

**APPRAISAL REPORT  
OF  
PROPOSED MEADOWBROOK APARTMENTS**



**LOCATED AT  
601 FAIR OAKS AVENUE  
ASHLAND, OREGON 97520**

**PREPARED FOR:**

**WASHINGTON FEDERAL  
425 PIKE STREET, 4<sup>TH</sup> FLOOR  
SEATTLE, WASHINGTON 98101**

**PREPARED BY:**

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July 2, 2018

Phillip Majarucon  
 Commercial Appraisal Department  
 WASHINGTON FEDERAL  
 425 Pike Street, 4<sup>th</sup> Floor  
 Seattle, Washington 98101

Re: Proposed 29-Unit Meadowbrook Apartments, 601 Fair Oaks Avenue, Ashland, Oregon 97520.

Dear Mr. Majarucon:

Per your request I have completed an Appraisal Report of the above-referenced property. The intended use of this appraisal is for valuation of the asset for financial decision-making purposes. The intended user is the client/Washington Federal and-or affiliates.

The subject is a proposed Multi-Family (Mid-Rise Housing) building totaling 39,412 square feet (GBA) on a site totaling 18,675 square feet. The subject will have a total of 29 multi-family units, each containing 2 BD/2 BA with living areas ranging from 871 to 1,169 square feet. A first floor parking garage provides for 20 off-street parking spaces plus the subject is allocated 12 spaces in an adjacent shared parking lot. The improvements are proposed to break ground in the 3<sup>rd</sup> quarter 2018 and are anticipated to be completed on August 1, 2019.

The purpose of this appraisal is to develop Fee Simple opinions of the As-Is Market Value (June 15, 2018), Hypothetical Market Value Upon Completion of Construction (June 15, 2018), Hypothetical Market Value Upon Stabilization (January 15, 2019), Prospective Market Value Upon Completion of Construction (August 1, 2019) and Prospective Market Value Upon Stabilization (March 1, 2020). The following table summarizes the final opinions of value developed in this appraisal:

<b>VALUATION SCENARIO</b>	<b>INTEREST APPRAISED</b>	<b>DATE</b>	<b>VALUE</b>
As-Is Market Value	Fee Simple	June 15, 2018	\$1,100,000
Hypothetical Market Value at Completion	Fee Simple	June 15, 2018	\$6,550,000
Hypothetical Market Value at Stabilization	Fee Simple	January 15, 2019	\$6,750,000
Prospective Market Value at Completion	Fee Simple	August 1, 2019	\$6,660,000
Prospective Market Value at Stabilization	Fee Simple	March 1, 2020	\$6,860,000

This Appraisal Report conforms to the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP), as established by the Appraisal Foundation and the Appraisal Institute; Title XI of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA); and Washington Federal Appraisal Policy.

**EXTRAORDINARY ASSUMPTIONS**

This appraisal is made subject to the completion of the project as per the plans and specifications provided by the subject owner/developer, Mr. Laz Ayala. This includes the cost budget and building plans prepared by Oregon Architecture, as summarized in the report. The appraisal assumes completion of the subject improvements in a workmanlike manner with completion date by August 1, 2019. The appraisal assumes no substantial unforeseen economic shifts will occur between now and the prospective valuation dates.

**HYPOTHETICAL CONDITIONS**

The hypothetical market value opinions assume completion of the proposed subject improvements as of the current date.

The following report in a self-contained format includes the property description, market data and value analyses which form the basis of the opinions stated herein.

Respectfully submitted,

Handwritten signature in dark ink, appearing to read "Colette Meyer, MAI".

Colette Meyer, MAI  
Oregon State Certified General Appraiser  
License No. C000767, expiring 11/30/2019

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### **Addenda**

- Letter of Engagement
- Deed/Legal Description
- Plum Ridge Court Deed
- NM-C Allowable Uses

**SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS**

**RIGHTS APPRAISED:** Fee Simple Interest

**SUBJECT PROPERTY:** Proposed 29-Unit Meadowbrook Apartments  
601 Fair Oaks Avenue, Ashland, Oregon 97520

**OWNER OF RECORD:** Ayala Properties LLC

**ZONING:** NM-C, North Mountain Neighborhood – Central Overlay, by the City of Ashland.

**CURRENT USE:** Bare land with completed infrastructure proposed for multi-family development.

**HIGHEST AND BEST USE:** Proposed multi-family residential development.

**SITE SIZE:** 0.43 acres or 18,675 square feet. The net usable area with shared parking lot allocation totals 0.57 acres or 24,904 square feet.

**IMPROVEMENT DESCRIPTION:** The subject is a proposed 29-unit multi-family residential (Mid Rise) facility of three-story, wood frame construction with wood and stucco exterior walls. There are two buildings connected by a central elevator. The apartments are all 2 BD/2 BA units with living areas ranging from 871 to 1,169 square feet. A parking garage on the first floor includes 20 covered spaces and open parking is available in the Plum Ridge Court shared parking lot adjacent west. Site improvements include building and perimeter landscaping and storage units.

**MARKET VALUE OPINIONS:**

<b>VALUATION SCENARIO</b>	<b>INTEREST APPRAISED</b>	<b>DATE</b>	<b>VALUE</b>
As-Is Market Value	Fee Simple	June 15, 2018	\$1,100,000
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Prospective Market Value at Stabilization	Fee Simple	March 1, 2020	\$6,860,000

### **CERTIFICATION OF APPRAISAL**

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
- I have performed no services, as an appraiser or other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*.
- I have made a personal inspection of the property that is the subject of this report.
- No one provided significant real property appraisal assistance to the person signing this certification.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with 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, I have completed the Continuing Education Program for Designated Members of the Appraisal Institute.

*Colette Meyer, MAI*

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Colette Meyer, MAI  
Oregon State Certified General Appraiser  
License No. C000767, expiring 11/30/2019  
July 2, 2018

## **ASSUMPTIONS AND LIMITING CONDITIONS**

This appraisal is subject to the following assumptions and conditions:

The title to the property is good and marketable.

The subject's legal description is included in the addenda. The legal description and condition of title are assumed to be correct.

No responsibility is assumed for matters of law or legal interpretation.

No conditions exist that are not discoverable through normal, diligent investigation, which would affect the use and value of the property.

The valuation is based on information and data from sources believed reliable and correct, but I assume no responsibility for its accuracy.

The value estimate is made subject to the purpose, date, and definition of value.

The appraisal is to be considered in its entirety and use of only a portion thereof will render the appraisal invalid.

This appraisal was made on the premise that there are no encumbrances prohibiting utilization of the property under the appraiser's estimate of highest and best use.

Possession of this report or a copy thereof does not carry with it the right of publication nor may it be used for any purpose by any other than the client without the previous written consent of the appraiser and then only with proper qualifications.

Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the author, particularly as to valuation conclusions, and the identity of the appraiser.

The appraiser shall not be required to give testimony or appear in court by reason of this appraisal with reference to the property described herein unless prior arrangements have been made.

No responsibility is assumed for building permits, zone changes, engineering or any other services or duty connected with legally utilizing the subject property.

It is understood that compensation for the appraisal services is in no way contingent upon the value reported and is dependent only upon delivery of this report.



No engineering soil report has been furnished the appraiser. Value estimates contained herein assume that the soil is of adequate quality to properly support the existing subdivision improvements. The appraiser makes no representation as to actual soil stability.

The appraiser has no knowledge of the existence of potentially hazardous materials, which may or may not be present on or in the subject property. However, the appraiser is not qualified to detect such substances. The presence of potentially hazardous substances would adversely affect the value of the subject. No responsibility is assumed for any possible hazardous waste condition. If the client, lender, or any other party interested in the property is concerned about hazardous waste, they are advised to seek independent, competent counsel.

### **EXTRAORDINARY ASSUMPTIONS**

This appraisal is made subject to the completion of the project as per the plans and specifications provided by the subject owner/developer, Mr. Laz Ayala. This includes the cost budget and building plans prepared by Oregon Architecture, as summarized in the report. The appraisal assumes completion of the subject improvements in a workmanlike manner with completion date by August 1, 2019. The appraisal assumes no substantial unforeseen economic shifts will occur between now and the prospective valuation dates.

### **HYPOTHETICAL CONDITIONS**

As requested by the client, the hypothetical market value opinions assume completion of the proposed subject improvements as of the current date.

## **TYPE OF APPRAISAL**

The purpose of this appraisal is to develop opinions of the As-Is Market Value (June 15, 2018), Hypothetical Market Value Upon Completion of Construction (June 15, 2018), Hypothetical Market Value Upon Stabilization (January 15, 2019), Prospective Market Value Upon Completion of Construction (August 1, 2019) and Prospective Market Value Upon Stabilization (March 1, 2020).

This Appraisal Report conforms to the current edition of the Uniform Standards of Professional Appraisal Practice (USPAP), as established by the Appraisal Foundation and the Appraisal Institute; Title 12 CFR Part 34 of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA); the Interagency Appraisal and Evaluation Guidelines of 2010; and appraisal policy of Washington Federal.

The Appraisal Report has been prepared in a self-contained format, as agreed upon with the client.

## **INTENDED USE AND USER OF APPRAISAL**

The intended use of this appraisal is for valuation of the asset for financial decision-making purposes. The intended user is the client/Washington Federal and-or affiliates. There are no other known intended users of this appraisal report.

## **PROPERTY RIGHTS APPRAISED**

The property rights appraised are the fee simple interest of the subject property.

## **FEE SIMPLE INTEREST<sup>1</sup>**

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.

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<sup>1</sup> *The Dictionary of Real Estate Appraisal*, 6th Edition, Appraisal Institute, 2015.

## **DEFINITION OF MARKET VALUE**

According to Title XI of FIRREA, "Market value means the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) Buyer and seller are typically motivated;
- (2) Both parties are well informed or well advised, and acting in what they consider their own best interests;
- (3) A reasonable time is allowed for exposure in the open market;
- (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."

## **LEGAL DATA**

Owner of Record: Ayala Properties LLC

Legal Description: Reference is made to the legal description for the subject in the addenda of this report.

Jackson County Assessor's ID: 39-1E-04AD, Tax Lot 700

## **PROPERTY AND OWNERSHIP HISTORY**

The subject property was acquired by the current ownership on November 8, 2011 from Umpqua Bank for \$62,500 (deed recording 2011-35108). Reference is made to the deed in the addenda of this report. The seller previously acquired the subject on December 27, 2010 (deed recording 2010-42871) from North Mountain Land Company LLC based on a deed in lieu of foreclosure. It was part of 65 lots in the North Mountain Park PUD taken back by the lender during the recession. The buyer/developer, Mr. Laz Ayala, acquired several lots in the PUD from the bank owner at that time. According to county records, there have been no other transactions involving the subject during the five years prior to the date of this report.

Per the 2011 deed the sale property consisted of Lots 70, 71 and 73 of Meadowbrook Park II at North Mountain PUD. Lot 73 has since been developed separately by the buyer and

is not a part of the subject property. The subject's Lots 70 and 71 were combined as one tax lot based on the revised county plat map in August 2017.

According to the bargain and sale deed dated March 12, 2013 (deed recording 2013-008336) the subject property (Lots 70-71) shares an ownership interest in Lot 81 in Meadowbrook Park II at North Mountain, consisting of Tax Lot 1400 adjacent west of the subject improved as parking lot identified as Plum Ridge Court. The property (Lot 81, or Plum Ridge Court) was deeded to the subject owner (75% interest), Ayala Properties and use conditions of the lot shall run with the land. The land shall be owned and used in common and only for ingress, egress and parking for the benefit of and appurtenant to Lots 70, 71, 72 and 73 in Meadowbrook Park II. Per the deed, each individual lot shall be entitled to an undivided 25 percent interest of the parking spaces. For the subject development this equals 50 percent of the 23-space parking lot development, or 12 spaces (Per the City's planning approval 55 percent was allocated to the subject). Reference is made to the Plum Ridge Court deed in the addenda of this report.

## **PENDING SALE**

The subject is not currently pending sale, nor is it listed for sale.

## **PERSONAL PROPERTY**

The value stated in this report includes all of the appliances (range/oven, dishwasher, and refrigerator) necessary to furnish the kitchens of each of the 29 apartment units. Removable fixtures such as the appliances are considered real estate fixtures required for operation of the property. A value of \$1,500 per unit attributed to the appliances property is inclusive of the value conclusion of this report.

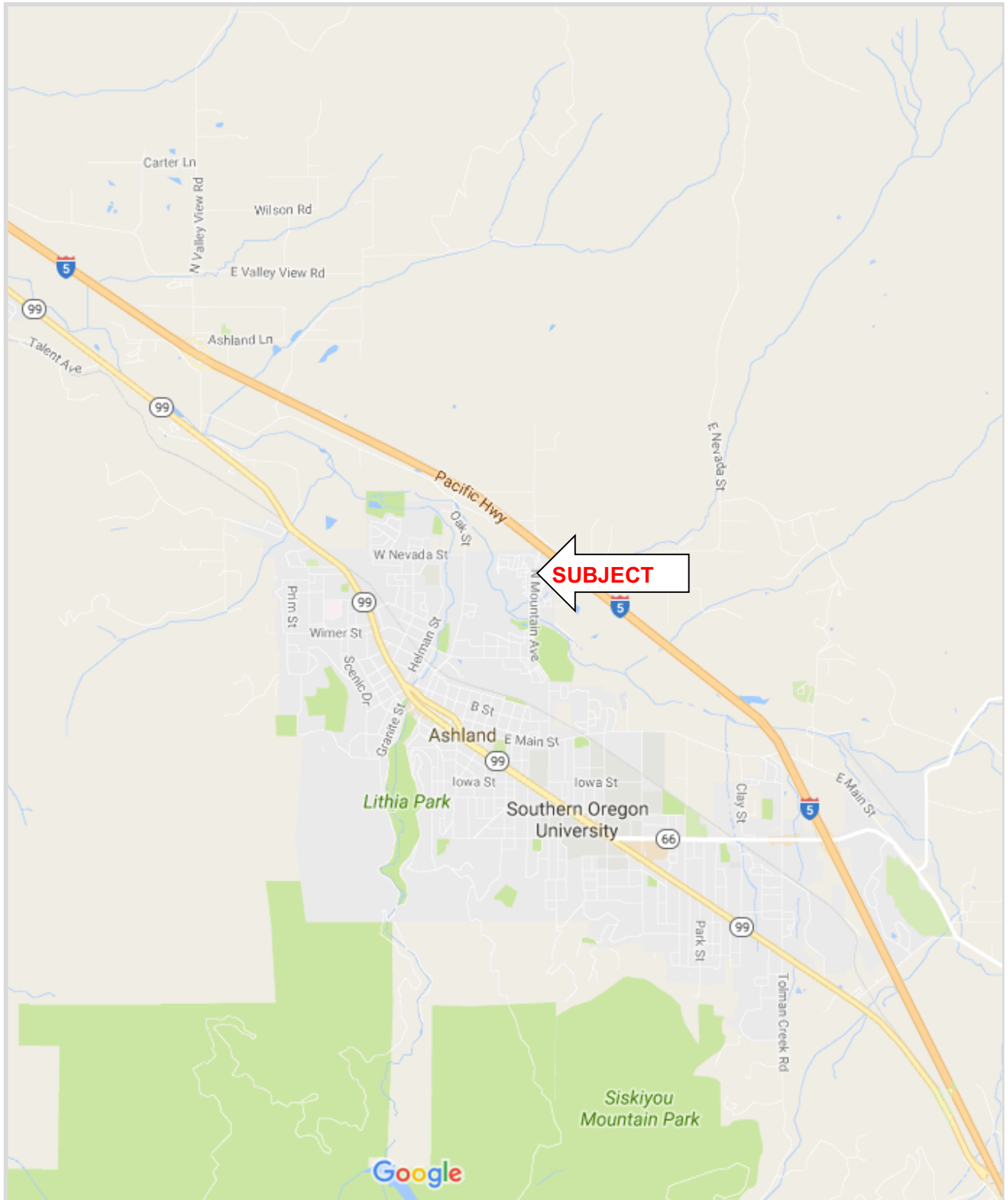
## **SCOPE OF WORK**

In preparing this appraisal, the appraiser:

- Inspected the subject property on June 15, 2018;
- Reviewed the subject's market area, including supply and demand patterns in the neighborhood such as population, employment, new development, sale prices, listings;
- Gathered information on comparable sales and leases, including marketing and absorption trends;
- Confirmed all comparable sales and leases with at least one party to the transaction;
- Analyzed the data and applied the approaches to value.

