understanding of real estate evaluation techniques and his professionalism has earned him the respect of leading appraisal firms and review appraisers. His resume includes appraisals of numerous office buildings, retail centers, mini storage complexes, motels and mixed use commercial properties. In addition to appraising investment grade properties in Central Oregon, Jeremy can provide appraisal services in the Southern Oregon region.

Jeremy has extensive experience valuing complex investment grade properties including several V.A. clinics, hotels and mixed use properties.

Experience

2007-Current/ Oregon State Certified General Appraiser
Bratton Appraisal Group LLC | Bend, OR
Specializing in income property narrative appraisal reports throughout Central and Southern Oregon.

2002-2007/ Registered Appraiser Assistant
Bratton Appraisal Group LLC | Bend, OR
Assisting in income property narrative appraisal reports.
Education

Bachelor of Science in Chemistry – Northwest Nazarene College, Nampa, ID – 1996

Attended 200+ classroom hours applying specifically to the real estate appraising profession.

Recent Continuing Education

<table>
<thead>
<tr>
<th>Month</th>
<th>Course</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 2009</td>
<td>Central Oregon Economic Outlook 2009</td>
</tr>
<tr>
<td>May 2008</td>
<td>Subdivision Valuation</td>
</tr>
<tr>
<td>July 2007</td>
<td>Rates &amp; Ratios: Making Sense of GIMs, OARs, DCF</td>
</tr>
<tr>
<td>January 2007</td>
<td>Advanced Sale Comparison and Cost Approaches</td>
</tr>
<tr>
<td>September 2011</td>
<td>Expert Witness Testimony</td>
</tr>
<tr>
<td>July 2011</td>
<td>The Uniform appraisal Data Set</td>
</tr>
<tr>
<td>January 2013</td>
<td>The National USPAP Update Course</td>
</tr>
<tr>
<td>February 2013</td>
<td>Environmental Contamination of Income Properties</td>
</tr>
<tr>
<td>March 2013</td>
<td>How to Analyze and Value Income Properties</td>
</tr>
</tbody>
</table>
Dana L. Bratton, MAI, SRA
Oregon State Certified General Appraiser # C000021

dana.bratton@brattonappraisal.com
Office: (541) 389.2233
Cell: (541) 420.0385
Fax: (541) 389.6677
25 NW Hawthorne Avenue, Bend, OR 97701

Dana has a long running and remarkable appraisal career in Central Oregon that has spanned over 35 years.

Real estate is the primary source of wealth in our economy and I believe people that own, manage, sell, purchase, invest in, or loan money on the security of real estate must have ready access to the services of trained real estate appraisers. My goal is to provide excellence in real estate valuation analysis for clients with properties in the Central Oregon region.

At Bratton Appraisal Group LLC, we focus on state licensing, continuing education, and strong relationships with market participants that are involved in active real estate projects throughout Central Oregon.

Please consider making my firm a part of your Central Oregon real estate appraisal team.

Career Highlights

Chairman of a task force that successfully consolidated four regional chapters of the Society of Real Estate Appraisers and one statewide chapter of the American Institute of Real Estate Appraisers. Selected 1 of 3 appraisers from the State of Oregon to author exam questions used to test the comprehension of appraisers throughout the nation. Current member of a professional peer committee that evaluates appraisals for compliance with the Uniform Standards of Professional Appraisal Practice. Founder of the Bend Real Estate Forecast Breakfast held annually in February.

Appraiser Certification and Licensure Board
State Certified General Appraiser
28 hours of continuing education required for renewal

Dana L Bratton
Bratton Appraisal Group LLC
25 NW Hawthorne AVE
Bend, OR 97701

License No.: C000021
Issue Date: April 1, 2013
Expiration Date: March 31, 2015

Robert A Keith, Administrator
Recent Continuing Education

May 2013    Measuring Market Conditions
May 2012    Economic Forecast & Business Conference
July 2011    Uniform Appraisal Data Set
May 2011    Appraisal Curriculum Overview
February 2011    Dodd Frank Reform Impact on Appraisers (Appraisal Institute)
October 2010    CCIM 4th Annual Conference-Troubled Assets (CCIM OR/WA Chapter)
March 2010    Business Practices and Ethics (Appraisal Institute)
January 2010    C.O. Economic Forecast & Business Conference (CA Lutheran Univ.)
October 2009    Residential Market Analysis and Highest & Best Use
September 2009    Current Legal and Market Trend that Impact Appraisers
September 2009    7-Hour National USPAP Update Course
August 2009    Current Legal and Market Trends that Impact Appraisers
January 2009    Central Oregon Economic Outlook 2009
May 2008    Subdivision Analysis

Education

Bachelor of Science Degree in Finance and Real Estate – University of Oregon, 1976.
Attended over 100+ classroom hours over the past five years applying specifically to the real estate appraisal profession specializing in commercial, industrial and high value residential properties. A summary of recent courses and seminars is included.

Memberships

Member of Greater Oregon Chapter of the Appraisal Institute (Past Board Member)
Member of Central Oregon Association of Realtors (Past President)
Member of Central Oregon Rental Owners’ Association
Bend Chamber of Commerce (Chairman of the Board in 2005)
Certified General Appraiser in the State of Oregon #C000021 of Commercial Real Estate
College Governing Board – Past Member (2003-2007)
Approved by State of Oregon as a Real Estate course provider