All three approaches to value were considered: the Cost Approach, the Sales Comparison Approach and the Income Approach. Based on insufficient recent sales of similar newer apartment properties in the subject's Ashland-Jackson County market area, the sales comparison approach is concluded less credible for use in estimating market value. Available sales in the local market area, as well as the regional market area including the Portland MSA are summarized herein, however this method was not fully developed due to the quality of the data sets. The sales comparison approach is most useful with the extraction of overall capitalization rates and existing market conditions. Based on the subject's proposed construction for apartment leasing, the cost and income approaches to value are the most reliable methods for estimating market value.

### CITY AND AREA MAP



## **CITY AND AREA ANALYSIS**

The subject property is located in Ashland, Oregon. The following focuses on current market conditions and trends as they relate to real estate values in Ashland and Jackson County. Reference is made to the City and Area map on the previous page.

### **LOCATION**

Ashland is located approximately sixteen miles north of the Oregon/California border and 15 miles south of Medford, the commercial center and county seat. It sits on the Interstate (5) corridor and is the first Oregon community served by the highway traveling north. It is best known as the home of the Oregon Shakespeare Festival, an internationally acclaimed theater production facility, and for Southern Oregon University.

Ashland is situated at the southern end of the Rogue Valley at an elevation of between 1,900 feet and 2,100 feet above sea level. It is bordered on the south and west by the Siskiyou Mountains and to the east by the Southern Oregon Cascade range. Temperatures are mild, with average highs ranging from 45 degrees in January to 87 degrees in July. The average low temperature ranges from a low of 30 degrees in January to a high of 52 degrees in July. Ashland receives an average of 19 inches of rain per year plus an additional 10 inches of snow.

### **POPULATION**

According to the Population Research Center, Portland State University, as of July 1, 2017, the estimated population of the city of Ashland was 20,700, with an estimated total population in the greater Jackson County area of 216,900. Since 1990, the population of Ashland has increased by 27 percent, or an average annual rate of 1 percent. Over the same time period, the population of Jackson County has increased by 48 percent, or 1.8 percent annually. The lower rate of population growth in Ashland is attributed to a low supply of available development land and higher average housing costs. Reference is made to the population summary on the following page.

## Population Trends 1990-2017

Year	Population:		Avg. Annual Percent Change:	
	Ashland	Jackson County	Ashland	Jackson County
1990	16,252	146,389	--	--
2000	19,522	181,269	2.0%	2.4%
2001	19,770	184,700	1.3%	1.9%
2002	20,130	187,600	1.8%	1.6%
2003	20,430	189,100	1.5%	0.8%
2004	20,590	191,200	0.8%	1.1%
2005	20,880	194,515	1.4%	1.7%
2006	21,430	198,615	2.6%	2.1%
2007	21,630	202,310	0.9%	1.9%
2008	21,485	205,305	-0.7%	1.5%
2009	21,505	207,010	0.1%	0.8%
2010	20,095	203,340	-6.6%	-1.8%
2011	20,255	203,950	0.8%	0.3%
2012	20,325	204,630	0.3%	0.3%
2013	20,295	206,310	-0.1%	0.8%
2014	20,340	208,375	0.2%	1.0%
2015	20,405	210,975	0.3%	1.2%
2016	20,620	213,765	1.1%	1.3%
2017	20,700	216,900	0.4%	1.5%

Source: Population Research Center, PSU

According to the City of Ashland's *Buildable Lands Inventory* published in 2011, population growth of 0.75 percent per year is projected for the community through 2030. The City's Comprehensive Plan projects an approximate population growth rate of 0.75% annually, equating to approximately 187 new residents per year. The table below summarizes the city's population growth estimates.

### City of Ashland Population Projections

	2010	2015	2020	2025	2030	Total Change	Avg. %/Yr
<b>Oregon</b>	3,831,074	4,095,708	4,359,258	4,626,015	4,891,225	1,060,151	1.22%
<b>Jackson County</b>	203,206	223,464	238,865	253,881	268,385	65,179	1.40%
<b>Ashland</b>	21460*	21915	22846	23781	24716	3256	0.75%

Sources: US Bureau of Census; Jackson County; City of Ashland; Urban Land Economics, 2010 PSU Population Estimate for City of Ashland \*

Source: City of Ashland *Buildable Lands Inventory*



According to the *Housing Needs Analysis* published by the City of Ashland, there is a higher percentage of retired persons (55+) in the community. This has been an increasing trend in recent years, as summarized in the table below.

Ashland Population by Age Group <sup>10</sup>								
	1990	% of total	2000	% of total	2008	% of total	2010	% of total
Under age 5	793	4.8%	802	4.1%	1,315	6.3%	1068	5.3%
Age 5-9	5,391	33.2%	923	4.7%	1,065	5.1%	1002	5%
Age 10-14			1,144	5.9%	951	4.6%	1206	6.0%
Age 15-19			1,906	9.8%	1,613	7.8%	1655	8.2%
Age 20-24			2,314	11.9%	2,251	10.8%	1885	9.4%
Age 25-34	5,126	31.5%	2,174	11.1%	2,873	13.8%	2248	11.2%
Age 35-44			2,378	12.2%	2,096	10.1%	1918	9.5%
Age 45-54			1,545	9.5%	3,249	16.6%	2,072	10.0%
Age 55-59	551	3.3%	1,042	5.3%	1,822	8.8%	1806	9.0%
Age 60-64	595	3.6%	694	3.6%	1,318	6.3%	1406	7.0%
Age 65-74	1,279	7.8%	1,272	6.5%	1,671	8.0%	1562	7.8%
Age 75-84	771	4.7%	1,143	5.9%	1,279	6.2%	1259	6.3%
85 and over	184	1.1%	481	2.5%	456	2.2%	394	2.0%
<b>Total Population</b>	<b>16,234</b>	<b>100%</b>	<b>19,522</b>	<b>100%</b>	<b>20,782</b>	<b>100%</b>	<b>20,103</b>	<b>100%</b>
<b>Total Population 55 and older</b>	<b>3,380</b>	<b>20.8%</b>	<b>4632</b>	<b>23.8%</b>	<b>6546</b>	<b>31.6%</b>	<b>6,427</b>	<b>32%</b>

Source: *Housing Needs Analysis*, City of Ashland

## MEDIAN HOUSEHOLD INCOME

The median household income of Ashland was \$40,140 according to the 2010 U.S. Census based on 9,339 households. The median income increased 22.9 percent between 2000 and 2010, as summarized below.

Household Income 2000-2010				
	Number of households (2000)	Percentage of households (2000)	Number of households (2010)	Percentage of households (2010)
<b>All Households</b>	8,552	100%	9,339	100%
<b>Less than 10,000</b>	1,173	13.7%	906	9.7%
<b>\$10,000 to \$14,999</b>	918	10.7%	677	7.2%
<b>\$15,000 to \$24,999</b>	1,300	15.2%	1,203	12.9%
<b>\$25,000 to \$34,999</b>	1,090	12.7%	1,286	13.8%
<b>\$35,000 to \$49,999</b>	1,141	13.3%	1,490	16.0%
<b>\$50,000 to \$74,999</b>	1,309	15.3%	1,553	16.6%
<b>\$75,000 to \$99,999</b>	789	9.2%	779	8.3%
<b>\$100,000 to \$149,999</b>	545	6.4%	819	8.8%
<b>\$150,000 to \$199,999</b>	166	1.9%	294	3.1%
<b>\$200,000 or More</b>	121	1.4%	332	3.6%
<b>Median Income</b>	<b>\$32,670</b>		<b>\$40,140</b>	

Sources: U.S. Census Bureau 2000 and 2010 Census data

Source: *Housing Needs Analysis*, City of Ashland

## **COMMUNITY SERVICES**

Public transportation is predominantly by automobile and bus line. The area is served by both the Rogue Valley Transportation District and local taxi services. Interstate 5 intersects with Valley View Road at the north Ashland interchange and Ashland Street (Highway 66) at the south Ashland interchange.

The city is served by all major utilities. The City of Ashland provides its own electric and water service and operates its own sewage treatment plant. Ashland Sanitary Services (a private company) provides trash disposal.

Local medical facilities are provided by the 49-bed Asante Ashland Community Hospital. Regional medical facilities are provided by two large full service hospitals in Medford. These include Asante's Rogue Regional Medical Center and Providence Medford Medical Center. Both hospitals completed large expansion projects during the previous decade.

## **ECONOMIC BASE**

Ashland's economy is based upon two major industries. The first is tourism, followed by education. In addition, the retail sector of the economy has become increasingly more important to the overall economy. Light manufacturing is a smaller component of the economy, and several home-grown companies have experienced national and international recognition in recent years.

The town's five largest employers are: Southern Oregon University, the Oregon Shakespeare Festival, Ashland Public Schools, Asante Ashland Community Hospital and the City of Ashland. Southern Oregon University (SOU) is the major employer in Ashland and its student population contributes heavily to the economic base of the area. It is a liberal arts college and is a member of the Council of Public Liberal Arts Colleges in Ashland, Oregon. Founded in 1926 and formerly identified as Southern Oregon State College, the university is known for its criminology, environmental studies, Shakespearean studies and theatre arts programs.

The Oregon Shakespeare Festival (OSF) was founded in 1935. The Tony Award-winning festival is among the oldest and largest professional non-profit theatres in the nation. It has grown from an original summer outdoor festival to a season extending from February to October, incorporating Shakespeare and non-Shakespearean plays in repertory at three theaters. Due to the festival and other local cultural events, tourism has become a primary industry in Ashland.

The community has become the cultural center of southern Oregon and as such, has attracted many restaurants and retail outlets including art galleries. Increased viticulture including wineries with tasting rooms has also occurred over the previous decade. These factors, combined with its temperate climate, have made it an attractive location for retirement living.

Ashland has historically included some of the highest home prices in the Rogue Valley area. It is considered one of the more desirable residential locations in the county. However, the high housing costs have had some negative effects on the Ashland community, including attracting labor and the supply of affordable housing.

There is limited land available for new development. Ashland has historically had an anti-development attitude, and this has acted as a governor on commercial growth. In fact, Ashland has a "Big Box Ordinance" restricting retail development in the E-1 (Employment) zone to no larger than 20,000 square feet. The result of this planning process is that it is extremely difficult for commercial projects and in particular large retail projects to be developed. Therefore, significant retail business accrues to the neighboring community of Medford, which experienced enormous retail growth over the previous two decades.

Overall, the demographic base of Ashland has changed in recent decades as more retirees and/or individuals that are not reliant upon local employment have moved to the area. The entire Rogue Valley area and particularly Ashland, has experienced a large influx of retirees from California and other parts of the country. These new residents were typically financially stable and not dependent upon the local economy for their incomes.

## **ECONOMY**

Employment within the subject region has been increasing in recent years. According to the *Rogue Valley Labor Trends Report* by the Oregon Employment Department, as of May 2018 the seasonally adjusted unemployment rate within the Medford-Ashland MSA (Jackson County) was 4.4 percent. The unemployment rate the prior year was 4.7 percent, as summarized in the following table.

<b>Medford-Ashland MSA (Jackson County) Current Labor Force and Industry Employment</b>					
	--Change From--				
	May 2018	April 2018	May 2017	April 2018	May 2017
<b>Labor Force Status</b>					
Civilian Labor Force	104,454	104,891	102,868	-437	1,586
Unemployed	4,284	4,728	4,507	-444	-223
Unemployment Rate	4.1%	4.5%	4.4%	-0.4	-0.3
Unemployment Rate (seasonally adjusted)	4.4%	4.6%	4.7%	-0.2	-0.3
Total Employed	100,170	100,163	98,361	7	1,809
<b>Nonfarm Payroll Employment</b>					
Total nonfarm employment	88,650	88,200	86,700	450	1,950
Total nonfarm employment (seasonally adjusted)	88,930	89,050	86,430	-120	2,500
Total private	77,080	76,780	74,140	300	2,940
Mining, logging, and construction	5,410	5,220	4,660	190	750
Mining and logging	530	500	450	30	80
Construction	4,880	4,720	4,210	160	670
Manufacturing	8,030	7,950	7,860	80	170
Trade, transportation, and utilities	19,190	19,340	19,090	-150	100
Wholesale trade	2,560	2,550	2,450	10	110
Retail trade	13,340	13,510	13,320	-170	20
Transportation, warehousing, and utilities	3,290	3,280	3,320	10	-30
Information	1,170	1,180	1,190	-10	-20
Financial activities	4,230	4,210	4,020	20	210
Professional and business services	7,360	7,470	7,310	-110	50
Education and health services	17,080	17,040	15,720	40	1,360
Health care and social assistance	16,270	16,230	14,870	40	1,400
Leisure and hospitality	11,770	11,560	11,540	210	230
Accommodation and food services	10,070	9,840	9,900	230	170
Other services	2,840	2,810	2,750	30	90
Government	11,570	11,420	12,560	150	-990
Federal government	1,780	1,740	1,760	40	20
State government	890	890	1,700	0	-810
State education	0	0	0	0	0
Local government	8,900	8,790	9,100	110	-200
Local education	6,060	6,030	6,250	30	-190

Source: State of Oregon Employment Department

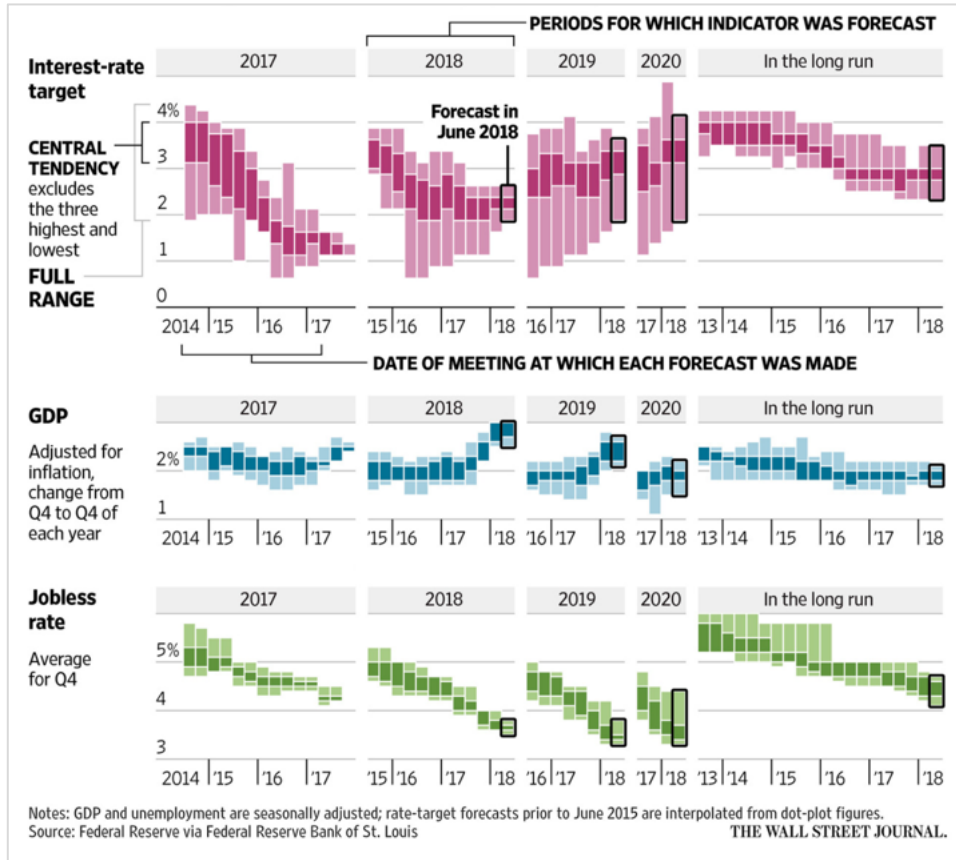
Over the previous year the total number of employed persons within the Medford-Ashland MSA increased by 1,809. The total number of employed persons is 100,170. The largest employment sectors in Jackson County include health care & social assistance, retail trade, accommodation & food services, and manufacturing.

## AVAILABILITY OF CREDIT

The Federal Reserve Bank on June 13, 2018 increased interest rates a quarter of a percentage point, indicating it would tolerate inflation above 2 percent and was dropping crisis-era guidance. Low unemployment and inflation were key factors in the decision. The benchmark federal funds rate is now in the range of 1.75 to 2.0 percent. It was the second interest rate increase in 2018, and Fed officials indicate a total of four increases are planned for the year. This was revised up from the March projections of three increases, based on strong economic growth. Most Fed officials expect the central bank will need to raise rates at least three more times next year and at least once more in 2020, leaving rates in a range between 3.2 and 3.5

percent by the end of 2020, the same end point officials projected in March. The charts below summarize interest rate targets as compared to GDP and unemployment rates.

### Federal Reserve Bank Interest Rate Targets



Source: Wall Street Journal

At this writing, typical residential mortgage rates for a 30-year fixed rate mortgage currently average around 4.875 to 5.0 percent. Residential loan to value ratios typically range from 75 to 90 percent. Amortization periods are generally 15 to 30 years with a fixed rate over the term of the mortgage. Loan fees are typically one to two percent of the loan amount.

Typical commercial mortgage interest rates range from approximately 5.5 to 7.5 percent. Loan to value ratios typically range from 60 to 75 percent. Amortization periods are generally 20 to 25 years with five or ten year calls. Loan fees are typically one to two percent of the loan amount.

## HOUSING MARKET

Residential building permit activity is a general economic indicator that relates directly to the real estate industry. Single-family permits are most indicative of the general real estate cycle. The following table summarizes residential building permits issued in Ashland since 2007.

### CITY OF ASHLAND BUILDING PERMITS

<b>FY July-June</b>	<b>Single-Family Res</b>	<b>Multi-Family Res</b>	<b>Accessory Res Unit</b>
<b>2007</b>	52	8	17
<b>2008</b>	20	3	8
<b>2009</b>	25	1	1
<b>2010</b>	35	10	4
<b>2011</b>	24	6	2
<b>2012</b>	42	4	4
<b>2013</b>	41	1	5
<b>2014</b>	46	2	5
<b>2015</b>	55	3	6
<b>2016</b>	61	0	9
<b>2017</b>	35	7	12

Source: City of Ashland Community Development Dept.

As shown above, single family permits showed high levels from 2015-16 but decreased during FY 2017-18. The recent decline in single family permits is attributed to a reduced supply of available development land.

Average home prices have been increasing in recent years. The table below summarizes average home sale prices for all residential units in Jackson County since 2003.

**Jackson County Residential Real Estate Sale Price Trends**

<b>Year</b>	<b>No. Sales</b>	<b>Avg. Sales Price</b>	<b>Annual % Chg.</b>	<b>Days on Mkt.</b>
2017	3,788	\$322,285	+6.74%	45
2016	3,859	\$301,936	+6.78%	52
2015	3,587	\$282,752	+8.44%	64
2014	2,991	\$260,742	+6.85%	68
2013	2,456	\$244,020	+16.0%	65
2012	2,715	\$210,307	+5.5%	81
2011	2,357	\$199,318	-7.8%	101
2010	2,308	\$216,098	-6.5%	104
2009	2,331	\$231,061	-20.8%	102
2008	1,848	\$291,729	-13.1%	118
2007	2,257	\$329,890	-5.7%	104
2006	2,718	\$349,955	+8.9%	86
2005	4,062	\$321,362	+22.3%	54
2004	4,187	\$262,800	+17.8%	65
2003	3,815	\$223,055	--	85

Source: Southern Oregon Multiple Listing Service (SOMLS)

According to statistics compiled by the Southern Oregon Multiple Listing Service (SOMLS), as of May 31, 2018, the median existing home sale price within Jackson County was \$277,000. This is a one-year increase of 7.5% and a five-year increase of 49.7%. Within the subject's market area of Ashland, the median home sale price was \$435,000, the highest in the county. The Ashland median price increased 1.2 percent over the prior year and 32.8 percent for the previous five years. These statistics are summarized in the table below.

## Median Home Price Trends

JACKSON CO EXISTING HOME SALES - March 1, 2018 through May 31, 2018											
AREA	ACTIVITY		DAYS ON MKT		PRICING						
	Mar 1 - May 31		Mar 1 - May 31		Mar 1 - May 31				May 2017 vs May 2018		
	# Sold 2017	# Sold 2018	Average 2017	Average 2018	Median \$ 2013	Median \$ 2017	Median \$ 2018	5-year % Change	1-year % Change	Median \$	Median \$
Ashland	73	87	51	51	\$327,500	\$430,000	\$435,000	32.8%	1.2%	\$410,000	\$459,000
Talent	15	18	29	28	\$225,000	\$289,500	\$297,500	32.2%	2.8%	\$268,000	\$310,000
Phoenix	15	24	15	28	\$169,250	\$235,000	\$251,250	48.4%	6.9%	\$240,750	\$236,000
Jacksonville	17	10	86	72	\$297,500	\$328,000	\$452,450	52.1%	37.9%	\$366,100	N/A
Northwest Medford	25	30	17	14	\$117,300	\$224,000	\$250,250	113.3%	11.7%	\$221,000	\$257,500
West Medford	60	37	24	26	\$85,550	\$171,250	\$212,850	148.8%	24.3%	\$168,750	\$212,850
Southwest Medford	44	43	29	14	\$154,900	\$241,500	\$259,700	67.7%	7.5%	\$245,000	\$266,000
East Medford	190	200	36	36	\$202,575	\$286,000	\$307,500	51.8%	7.5%	\$280,000	\$322,500
Central Point	93	97	25	32	\$160,000	\$245,000	\$275,000	71.9%	12.2%	\$247,000	\$284,500
White City	25	36	17	20	\$115,000	\$191,500	\$217,500	89.1%	13.6%	\$193,250	\$211,000
Eagle Point	57	54	26	49	\$198,000	\$258,500	\$294,900	48.9%	14.1%	\$240,000	\$310,400
Shady Cove / Trail	14	12	83	49	\$105,800	\$227,500	\$267,450	152.8%	17.6%	\$230,000	N/A
Gold Hill & Rogue River	18	22	48	39	\$125,000	\$189,950	\$212,000	69.6%	11.6%	\$212,500	\$227,000
<b>URBAN TOTALS</b>	<b>646</b>	<b>670</b>	<b>34</b>	<b>35</b>	<b>\$185,000</b>	<b>\$257,750</b>	<b>\$277,000</b>	<b>49.7%</b>	<b>7.5%</b>	<b>\$261,250</b>	<b>\$289,450</b>

Source: SOMLS

Ashland's high median home price has been a long-term trend for the submarket. Ashland is a microcosm in the county housing market with the following attributes:

- Ashland includes a high level of in-migration from out-of-area home buyers, particularly from California;
- A high percentage of home sales are cash transactions;
- The demographics of Ashland have historically included a higher income base, including a greater number of residents not dependent on the local economy; and
- Ashland is a desirable tourist destination.

Due to an extreme supply shortage in the city, a Cottage Housing Ordinance was recently adopted by the Ashland City Council, being implemented on December 31, 2017. The ordinance creates the opportunity for small-house developments, less than 1,000 square feet, on vacant and underdeveloped properties within some residential zones (R-1-5 and R-1-7.5). It is referred to as "Cottage Housing" and the ordinance allows for reduced space requirements between homes. According to the city, the plan provides alternative types of housing for small households and provide high quality infill development which maintains traditional cottage amenities and proportions. Proposition of the ordinance by the City is evidence of the extreme shortage of available housing supply, particularly for units priced at less than the Ashland median of approximately \$400,000.

## COMMERCIAL MARKET

The commercial real estate market has been stable to increasing in Ashland and the larger MSA area in recent years. Various new commercial developments have been completed



in Ashland, most of which have been multi-family residential developments including townhomes and multi-story condos offered for sale. However, some office and retail development has also occurred including professional offices and banks. New commercial buildings are typically smaller due to a limited supply of vacant land and the city's big box ordinance restricting retail size. For existing, smaller commercial buildings there is a very limited supply available for sale for an owner occupant in the Ashland market area.

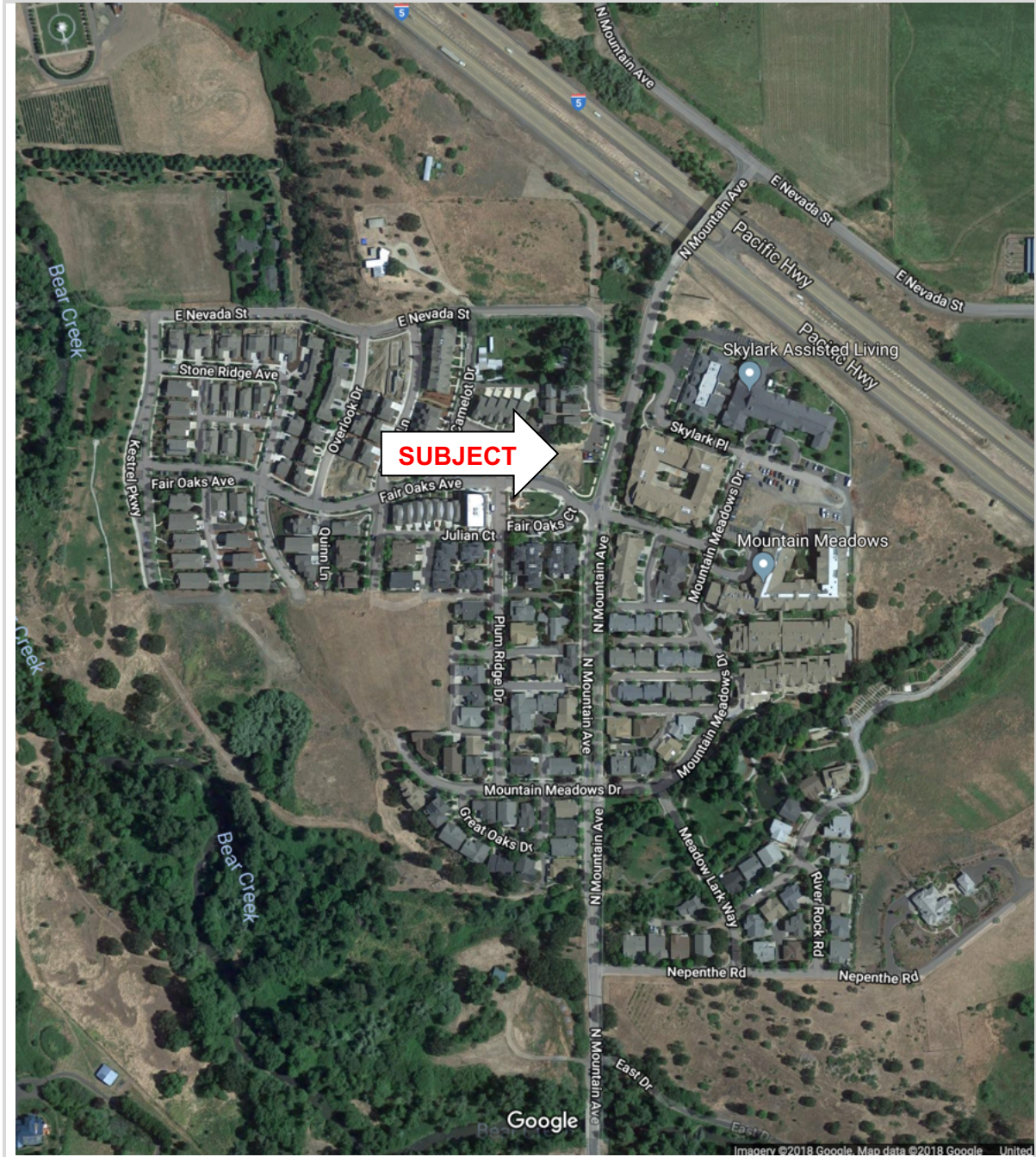
## **CONCLUSION**

Similar to nationwide trends, the Medford-Ashland MSA area economy and real estate markets have been increasing in recent years. Ashland is a highly desirable district and anticipated to remain so. Overall the long term outlook for the subject area is favorable.

# NEIGHBORHOOD MAP

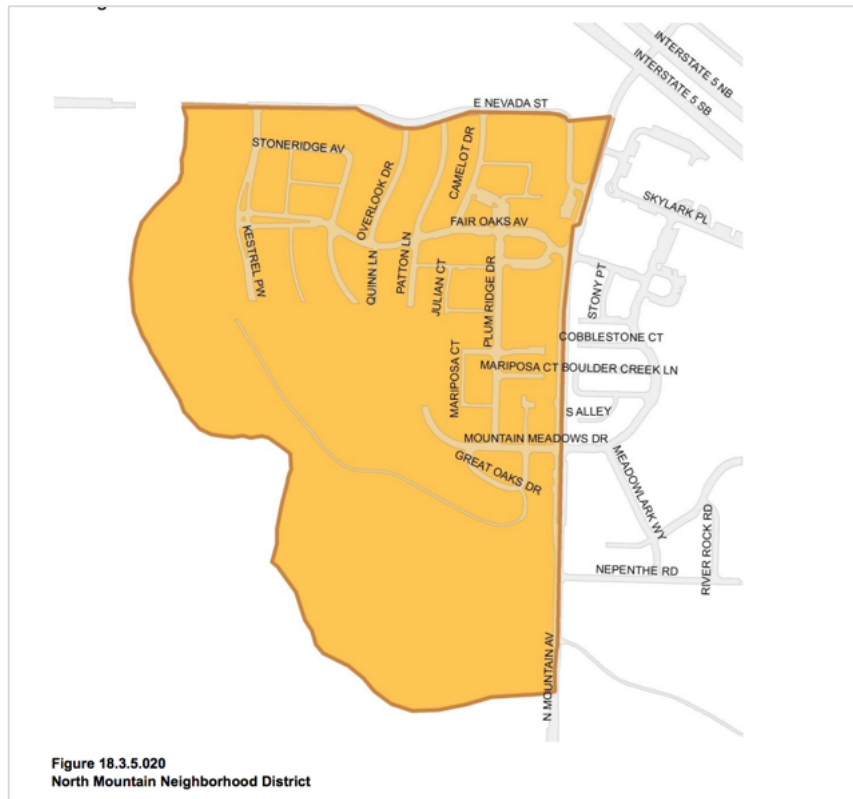


## AERIAL OF SUBJECT NEIGHBORHOOD



Source: Google Maps

### NORTH MOUNTAIN NEIGHBORHOOD MAP



Source: City of Ashland

### NEIGHBORHOOD DESCRIPTION

The subject property is located in the Meadowbrook at North Mountain Neighborhood Plan area of Ashland. This is within north-central portions of the city of Ashland. The subject's North Mountain neighborhood is a planned unit development (PUD) located east of N. Mountain Avenue and the nearby Mountain Meadows 55+ development.

North Mountain Avenue is a neighborhood collector extending north-south in the area. Several subdivisions have been developed in recent decades along both sides of N. Mountain Avenue between Hersey Street and Interstate 5 in this area. The elevation increases in a north direction along N. Mountain Avenue, providing for territorial view amenities. Expansive views of the Siskiyou Mountain Range and Mt. Ashland are provided from the subject's North Mountain Neighborhood and surrounding areas.

Interstate 5 extends in a northwest-southeast direction through the subject neighborhood. Freeway on and off ramps are approximately 2.5 miles north and south of the subject

neighborhood, consisting of the north and south Ashland interchanges. Freeway noise in the neighborhood is generally mitigated by wall sound control acoustics.

According to the City of Ashland Land Use Ordinance, the North Mountain Neighborhood Plan Area contains approximately 53 acres and is located south of Interstate 5 and north of the North Mountain Avenue/Hersey Street intersection. Access to the area is provided via North Mountain Avenue. For many years prior to adoption of the Neighborhood Plan in 1997, the characteristics of the area consisted of rolling terrain and pastures, the Bear Creek Flood Plain, possible jurisdictional wetlands, and residences. The area had been included in the Ashland City limits for many years, but experienced limited growth due to a lack of public facilities including, sewer, water, and paved streets. When the City's Comprehensive Plan was prepared in the late 1970s, this area was given a large lot zoning designation to discourage urbanization until full urban services were available. As a result, the zoning was RR.5 (half acre zoning) for more than 20 years. The construction of a senior housing complex (known as Mountain Meadows) consisting of multiple housing types began east of the subject area. The land use pattern and building architecture of the senior housing project is similar to the design standards established for North Mountain Park. The initiation of this neighborhood plan was directed by the City Council of the City of Ashland.

The initial development of North Mountain occurred in south-central portions of the plan area, assisted by the large senior housing project known as Mountain Meadows. In later years the development spread north toward the subject's Meadowbrook Park area. During the recession of 2008-09 many lots in the subject neighborhood reverted to the lender. Since 2011-12 new development has been occurring, and most of the remaining vacant lots have subsequently been developed and sold. Completed units include good quality townhomes, single family units, multi-story condominiums and an office facility.

According to City of Ashland Planning, "The North Mountain Neighborhood Plan is a new-traditional neighborhood designed to accommodate a range of housing types, encourage modal equity through design and to be cognizant about maximizing density without compromising livability." City development goals for the neighborhood include: "1) produce entry level housing designed to accommodate single couples or single parents with residential units averaging less than 1,000 square feet consistent with goals noted in the City's 2002 and 2013 *Housing Needs Analysis*, 2) provide attractive and human-scale streetscapes where residents can walk around

the neighborhood and know their neighbors, and 3) building at densities that not only meet the zone’s minimum 75 to 100 percent base density standard, but to accomplish these tasks where the neighborhood remains attractive and livable.”

Immediately surrounding the subject property are the central green (park space) of North Mountain Park adjacent south; the Plum Ridge Townhomes adjacent north; the 2017-built Meadowbrook Square Condominiums adjacent southwest; an office facility adjacent west; the main entry sign to the neighborhood and N. Mountain Avenue adjacent east, followed by the Mountain Meadows retirement facility; and the Julian Square Condominium development on the south side of the central green. Recently completed townhomes, condominium units and single family residences in the North Mountain Park PUD have ranged in price from \$350,000 to \$567,000. Since the beginning of 2017, the mean (average) sale price in North Mountain Park is \$446,866, or \$272.74 per square foot of living area. Current listings range in asking price from \$350,000 to \$519,000, or \$227 to \$374 per square foot. Recent residential sales and current listings in North Mountain Park are summarized in the table below.

### North Mountain Park Residential Sales and Listings – 2017 to Present

Residential														
Active														
Address	City	Map	Bd	Bth	SqFt	LotSz	Year	Date	\$/SqFt	DOM/ CDOM	Orig Price	List Price		
586 Fair Oaks Ave	Ashland		2	2 (2 0)	936		ac 2016	06/23/18	373.93	3/3	350,000	350,000		
522 Fair Oaks Ave	Ashland		3	2 (2 0)	1783	0.0500	ac 2012	05/21/18	227.15	35/35	425,000	405,000		
968 Overlook Dr	Ashland		3	3 (2 1)	1743	0.0700	ac 2015	03/23/18	286.29	94/94	512,000	499,000		
969 Camelot Dr	Ashland		3	3 (2 1)	1808	0.0800	ac 2015	01/01/18	287.06	175/275	549,500	519,000		
<b>Listing Count</b>	4	<b>Averages</b>			1568				293.61	77/102	459,125	443,250		
					<b>High</b>	519,000			<b>Low</b>	350,000		<b>Median</b>	452,000	
Pending														
Address	City	Map	Bd	Bth	SqFt	LotSz	Year	Date	\$/SqFt	DOM/ CDOM	Orig Price	List Price		
325 Stoneridge Ave	Ashland		2	3 (2 1)	1295	0.0900	ac 2011	06/11/18	300.39	3/3	389,000	389,000		
582 Fair Oaks Ave	Ashland		2	2 (2 0)	1131		ac 2017	03/02/18	353.58	211/211	399,900	399,900		
<b>Listing Count</b>	2	<b>Averages</b>			1213				326.99	107/107	394,450	394,450		
					<b>High</b>	399,900			<b>Low</b>	389,000		<b>Median</b>	394,450	
Sold														
Address	City	Map	Bd	Bth	SqFt	LotSz	Year	Date	\$/SqFt	DOM/ CDOM	Orig Price	List Price	Sale Price	SP % LP
296 Meadow Dr	Ashland		3	3 (2 1)	1859	0.0800	ac 2002	05/16/17	188.27	0/0	365,000	365,000	350,000	95.89
287 Meadow Dr	Ashland		3	3 (2 1)	1789	0.0700	ac 2001	08/11/17	209.61	26/26	375,000	375,000	375,000	100.00
592 Fair Oaks Ave	Ashland		2	2 (2 0)	1131		ac 2017	07/26/17	361.63	0/0	409,000	409,000	409,000	100.00
955 Camelot Dr	Ashland		3	3 (2 1)	1738	0.0500	ac 2015	05/07/18	240.38	77/77	429,000	419,900	417,775	99.49
946 Stoneridge Ave	Ashland		2	2 (2 0)	1474	0.0700	ac 2017	07/21/17	288.26	83/83	435,000	424,900	424,900	100.00
978 Overlook Dr	Ashland		3	3 (2 1)	1638	0.0700	ac 2016	03/16/17	273.20	239/239	450,000	447,500	447,500	100.00
958 Overlook Dr	Ashland		3	3 (2 1)	1807	0.0700	ac 2017	01/16/18	254.01	828/828	450,000	459,000	459,000	100.00
336 Stoneridge Ave	Ashland		3	2 (2 0)	1500	0.0900	ac 2013	05/31/18	320.00	29/29	510,000	495,000	480,000	96.97
977 Patton Ln	Ashland		3	3 (2 1)	1903	0.0900	ac 2016	04/21/17	253.81	332/332	499,900	492,400	483,000	98.09
957 Patton Ln	Ashland		3	2 (2 0)	1856	0.0800	ac 2015	07/20/17	270.66	508/548	375,000	500,000	502,350	100.47
994 Kestrel Pkwy	Ashland		3	3 (2 1)	1666	0.1200	ac 2014	08/02/17	340.34	7/7	565,000	565,000	567,000	100.35
<b>Listing Count</b>	11	<b>Averages</b>			1669				272.74	194/197	442,082	450,245	446,866	99.21
					<b>High</b>	567,000			<b>Low</b>	350,000		<b>Median</b>	447,500	
<b>Property Type Count</b>	17	<b>Averages</b>			1592				284.03	156/164	440,488	442,035	446,865	

Source: Southern Oregon Multiple Listing Service (SOMLS)

The residential units in North Mountain Park are of good quality construction and are well maintained. Portions of the PUD include park space. The subject developer has built many units in recent years in the PUD, including the adjacent Meadowbrook Condominiums and townhome units along Plum Ridge Court, Fair Oaks Avenue and Plum Ridge Drive. Since 2012 there has been increased construction in the PUD and there is a scarcity of vacant lots currently remaining for development.

A prominent development in the immediate neighborhood east of the subject is the 55+ Mountain Meadows retirement community. First phases of the project were built in 1994, and the facility has received awards for being one of the best retirement facilities in the nation. The project includes various phases with single family homes, condominiums, assisted living facilities, a community garden, park, clubhouse, and fitness center. Homes and condominiums are offered for sale or rent.

The Bear Creek drainage extends through southern portions of the neighborhood, passing under N. Mountain Avenue just south of East Drive. The creek and surrounding open space have a prominent influence on the neighborhood. There are large areas of open space surrounding the drainage. A large development surrounding the creek in the neighborhood is the North Mountain Park Nature Center. It is located on the east side of N. Mountain Avenue, just north of its intersection with W. Hersey Street. The 40-acre park was designated and funded by the city in 1995. It includes a demonstration garden, playing fields, several acres of open space with trails, and wildlife. The City currently has plans to link North Mountain Park with the Ashland dog park via the Bear Creek Greenway.

The general neighborhood area is influenced by open space and residential development. Commercial development is primarily located within southern portions of the neighborhood, including Hersey Street. The Railroad District and central portions of downtown Ashland further south include more extensive commercial development. The city limits of Ashland are located just north of the subject area near Interstate 5. On the north side of Interstate 5 is rural residential property located in unincorporated areas of the community.

In summary, the subject's North Mountain Neighborhood is a good quality, master planned mixed use area within north-central Ashland. In recent years there has been increased development activity in the neighborhood. Many lots in the subject's North Mountain Neighborhood reverted to the lender during the 2009 recession and were later purchased by

builders and developers during 2011-12. Since this time market conditions have been increasing, and there is now a scarcity of land available for development. Overall, the neighborhood includes a good mixture of uses and is anticipated to remain a desirable area with continued growth in the foreseeable future. Reference is made to the neighborhood photographs on the next pages.



**NEIGHBORHOOD PHOTOGRAPHS**



Views of Meadowbrook Square Condominiums adjacent southwest of subject





View of central green on Fair Oaks Avenue adjacent south of subject



View of Julian Square condominiums on south side of park



View of Plum Ridge townhomes located adjacent north of subject



View of office building on Plum Ridge Court and Fair Oaks Avenue adjacent west of subject



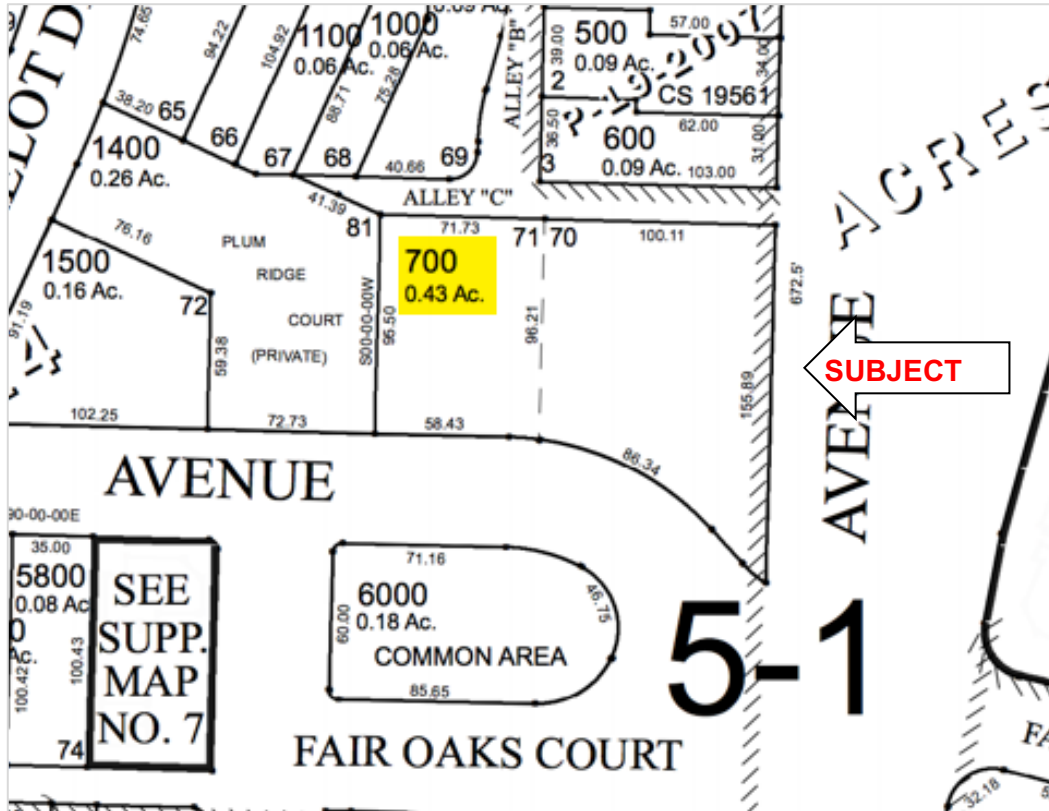
View of Fair Oaks townhomes located southwest of subject



View of Camelot Drive townhomes located west of subject



## PLAT MAP – Subject Parcel



Source: Jackson County Assessor

## **SITE DESCRIPTION**

**LOCATION:** The subject is located at 601 Fair Oaks Avenue in Ashland, Oregon 97520. It is identified as Lots 70-71 within the Meadowbrook Park II at North Mountain planned unit development. This location is on the north side of Fair Oaks Avenue and the west side of N. Mountain Avenue.

**SIZE AND SHAPE:** As shown on the previous plat map, the subject lot is slightly irregular in shape. According to the Jackson County assessor's plat and architectural building plans, the site area is 0.43 acres, or 18,675 square feet. The subject is identified as Tax Lot 700 on the assessor's map (39-1E-04 AD). It is noted Tax Lot 800 was added to Tax Lot 700 per the August 2017 revision of the plat map. Lot dimensions are approximately 172 +/- feet wide and 96 to 156 +/- feet deep.

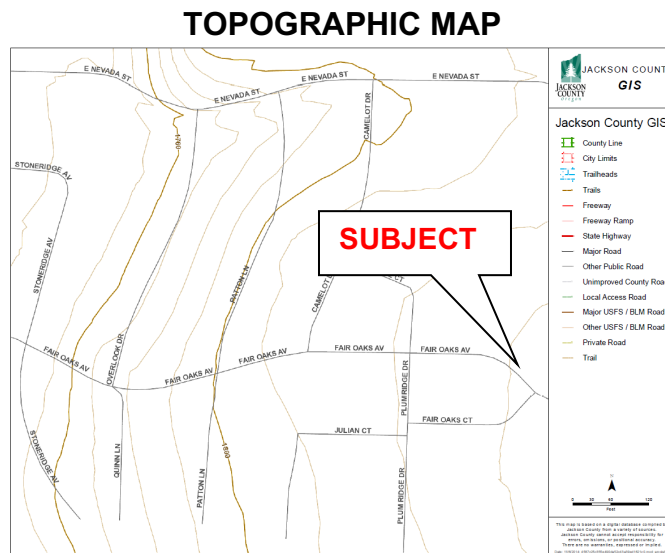
**NET USABLE LAND AREA:** The subject also shares ownership interest in the 0.26-acre Plum Ridge Court (Lot 81) adjacent west of the subject, which appears as a public street but was set aside to accommodate additional parking for the project's planned density and to allow for temporary events. Plum Ridge Court is asphalt paved with concrete curbs and gutters with 23 designated parking spaces. According to the bargain and sale deed dated March 12, 2013 (deed recording 2013-008336) the subject property (Lots 70-71) shares an ownership interest in Lot 81 in Meadowbrook Park II at North Mountain, consisting of Tax Lot 1400 adjacent west of the subject improved as parking lot identified as Plum Ridge Court. The property (Lot 81, or Plum Ridge Court) was deeded to the subject owner (75% interest), Ayala Properties and use conditions of the lot shall run with the land. The land shall be owned and used in common and only for ingress, egress and parking for the benefit of and appurtenant to Lots 70, 71, 72 and 73 in Meadowbrook Park II. Per the deed, each individual lot shall be entitled to an undivided 25 percent interest of the parking spaces. For the subject development this equals 50 percent of the 23-space parking lot development, or 12 spaces (Per the City's planning approval 55 percent was allocated to the subject). Based on the subject's 55 percent allocation per City Planning of the 0.26-acre Plum Ridge Court, an additional 0.14 acres is allocated to the subject's net usable land area (0.26 acres X 55%). The subject's net usable land area thus totals 0.57 acres or 24,904 square feet.

**ACCESS and SITE IDENTITY:** Vehicular access to the subject is provided via the alley and Plum Ridge Court. Pedestrian access and site identity is good from Fair Oaks Avenue and N. Mountain Avenue.

**STREETS:** Fair Oaks Avenue is a two lane (one in each direction) neighborhood collector. It is asphalt paved with concrete curbs, gutters, sidewalks and decorative overhead lights at the subject frontage. The alley is asphalt paved with two lanes in each direction. North Mountain Avenue is a two lane (one in each direction) arterial. It is asphalt paved with concrete curbs, gutters, sidewalks and streetscaping at the subject frontage.

Plum Ridge Court (private) is asphalt paved with concrete curbs and gutters with 23 designated parking spaces. It is located adjacent west of the subject. Per the City's planning approval of the subject, approximately 55 percent of the Plum Ridge Court available parking was allocated to the subject.

**TOPOGRAPHY:** The subject site has slightly sloping topography. Topography in the PUD to the west of the subject slopes downward in an east to west direction. According to Jackson County GIS, the average elevation of the subject is 1,810 feet above sea level. Reference is made to the following topographic map.



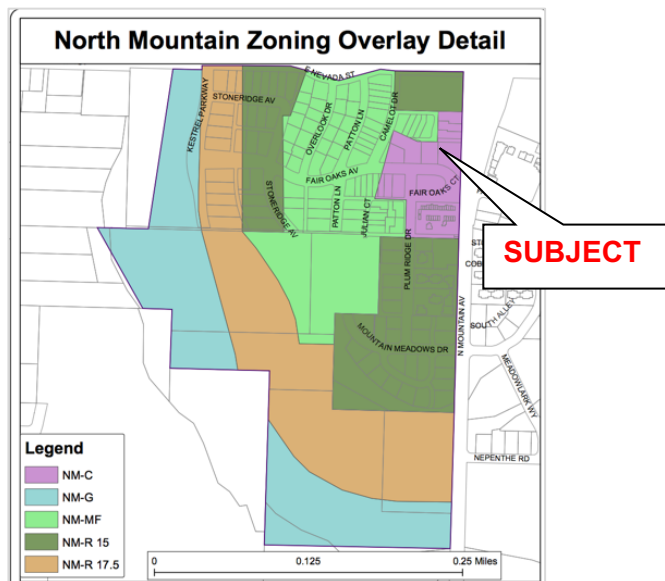
**SOILS:** No soils report was available for this appraisal. However, the soil quality as evidenced by the condition of the existing and surrounding structures appears adequate for low-



rise construction with standard perimeter concrete foundation design. Value estimates are predicated upon the soil being of adequate quality to support the proposed subject improvements.

**ZONING:** The subject property is zoned NM-C, North Mountain Neighborhood - Central Overlay, by the City of Ashland. According to the City, “This district is designed to provide an environment suitable for traditional neighborhood living, working, and recreation. The NM district and Neighborhood Plan is a blueprint for promoting a variety of housing types, mixed-use developments, neighborhood oriented businesses, and community services in a manner which enhances property values and preserves open spaces and significant natural features. The purpose of the Neighborhood Plan is to provide a comprehensive set of design standards, policies, and regulations to guide future development within the identified area. Through the use of the standards a greater sense of neighborhood can be accomplished, as well as accommodating all forms of transportation, including walking, bicycling, and transit.” According to the City Land Use Ordinance, allowable uses in NM-C include residential uses, accessory residential uses, home occupations, and agriculture (except keeping of livestock) and park/open spaces. Uses allowed by special use standards include neighborhood clinics, neighborhood retail sales and offices. Reference is made to the summary of allowable uses according to the City Land Use Code in the addenda of this report, and the following city zoning map.

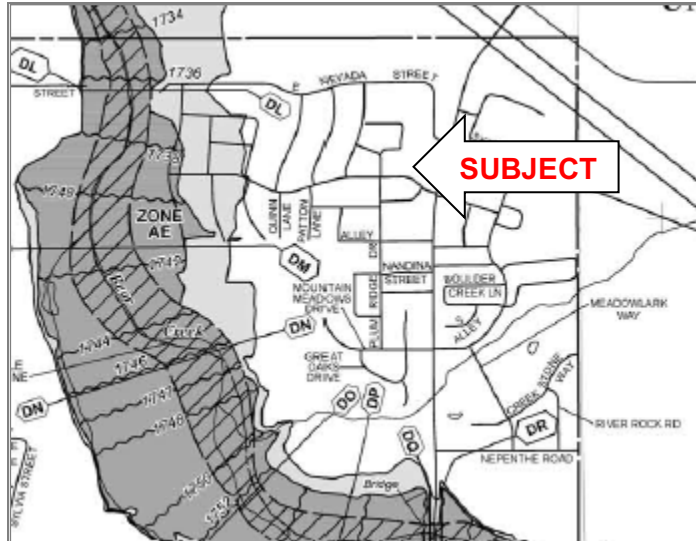
### ZONING MAP



Source: City of Ashland

**FLOOD PLAIN:** According to FEMA map #410029C2204F dated May 3, 2011, the subject is not located within the flood zone. Reference is made to the following flood zone map.

**FLOOD MAP**



Source: FEMA

**EASEMENTS OF RECORD:** A preliminary title report for the subject property was not available for review. A physical inspection of the subject indicated no easements considered detrimental to the property. However, should any easements or encroachments be discovered, the appraiser reserves the right to re-evaluate the subject.

**PUBLIC UTILITIES:** All normal public utilities are available at the subject sites from the following:

- |                  |                                      |
|------------------|--------------------------------------|
| Electricity      | - Ashland Municipal Electric Utility |
| Telephone        | - CenturyLink                        |
| Garbage Disposal | - Ashland Sanitary Services          |
| Water            | - City of Ashland                    |
| Sanitary Sewage  | - City of Ashland                    |
| Natural Gas      | - Avista                             |

**ENVIRONMENTAL HAZARDS:** A report on any hazardous substances that might affect the subject property was not available for review. This report assumes there are no hazardous substances affecting the property. However, the appraiser reserves the right to re-evaluate the subject property if hazardous waste contamination is subsequently found to be present on or in the subject property.

**COMMENTS:** The subject is a good residential site located within the Meadowbrook Park II at North Mountain PUD. The area surrounding the subject includes a complimentary mixture of residential and commercial uses. It is surrounded by condominiums, townhomes, single family detached units, and an office building. This area is anticipated to remain a desirable PUD. Interstate 5 extends in a north-south direction just north of the North Mountain Neighborhood.

Reference is made to the following photographs of the subject property in “as is” condition.

**SUBJECT PHOTOGRAPHS – June 15, 2018**



View west toward subject site from N. Mountain Avenue and PUD entry signage



View east across subject



View south across subject property



View northeast of subject property from Fair Oaks Avenue



View northwest across subject with water meters in foreground



View northeast of alley on north side of subject



Views of shared, private Plum Ridge Court with parking lot





View east along Fair Oaks Avenue at subject frontage

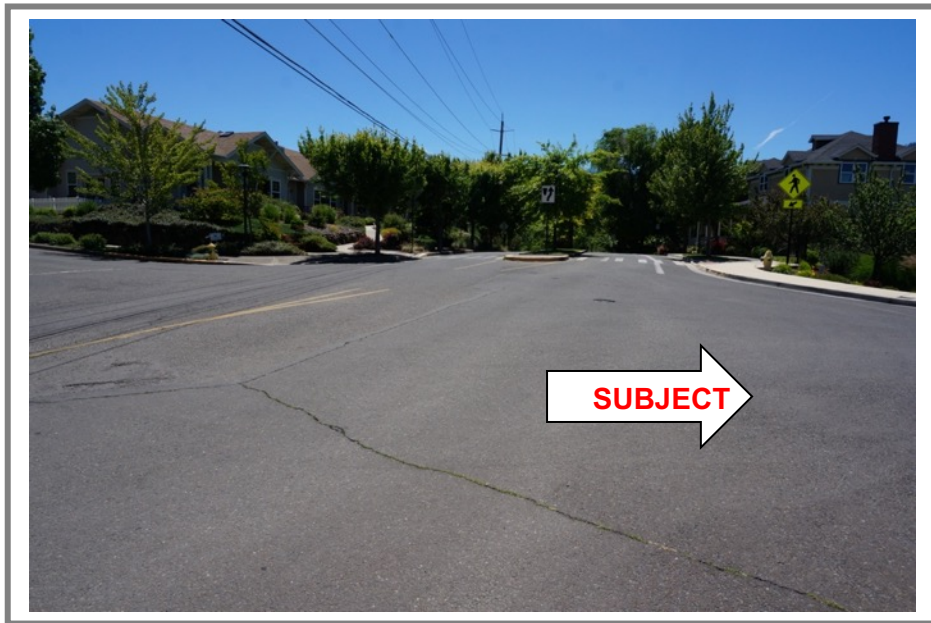


View west along Fair Oaks Avenue at subject frontage



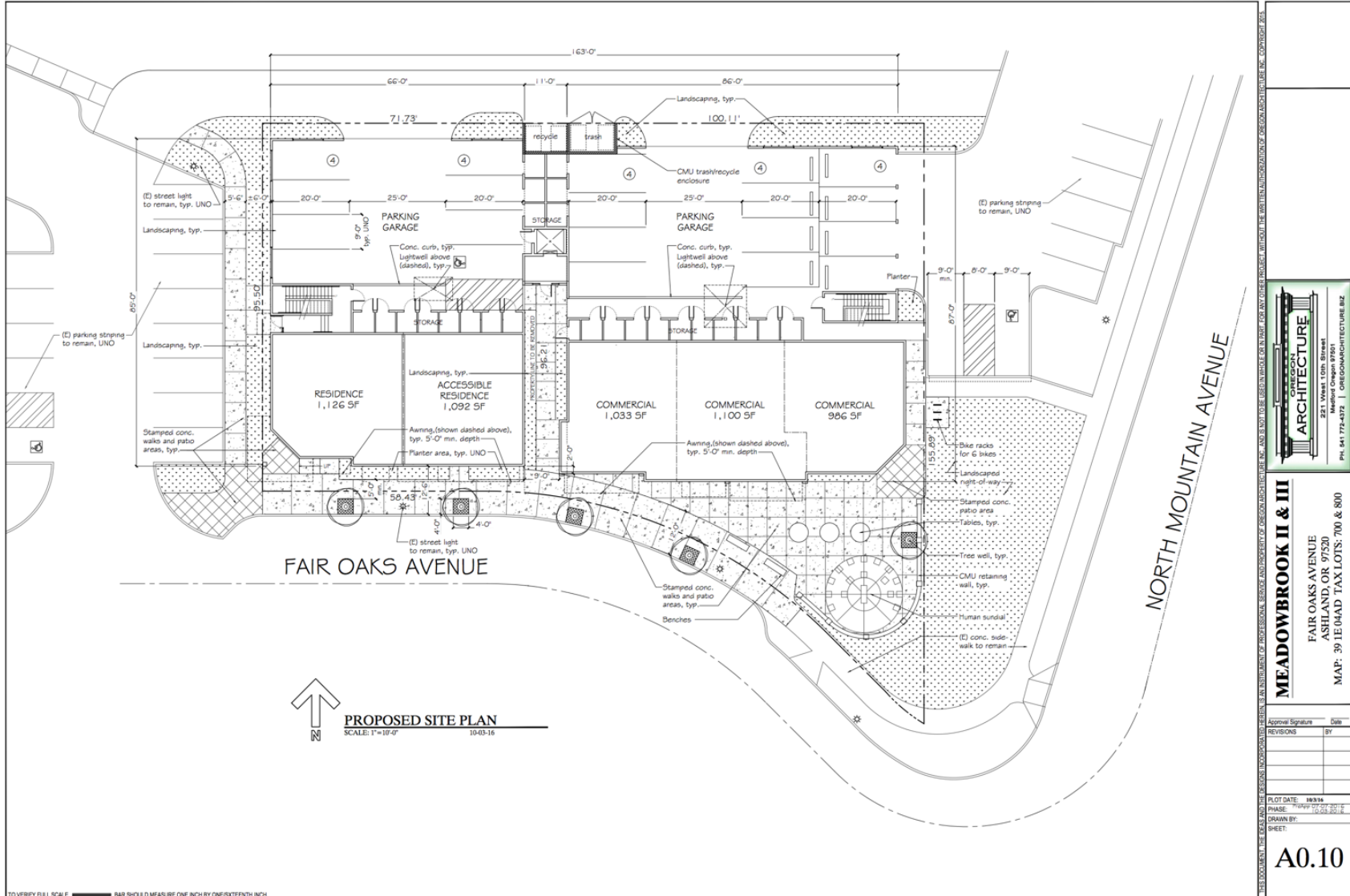


View north along N. Mountain Avenue at subject frontage



View south along N. Mountain Avenue at subject frontage

# SITE PLAN



# ELEVATION PLANS



**SOUTH WEST ELEVATION**

SCALE: NTS



**SOUTH ELEVATION**

SCALE: NTS

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**MEADOWBROOK II & III**

FAIROAKS AVENUE  
ASTORIA, OREGON 97103  
MAP: 391E/04AD TAX LOT: 700 & 800

Approved by the Owner By: _____ Date: _____	
REVISIONS	BY

PLOT DATE: 11/20/16  
ISSUE DATE:  
DRAWN BY:  
CHECKED BY:  
SHEET:

## **DESCRIPTION OF IMPROVEMENTS**

The subject property consists of 29 apartment units located in two, three-story buildings connected by a central elevator. It is a good quality, (Mid-Rise) multi-family residential facility of class D (wood frame) construction with wood, stucco and masonry siding. The facility is designed with multiple architectural facades to replicate a traditional main street appearance, creating interest in the streetscape and to comply with the City's design standards. The building's design is intended to be urban in character, mass and scale with the intent to enclose the subdivision's central green, similar to Ashland's Downtown Plaza.

The first floor includes a parking garage with 20 spaces and storage units plus residential apartments. Floors 2 and 3 include residential apartments. The improvements are proposed to break ground in 3<sup>rd</sup> quarter 2018 and have a projected completion date of August 1, 2019. According to the architectural building plans prepared by Oregon Architecture dated March 15, 2018, the gross building area (GBA) is 39,412 square feet. This includes first floor residential (formerly designated as commercial space) with 5,896 square feet, first floor parking garage with 7,340 square feet, and 13,088 square feet per floor of 2<sup>nd</sup> and 3<sup>rd</sup> floor residential space. The floor area ratio (FAR) based on GBA is 2.11. The subject's proposed use as a 29-unit multi-family residential facility is an outright permitted use based on the current NM-C zoning district. The proposed subject improvements received City Planning approval on July 13, 2016 (Planning Action 2016-00617).

The proposed apartment flats each include two bedrooms and two bathrooms (2 BD/2 BA). The unit sizes range from 871 to 1,169 square feet of living area. Reference is made to the developer's unit schedule on the next page. The gross living area of all 29 units totals 28,725 square feet and the average unit size is 991 square feet. The unit design includes a main front entry, open-concept living/dining/kitchen area, laundry closet, a master bedroom suite with full bath, a hallway bath with shower, and second bedroom. Common area improvements include covered and open parking, storage units, landscaping and concrete sidewalks.

### Meadowbrook Square Lots 70 and 71 Unit Schedule

Unit	SqFt	Beds/Baths	Type	Notes
1B	1053	2/2	END-WEST	COMMERCIAL/RESIDENTIAL
2-B	1144	2/2	END-EAST	COMMERCIAL/RESIDENTIAL
3A	1020	2/2	END-WEST	COMMERCIAL/RESIDENTIAL
4-A	1169	2/2	INSIDE	COMMERCIAL/RESIDENTIAL
5-A	871	2/2	END-EAST	COMMERCIAL/RESIDENTIAL
6-A	960	2/2	END-WEST	NORTHWEST FREEWAY SIDE FLR 2
7-A	906	2/2	INSIDE	NORTH FREEWAY SIDE FLR 2
8-A	938	2/2	END-EAST	NORTHEAST FACING FREEWAY FLR 2
9-A	1002	2/2	END-WEST	SOUTHWEST FACING CITY FLR 2
10-A	983	2/2	INSIDE	SOUTH FACING CITY FLR 2
11-A	970	2/2	INSIDE	SOUTH FACING CITY FLR 2
12-A	1006	2/2	END-EAST	SOUTHEAST FACING CITY FLR 2
13-B	1067	2/2	END-WEST	NORTHWEST FREEWAY SIDE FLR 2
14-B	1061	2/2	END-EAST	NORTHEAST FREEWAY SIDE FLR 2
15-B	939	2/2	END/WEST	SOUTHTHWEST- CITY SIDE FLR 2
16-B	934	2/2	INSIDE	SOUTH FACING CITY FLR 2
17-B	968	2/2	END/EAST	SOUTHEAST CITY SIDE FLR2
18-A	960	2/2	END/WEST	NORTHWEST FREEWAY SIDE FLR 2
19-A	906	2/2	INSIDE	NORTHEAST FREEWAY SIDE FLR 2
20-A	938	2/2	END/EAST	NORTHEAST FACING FREEWAY FLR 3
21-A	1002	2/2	END/WEST	SOUTHWEST FACING CITY FLR 3
22E	983	2/2	INSIDE	SOUTH FACING CITY FLR 3
23-A	970	2/2	INSIDE	SOUTH FACING CITY FLR 3
24-A	1006	2/2	END/WEST	SOUTHEAST FACING CITY FLR 3
25-B	1067	2/2	END/WEST	NORTHWEST FREEWAY SIDE FLR 3
26-B	1061	2/2	END/EAST	NORTHEAST FREEWAY SIDE FLR 3
27-B	939	2/2	END/WEST	SOUTHWEST FACING CITY FLR 3
28-B	934	2/2	INSIDE	SOUT FACING CITY FLR 3
29-B	968	2/2	END/EAST	SOUTH FACING CITY FLR 3

Totals: 28,725 SF Gross Living Area

991 Avg. SF per Unit

Source: Subject Developer

Note: Units 1-5 currently proposed for residential.

The interior finish of the units is of good quality construction. Each kitchen is equipped with Whirlpool stainless steel appliances including a 30-inch freestanding gas range/oven, 30-inch over-the-range microwave, a 24-inch built-in dishwasher, and a white 27-inch laundry center. Lanz cabinets are of Euroscape collection with satin nickel pulls and granite countertops in the kitchen, acrylic in bathrooms. Each unit is heated and cooled by a high efficiency Tempstar forced air gas furnace and air conditioning system. The flooring is of luxury vinyl plank throughout.

The subject unit's upper end finishes and separate utility metering are designed to allow for potential future condominium conversion and individual unit sales.

Basic building details are as follows:

**FOUNDATION** – Reinforced concrete with spread perimeter footings.

**WALL STRUCTURE** – Wood frame with stucco, masonry and wood siding exterior. Exterior paint is a multi-color scheme. Exterior walls include sound control acoustics.

**ROOF STRUCTURE AND COVER** – Flat roof of wood frame system and Duro-Tuff membrane covering.

**INSULATION** – Batt insulation for walls (R-21) and floors (R-38) and blown in fiberglass for ceilings (R-49); R-19 in parking garage.

**INTERIOR FLOORS** – Shaw "Floorte" EVP (luxury vinyl plank) throughout.

**INTERIOR WALLS** – Douglas fir wood stud framing with semi-smooth urban textured sheetrock.

**INTERIOR CEILINGS** – Painted sheetrock.

**WINDOWS** – Atrium vinyl, high efficiency units. Several windows include raised seam metal awnings.

**DOORS** – Main entry doors are 1 ¾-inch fiberglass with up to four lites. Interior doors are solid core wood.

**HEATING, VENTILATING AND AIR CONDITIONING** – Each unit is heated and cooled by a high efficiency Tempstar forced air gas furnace and air conditioning system.

**PLUMBING** – Each unit has a high efficiency electric water heater. The bathrooms have steel composite tub/shower combination with fiberglass smooth-tile finish surround. Each unit plumbing and a Whirlpool white 27-inch laundry center.

**APPLIANCES** – Each kitchen is equipped with Whirlpool stainless steel appliances including a 30-inch freestanding gas range/oven, 30-inch over-the-range microwave, and a 24-inch built-in dishwasher.

**LIGHTING AND ELECTRICAL** - Lighting is a high efficiency package. The light fixtures range from pendant style, flush, wall and ceiling-mounted units. Electrical power is 200 amp service.

**VERTICAL ACCESS** – The facility includes a central elevator and two stairwells, one per building. The stairs are powder coated metal rails with horizontal bars.

**PARKING** – A parking garage is located on the first floor with paving providing for 20 designated spaces. Vehicular access to the garage is provided via the alley on the north boundary of the property. The interior is of concrete flooring with painted sheetrock walls and florescent lights. Parking is also available on the 0.26-acre Plum Ridge Court, a private parcel owned in combination by the owners of three commercial tax lots (subject #700, office building #1500 and Meadowbrook Square Condominiums #98000). Plum Ridge Court appears as a public street but was set aside to accommodate additional parking for the project’s planned density and to allow for temporary events. Plum Ridge Court is asphalt paved with concrete curbs and gutters with 23 designated parking spaces. It is located adjacent west of the subject. Per the City’s planning approval of the subject, approximately 55 percent of the Plum Ridge Court available parking was allocated to the subject. Per the City’s planning action approval of the subject, “the proposed building and intended uses are consistent with the adopted North Mountain Neighborhood Design Standards, North Mountain Neighborhood District Zoning Regulations and the adopted subdivision plan (Planning Action 2013-01506) where the Planning Commission specifically approved the residential density, parking allocation and vehicular circulation for not only this lot, but also the subdivision’s three other lots”. Based on the subject’s shared use of Plum Ridge Court with 55 percent city parking allocation, 12 parking spaces are available to the subject in the existing parking lot adjacent west. The subject’s total parking is thus 32 spaces, or 1.1 space per unit. This includes 20 garage spaces and 12 open spaces.

**STORAGE** - A total of 26 storage units of wood frame construction with dimensions of approximately 5’ X 5’ is located on the perimeter of the parking garage.

**COVERED BALCONY AND PORCH** – Each unit on Floors 2 and 3 includes a covered balcony off the dining/living area.

**SITE IMPROVEMENTS** – Trees and shrubs are located around the building perimeter. There is an underground irrigation system. Sidewalks and driveways are of stamped concrete with tree wells, tables and a sundial.

**OVERALL CONSTRUCTION QUALITY** – Good.

**OVERALL CONDITION OF IMPROVEMENTS** – Excellent (new).

**FUNCTIONAL UTILITY** – The subject conforms to market standards. The subject's interior finish is of good quality. The upper end finish of the subject exceeds market expectations for typical apartment developments in the larger Jackson County area but are consistent with recent construction trends in Ashland. The subject's new construction, quality and Ashland location result in higher average rental income. The subject therefore does not suffer from incurable functional obsolescence. The subject's upper end apartment finish and separate utility metering is designed to allow for potential future condominium conversion.

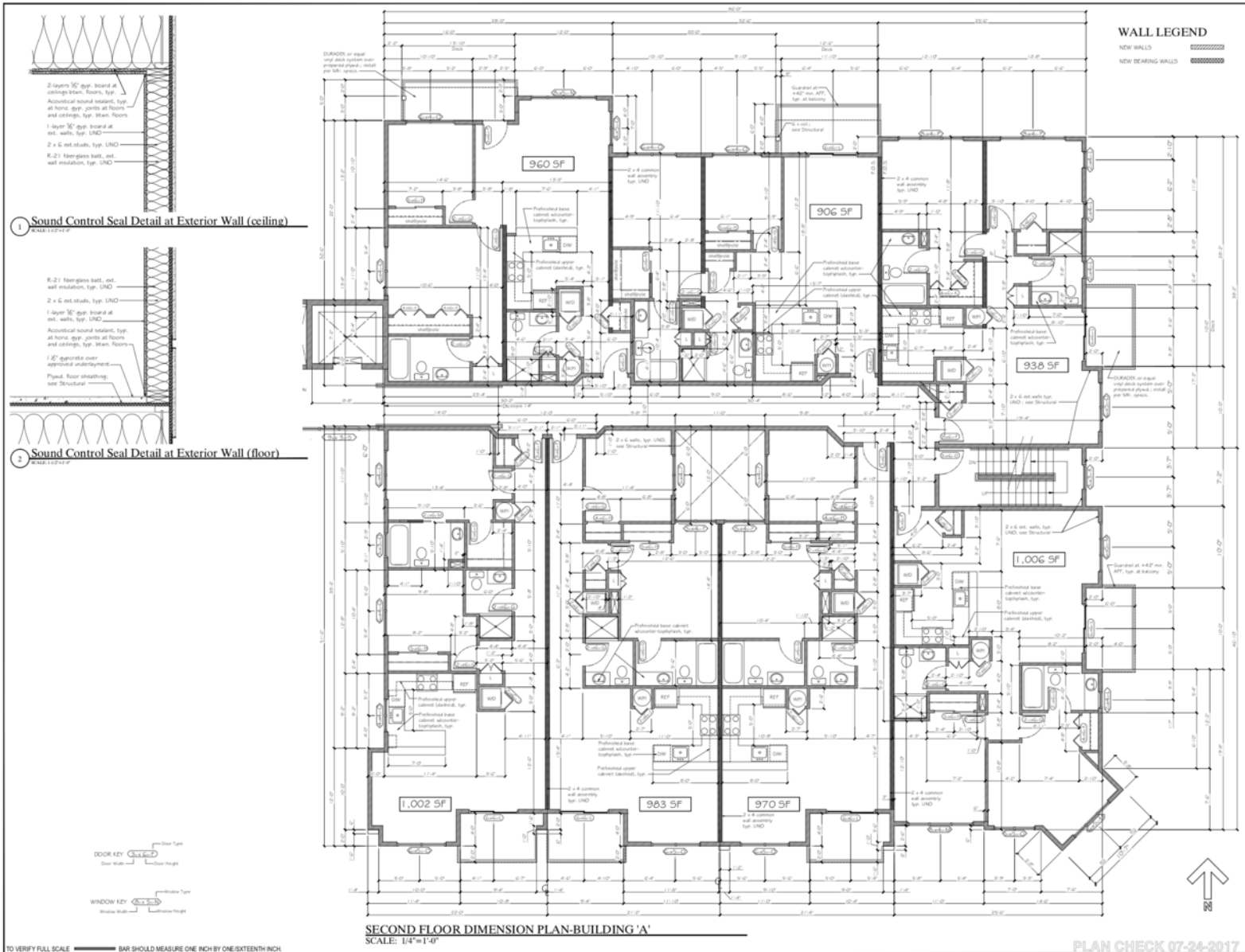
**AGE & ECONOMIC LIFE** – The estimated economic life of the subject is 55 years based on market comparison and the national cost guide Marshall & Swift. Based on the subject's new construction the estimated remaining economic life is 55 years.

**REMARKS:** The subject is a good quality, class D (wood frame) apartment project in excellent or new condition. The interior finish is of good quality. The floor plans of the units are similar of other successful projects in the area. The exterior finish of the buildings varies slightly in design, materials and paint colors, providing for architectural contrast. Overall, there are no functional deficiencies noted in the design of the subject apartment facility. The location, topographic features and design of the units with covered balconies, glass doors and windows provides for expansive view amenities to mountain ranges and central areas of Ashland to the west. Minimal freeway noise is generally mitigated by sound control acoustics. The neighborhood location within Ashland is considered good for this type of project.

The following pages show the floor plans for the subject property.







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 133 NW Union Street, Suite 101  
 Ashland, Oregon 97501  
 PH: 541 772-4372 | OREGONARCHITECTURE.BIZ

**MEADOWBROOK LOTS 70 & 71**  
 FAIR OAKS AVENUE  
 ASHLAND, OR 97520  
 MAP: 39 1E 04AD TAX LOTS: 700 & 800

Approval Signature		Date

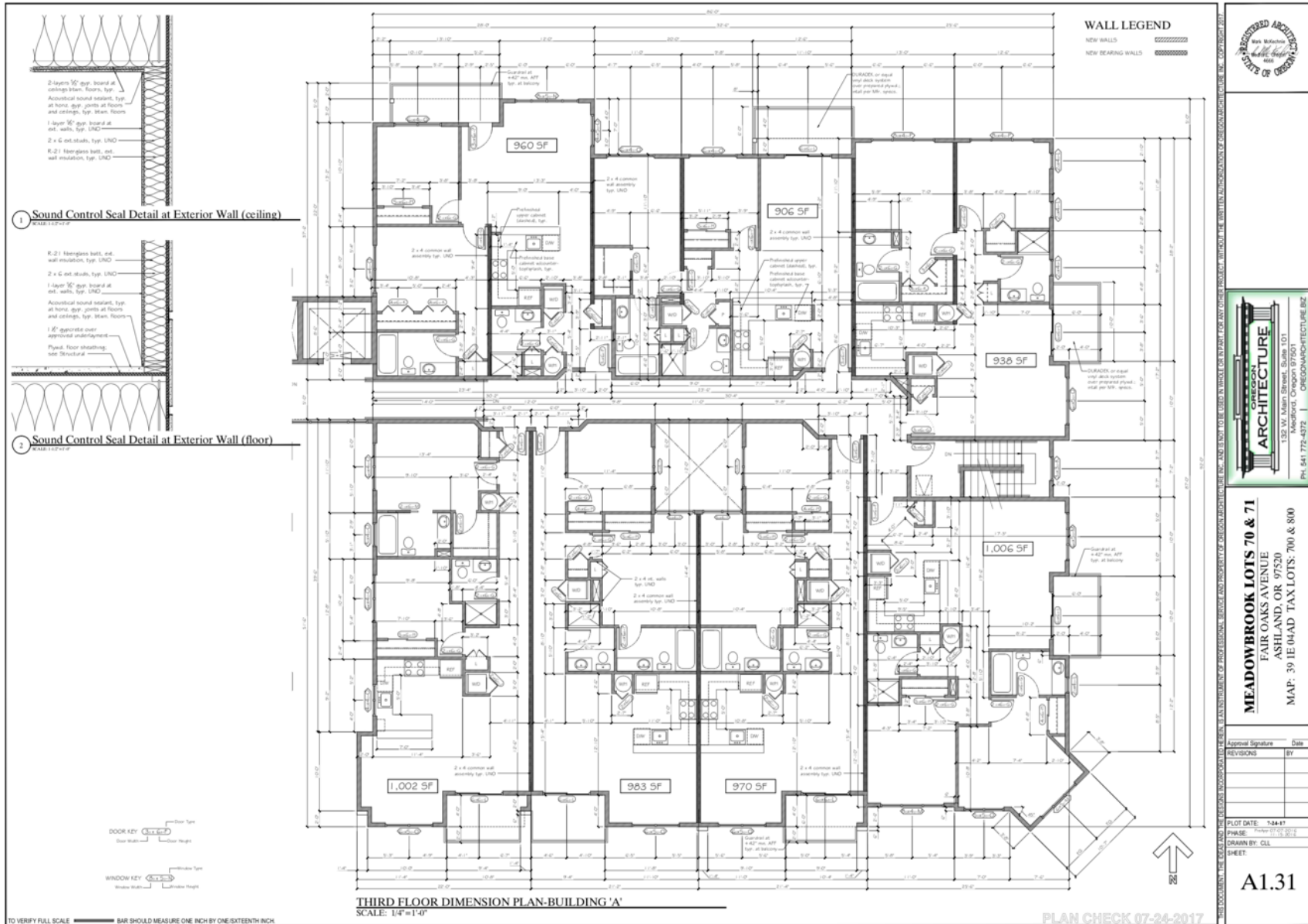
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 PHASE: CIVIL 02-2  
 DRAWN BY: CLL  
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TO VERIFY FULL SCALE: BAR SHOULD MEASURE ONE INCH BY ONE-SIXTEENTH INCH

PLAN CHECK 07-24-2017





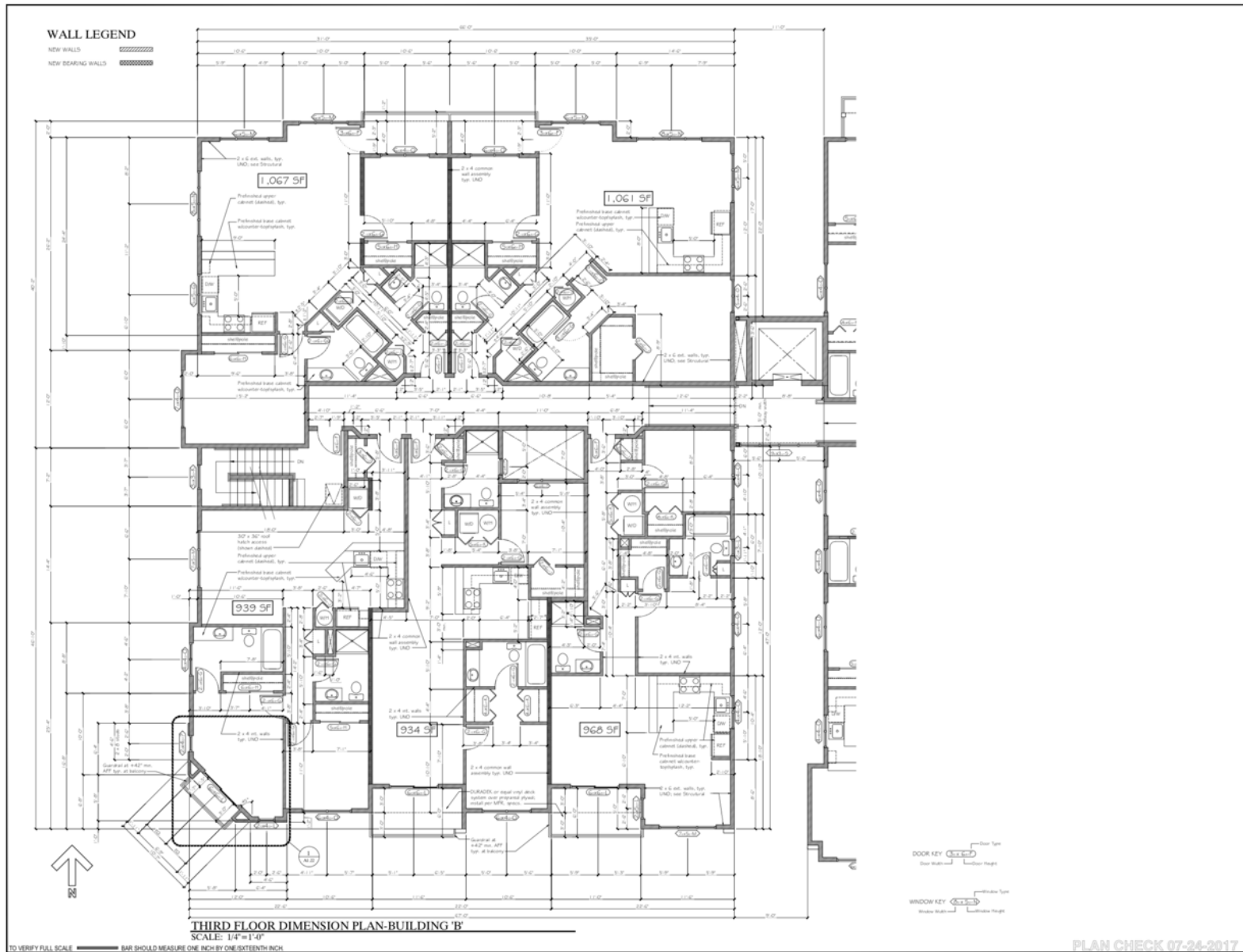
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Architects  
132 W. Main Street, Suite 101  
Medford, Oregon 97501  
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**MEADOWBROOK LOTS 70 & 71**  
FAIR OAKS AVENUE  
ASHLAND, OR 97520  
MAP: 39 1E 04AD TAX LOTS: 700 & 800

REVISION	BY	DATE

PLOT DATE: 03-24-17  
PAPER: 11x17  
DRAWN BY: CLL  
SHEET: A1.31



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 Ashland, Oregon 97520  
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**MEADOWBROOK LOTS 70 & 71**  
 FAIR OAKS AVENUE  
 ASHLAND, OR 97520  
 MAP: 39 1E 04 AD TAX LOTS: 700 & 800

REVISIONS	DATE	BY

PLOT DATE: 7-24-17  
 PHASE: 1775 002  
 DRAWN BY: GLL  
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## **MARKET ANALYSIS**

The rental housing market in the subject's Ashland and larger Jackson County area has experienced strong market fundamentals for the last several years. Vacancy rates currently average from 0 to 2 percent. Rental rates in Ashland typically range from \$850 to \$2,500+ per month for varying unit types, quality and condition. Most rentals range from \$1,200 to \$2,000 per month. Rental rates generally average \$1.50 per square foot for 2-3 BD unit types (900-1,200 SF) and up to \$3.00 per square foot for small studio space (<500 SF).

The Ashland apartment market has experienced upward pressure in rents due to the scarcity of available supply. There has been a low supply of new rental units completed since the 2008-09 recession, due in part of a limited supply of available multi-family residential land. Most of the multi-family residential building permits issued in Ashland in recent years has been for townhome units offered for sale, rather than apartments.

In the following section, market conditions which influence the subject property are analyzed.

**Existing Supply:** Most of the existing supply of apartment units in Ashland consists of older facilities. Many are concentrated around the campus of SOU allowing for student housing. There is a scarcity of apartment complexes in central areas of Ashland near the downtown district. Within the subject's North Mountain area there is currently no known supply of apartment units, although some condominiums and townhomes are offered for lease.

According to the City's 2012 *Housing Needs Analysis (HNA)*, there were 4,553 renter-occupied dwelling units in Ashland occupied by approximately 8,907 individuals. The average household size for renter-occupied dwelling units was 1.96 persons per unit. This is slightly less than the average owner-occupied unit of 2.1 people per unit. According to the study there were 4,856 owner-occupied dwelling units in Ashland occupied by 10,210 individuals. According to the HNA study, the majority of housing in Ashland, 59.6%, was built prior to 1979; with 16.6% or 1,695 units being built prior to 1939. A total of 47.6% of all housing units were built between 1970 and 2000, with most of the new building activity taking place between 1990 and 2000. According to more current building permit statistics, as previously summarized in the Location Analysis section of this report, a total of 33 multi-family residential unit permits have been issued

in Ashland between 2010 and FY 2018 ending June 2018. Based on conversations with Ashland Community Development, all of the recently completed multi-family residential units have been townhomes or condominiums, with most units offered for sale.

The City of Ashland published their latest *Housing Needs Analysis* study during 2012. The study provided a summary of housing and demographic trends to meet future housing needs. Among the important findings relative to multi-family residential include the following:

- Few multi-family units were built between 2001-2010. Approximately 20 percent of all building permits issued during this time frame were for multi-family units. Although there has been a significant increase of multi-family units over the past decade, not all newly built multi-family units were rentals, most were townhomes or condominiums. Many existing multi-family rental units were also converted to condominiums during the housing boom.
- Ashland has a relatively small inventory of land zoned for multi-family residential development. The *2011 Buildable Lands Inventory* identified an existing capacity of up to 1,384 multi-family units within the Urban Growth Boundary. The *Housing Needs Analysis* by the city estimates up to 1,759 multi-family residential units will be needed by the year 2040. The supply of land available for multi-family residential development could be absorbed by the year 2034.
- The HNA concluded the strongest demand for units was for studio and 3 BD unit types. The study suggested there was an excess supply of 2 BD unit types. However, the date of the study during 2012 does not reflect current market conditions for 2 BD units. Based on recent supply and demand trends since the recovery began in 2011, there is an under-supply of 2 BD unit types available for rent in Ashland.

**Current Proposed Supply:** Based on information provided by the Ashland Community Development Department, there is a strong need but a very limited supply of apartment units currently proposed in the city. Other than the subject's proposed apartment complex, there is only one other apartment property currently proposed in Ashland according to planning department officials. The proposed "Ashland Urban Lofts Apartments" is located at 188 Garfield Street. This is a 2.10 acre site located on Garfield Street, Iowa Street and Quincy Street. The site is zoned R-3, High Density Residential. The site was previously improved with a church, which was demolished subsequent to sale in 2017. The property is proposed for 70 apartment units. They are all studio units with an average unit size of 550 square feet. According to Ashland Planning, there has been a pre-application conference for the proposed development,

but no planning action has been filed as of this writing. The date of ground-breaking is not currently known. The design of the complex will be upper-end, modern and professional. The developer, Don Jones, projects a unit rent of \$1,500 per month, or \$3.00 per square foot. The rent includes all utilities provided by the landlord, including electricity, water, sewer, trash removal, television and Wi-Fi. The developer's pro forma utilities expense to the units is \$200 per month. Other than this project, there are no other market rate apartment complexes currently proposed in the city according to planning department officials. The city planners, Nathan Emerson and Derek Severson, noted they have heard rumors of a large (100+ unit) studio unit complex being proposed just outside the city's northern limits, which would require annexation for development. At this writing there is no development application submitted.

The above analysis indicates a low supply of apartments units in Ashland in the near term and foreseeable future. Based on City of Ashland *Housing Needs Analysis* there is an insufficient supply of apartments to meet future growth projections.

**Demand:** Demand drivers including population, employment and household income levels have all been increasing in the subject's Ashland market area in recent years, as previously summarized in the Location Analysis section of this report. Ashland is a very desirable area in which to live. Ashland has some of the highest priced homes in the Rogue Valley. Historically, high housing costs have negatively impacted the Ashland community. High housing prices have also contributed to a diminishing supply of affordable rental housing in Ashland. The City of Ashland *Housing Needs Analysis* study includes the following:

- Population growth is estimated to average approximately 0.75 percent from 2005 to 2060. Ashland's population is growing but at a lesser pace than Medford and Jackson County. The population growth rate for individuals 65 years and older grew at a faster rate in Ashland than in the rest of the state. People are retiring and moving to Ashland. The trend of an aging citizenry should persist into the future as population growth has been and will continue to be influenced by the baby boom generation.
- Fewer households own housing in Ashland relative to other areas. The 2010 Census indicated that 51 percent of Ashland households own their homes while 49 percent are renter occupied. Ashland has a lower percentage of homeowners and a higher percentage of renters than Jackson County and the State of Oregon.
- The report identified the apartment inventory in Ashland as of 2007. Some of the findings of the *Housing Needs Analysis* are presented in the tables below.



Housing Type Distribution						
Housing Type	Total Housing Units Needed in 2040	Estimate of Existing Units <sup>35</sup>	Future Needed/Gap	Final Target Distribution of Housing by Type in 2040	Current Approx. Distribution by Type <sup>36</sup>	Needed Distribution to meet future unit need
Single Family	8,913	7,356	1,557	65.80%	80.26%	45.50%
Manufactured DU in Park	325	154	171	2.40%	-	5.0%
Duplex Units	420	526	-106	3.10%	2.63%	N/A
Tri-Quad Units	569	530	39	4.20%	3.12%	1.1%
5+ Multi-Family	3,319	1,655	1,655	24.50%	13.99%	48.4%
<b>Total</b>	<b>13,545</b>	<b>10,230</b>	<b>3,315</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Housing demand /capacity comparison by unit type			
	SFR	Multi-family	Totals
Existing Dwelling Unit Capacity (2010 BLI)	1469	1384	2853
Needed Units per Housing Gap Analysis through 2040	1557	1759	3316
Deficit by 2040	-88	-375	-463
Annual units needed through 2040	55.6	62.8	118.4
<b>Total Year Supply</b>	<b>26.4</b>	<b>22.0</b>	<b>24.1</b>

Source: *Housing Needs Analysis* City of Ashland

The above analysis indicates substantial demand for apartments units in Ashland for the foreseeable future.

**Absorption Comparable Data:** Another indicator of apartment demand is absorption of units. Within Ashland there has been a scarcity of recently completed apartment units available to show an absorption rate. Within the larger Jackson County market area, two market-rate apartment complexes have been completed in recent years in Medford. This includes the 489-unit Charles Pointe development built between 2007-2015 at 171 Lowry Lane in southwest Medford, and the 201 unit Orchard Glen Apartments completed in 2017-18 at 2646 W. Main Street in west Medford. Both projects were developed and remain under the ownership of the Smith family. According to CFO Mr. Philip Smith, the most recently completed Orchard Glen Apartments has been fully absorbed at the rate of approximately 10 new units per month. The unit types are all 2 BD. The smallest unit is an 805 SF 2 bed 1 bath flat with a current monthly rent of \$865, or \$1.07/SF. The rent includes sewer, water, trash, high speed internet and expanded basic cable. The nine-phase Charles Pointe development was built over a longer

period of time. This includes both pre-recession and post-recession phases of construction. Unit types range from 1 BD, 2 BD and 3 BD. The average absorption over the nine phase development was slightly over 10 units per month. According to Philip Smith, their existing turn load on all 800 units under their ownership averages 20-30 units per month, and average vacancy is 1 percent or less.

Additional absorption comparable data was researched in the regional market area. This includes the new Orchard Crossing Apartments located at 1965 E. 15<sup>th</sup> Avenue in Eugene. The units are furnished. Rental rates range from \$1,145 for a 331 square foot studio (\$3.46/SF) to \$1,795 for a roof-top deck 1 BD unit with 473 square feet (\$3.79/SF). The 139 units began preleasing in June 2017, completed construction in August 2017, and are now 88% occupied. The absorption of 126 units over 12 months equals 10.5 units per month. The same developer has just started construction of similar units at 35 Club Road, Eugene, and intend to be leasing in early 2019.

In summary, the absorption data indicate recent rates in a consistent range of approximately 10 units per month.

**Vacancy Rates:** Based on current supply and demand trends, vacancy rates have been decreasing in recent years. As of year-end 2017 (most recent available), the Southern Oregon Rental Owner’s Association (SOROA) reported average vacancy of 1.95 percent within the southern Oregon region consisting of Jackson and Josephine Counties, as summarized below.

**Southern Oregon Rental Market**

<u>Year</u>	<u>Vacancy</u>	<u>Year</u>	<u>Vacancy</u>
1997	4.47%	2008	5.40%
1998	3.88%	2009	8.01%
1999	2.23%	2010	4.45%
2000	5.10%	2011	4.87%
2001	3.71%	2012	4.47%
2002	3.71%	2013	2.55%
2003	3.43%	2014	2.48%
2004	4.72%	2015	2.27%
2005	3.82%	2016	2.06%
2006	3.06%	<u>2017</u>	<u>1.95%</u>
2007	4.85%		
		<i>21-Year Average:</i>	3.88%

Source: Southern Oregon Rental Owner’s Assoc.

**Rental Rate Trends:** Apartment rental rates have been increasing in the subject market in recent years. According to Mr. Ron DeLuca of Pacific Properties, owner of 1,600 rental units in the Ashland-Medford area, rents at his units have increased an average of 30 percent over the previous three years. Mr. DeLuca stated rents at his facilities were brought up essentially all at once, after a decline during the recession. It is his opinion rents may be reaching a plateau, and he intends to increase rates more gradually moving forward. For a typical unit with a \$1,000 monthly rent, he intends to increase them by \$50 per month during the next year, or 5 percent annually.

**Sale Price Trends:** There have been few sales of newer apartment properties in Ashland and Medford during the past several years. Most of the sales have been older properties constructed between the 1960s and 1990s and early 2000s. Sales prices have ranged from approximately \$64,000 per unit to \$132,000 per unit. Overall capitalization rates have ranged from 5.1 percent to 7.5 percent. Sales of newer apartment properties in the Portland MSA range in price from \$216,000 to \$312,000 per unit with overall rates from 4.25 to 5.25 percent. The PwC Real Estate Investor Survey, Fourth Quarter 2017, indicates a range of overall capitalization rates for apartment properties of 3.5 percent to 7.5 percent with an average capitalization rate of 5.32 percent. However, recent increases in commercial mortgage lending rates will likely cause a rise in overall capitalization rates as well. The low supply of recent sales is primarily due to a limited supply of newer facilities offered for sale. Apartment units are regarded as an attractive investment property and typically include some of the lowest capitalization rates.

### **Conclusion - Interaction of Supply and Demand (Residual Demand Analysis)**

The subject's apartment, condo and townhome rental market is currently experiencing greater demand than supply of units. Based on the scarcity of available parcels suitable for development and financial feasibility concerns due to rising costs, new supply of units is not projected to over-supply the market in the near future. It is currently a landlord's market and trends are projected to continue to be out-of-balance with an under-supply of units in the near future. The subject's rental market is anticipated to continue to experience low vacancy and increasing rents. Within the larger Jackson County market area, median income levels in the area will need to increase for tenants to support higher rents and avoid an extreme rent burden.

However, within the subject's market area of Ashland a higher percentage of area residents are not dependent on the economy for their incomes.

In summary, the market for apartment rentals has been strong in Ashland and the Rogue Valley the past five years. Market conditions of strong demand and short supply have caused apartment rents to steadily increase. These trends are expected to continue for the next few years. The Ashland apartment market should remain strong given current and projected market conditions.

**Subject Property Analysis:** The subject is a proposed Multi-Family (Mid-Rise Building) totaling 39,412 SF (GBA) on a site totaling 18,675 SF (24,904 SF net usable) located in Ashland, Jackson County, Oregon. The subject (proposed Meadowbrook II Apartments) will have a total of 29 two-bedroom, two-bath multi-family units. The improvements are anticipated to be completed on August 1, 2019. The subject is estimated to achieve stabilization on March 1, 2020 based on a 7-month absorption timeframe with an absorption rate of about 4 units per month. The subject will be of good high end multi-family quality. The exterior surface will be wood siding with architectural variation, thermal pane windows and raised seam metal awnings. There will be a parking garage on the first floor providing for 22 spaces plus storage units and open parking of 12 spaces is allocated to the subject in the shared parking lot.

The market generally classifies the subject as a new and good quality Multi-Family investment property that if exposed to the open market would command strong interest from local and regional buyers that are actively pursuing similar investment properties in the \$5 million to \$10 million price range. The subject is generally at the upper value range for a local private investor; however, it is not attractive to institutional investors because the price point is not high enough. Currently, there is strong buyer demand, while there is limited availability for this property type on the supply side. However, there is slight upward pressure on cap rates in sync with interest rate increases, and there is a fair amount of investment risk taken by the developer on the construction and lease-up phase. While new apartment development is currently proposed in Ashland, they are all studio units not directly competitive to the subject's two-bedroom units. The subject's location in Ashland should assist as an insulating factor to construction risk based on the scarcity of available land and competitive new supply in the market area.

Based on the above factors the subject is anticipated to have good investment appeal. It is also anticipated to have good overall tenant appeal with a typical competitive position for attracting and retaining tenants.

**Subject Condominium Conversion:** The subject unit's upper end design with individual utility metering is designed to allow for potential future condominium conversion. Recent sales of condominium and townhome units in the subject's Meadowbrook at North Mountain Park neighborhood have ranged from approximately \$350,000 to \$450,000 per unit. The most similar to the subject are the Meadowbrook Condominiums completed in 2017 adjacent southwest. These 2 BD units have sold from \$350,000 to \$405,000 per unit. The most recent sale is a 1,131 SF unit currently pending for \$400,000, or \$353 per square foot. Individual sales of the subject units as condominiums are anticipated to be in a similar range. Assuming condominium conversion an average retail value in the range of \$375,000 to \$400,000 per unit is concluded achievable for the subject based on recent sales. Based on current absorption rates for similar condo and townhome units, a discounted cash flow analysis would indicate a bulk sale discount rate in the range of 20 to 25 percent. On this basis, the retail unit value of \$375,000 to \$400,000 would indicate a bulk sale value of approximately \$281,000 to \$320,000 per unit. This is higher than the Stabilized Prospective Value in this report of \$236,552 per unit as a 29-unit apartment complex. Based on this review, there is upside potential in the developer's future consideration for condominium conversion of the subject's apartment complex.

## **HIGHEST AND BEST USE**

Highest and best use is defined as the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The highest and best use of both land as vacant and as improved must meet four criteria: it must be legally permissible, physically possible, financially feasible, and maximally productive. Judgments as to a property's highest and best use form the basis for estimating its market value. A complete analysis of highest and best use requires a consideration of the property both as though vacant and as improved.

### **AS-VACANT ANALYSIS**

Permitted uses in the subject's NM-C zone include residential uses, accessory residential uses, home occupations, and agriculture (except keeping of livestock) and park/open spaces. Uses allowed by special use standards include neighborhood clinics, neighborhood retail sales and offices. The subject property has received city planning approval for the 29-unit multi-family residential development by the City of Ashland. Surrounding the subject are condominiums, townhomes, an office facility and detached single family units. There is a good mixture of residential and commercial uses in the PUD. Therefore, the impact of zoning on the subject property is minimal. No change in zoning is probable or anticipated.

As noted in the Market Analysis section of this report, the subject's apartment market is experiencing strong market fundamentals. Based on land development trends for sites with similar zoning and physical characteristics as the subject and analysis of current supply/demand trends, the highest and best use of the subject site as-vacant is multi-family residential development.

### **AS-PROPOSED ANALYSIS**

The proposed subject improvements are an outright permitted use within the NM-C zone. The legal factors influencing the highest and best use of the subject property support the proposed use. The subject's improvements are expected to be finished in August 2019 and are estimated to have an economic life of 55 years. The project will be of good quality construction

and in new condition, with adequate parking and amenities. Legal, physical, locational and marketability factors support the proposed use as the highest and best use of the subject site.

### Financial Feasibility

The financial feasibility of those uses that meet the legal and physical tests discussed above is analyzed further in this section. The subject's financial feasibility is measured by the cost to construct the proposed improvements, less profit, against the concluded value as of the date of completion (August 2019). As noted in the chart below, the concluded stabilized value upon completion is slightly higher than the capital investment required, indicating it is marginally financially feasible.

#### FINANCIAL FEASIBILITY ANALYSIS

	Value Estimates	Developer's Invested Capital
Improvement & Site Hard/Soft Costs		\$5,750,000
Land		\$1,000,000
<b>Stabilized Value – Prospective</b>	<b>\$6,860,000</b>	<b>\$6,750,000</b>
<b>Stabilized Value – Hypothetical</b>	<b>\$6,750,000</b>	

### Most Likely Buyer/Typical User

Based on the previous financial feasibility analysis and supply/demand trends, the most likely buyer/typical user of the subject property (29 apartments) is an investor.

### Subject Condominium Conversion

The subject unit's upper end design with individual utility metering is designed to allow for potential future condominium conversion. As previously described in the Market Analysis section of this report, there is upside value potential in the developer's future consideration for condominium conversion of the subject's apartment complex. The estimated *Bulk Sale Value* of an assumed condominium development in the range of \$281,000 to \$320,000 per unit is approximately 19 to 35 percent higher than the *Stabilized Prospective Value* of \$236,552 per unit (\$6,860,000 / 29 units).

**REAL ESTATE TAXES**

Jackson County Assessors are required to establish the Real Market Value (RMV) which equals the value a property would sell for on the open market. According to the Jackson County *Property Tax Statement Guide*, RMV is the “estimate of value of your property would have sold for on January 1.” The Assessors also calculate a Maximum Assessed Value (MAV), defined as the “ceiling of value on which you can be taxed, usually this value grows 3% annually.” The Assessed Value (AV) is the “value on which your property is taxed, this is the **lesser** of either your **RMV or your MAV**. New construction, subdividing and others are exceptions to the 3% cap and may increase AV by more than 3%.” Statements are mailed by the end of October, and taxes for the 2017-2018 year were due in November, 2017. According to the Jackson County Assessor’s office, the subject’s current taxes are as follows:

<b>Real Estate Tax Data:</b>	<b>Year – 2017-18</b>
Assessor’s Parcel No.:	39-1E-04AD, Tax Lot 700
Tax Code Area:	5-01
Tax Rate:	\$15.9347/\$1000 assessed value.
Real Market Value:	
Land:	\$531,390
Improvements:	<u>          \$0</u>
Total:	\$531,390
Assessed Value:	\$223,550
Taxes:	\$3,458.47

**Prospective Tax Liability**

The tax information above applies to the site prior to development of the subject improvements. In order to estimate the prospective and hypothetical values, an estimated stabilized tax expense for the subject is needed.

The stabilized real estate tax estimate is based on a value near the concluded Prospective Market Value of this report and applies an adjustment based on typical apartment RMV’s in Jackson County of 85 percent. The current (2017) changed property ratio (CPR) for apartments



in Jackson County is 77.1 percent. The CPR and current millage rate are then applied to the concluded RMV in order to estimate the subject's stabilized property taxes, as summarized below.

<b>ESTIMATED STABILIZED TAXES</b>	
Value Near the Concluded Prospective Market Rent Value	\$6,750,000
Adjustment for County RMV	85%
= Estimated County RMV	\$5,737,500
Current Changed Property Ratio (CPR)	77.1%
= Estimated Assessed Value (AV)	\$4,423,612
<u>Current Millage Rate/1000 (Tax Rate)</u>	<u>0.0159347</u>
<b>= Stabilized Tax Estimate</b>	<b>\$70,489</b>
	Rounded, <b>\$71,000</b>
<b>Stabilized Taxes/Unit</b>	<b>\$2,448</b>

Expense comparable data presented in the income approach section of this report show tax expenses from \$900 to \$2,500 per unit, bracketing the estimated stabilized taxes for the subject.

## **THE COST APPROACH**

This method of valuation is based upon the assumption that no rational person would pay more for a property than the cost of purchasing a site and constructing, without undue delay, improvements of equal desirability and utility. Application of the development cost approach involves estimating a replacement cost new for all improvements, deducting any accrued depreciation present, and adding land value to arrive at a value estimate.

### **SITE VALUATION:**

The subject property is 0.43-acre vacant site with underground site work completed for development. Entitlements are currently in place for the proposed 29-unit multi-family residential development. This includes City planning approval and architectural & engineering plans. Completed infrastructure is in place for City water and storm water detention within the North Mountain Neighborhood. The subject property has off-site parking based on a one-third shared interest in the Plum Ridge Court improved parking lot (Tax Lot 1400, 0.26 acres). Per the City's planning approval, the subject was allocated 55 percent of the 23 available parking spaces on Plum Ridge Court, for a total of 12 spaces. The net usable land area is thus 24,904 square feet or 0.57 acres.

A thorough search for comparable land sales was made in order to help estimate the value of the subject site. In recent years there has been a scarcity of sales of multi-family residential zoned land sales similar to the subject. The land sales presented in the next section were the best data available for review and concluded adequate for comparison.

### LAND SALE COMPARABLES MAP



### COMPARABLE LAND SALE DATA



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SALE NO.	1
LOCATION:	469 Russell Street, Ashland, Jackson County, Oregon.
GRANTOR:	Laz Ayala
GRANTEE:	Jacksonville Investments LLC
DATE:	May 25, 2018
SALES PRICE:	\$495,000
TERMS:	Full cash offer
UNIT PRICE:	\$26.43 per square foot
DEED:	2018-16093
VERIFICATION:	Laz Ayala and Jeff Rodgers, listing/selling broker, John L. Scott
ASSESSOR'S PARCEL NO.:	10981897 Map 39-1E-09-AA Tax Lot 2802

SALE NO.: 1 (Continued)

SITE: 0.43 acre, 18,731 square feet; irregular shaped interior parcel, with level topography, all public utilities available, street improved to urban standards. The property is Lot 3 in the Falcon Heights development of the Historic Railroad District. The site is fully developed with sewer taps, water meters, transformers and other utilities as well as parking lot, storm water detention, landscaping and parking lights. According to the broker, the developer had estimated \$100,000 in site improvements were complete prior to sale.

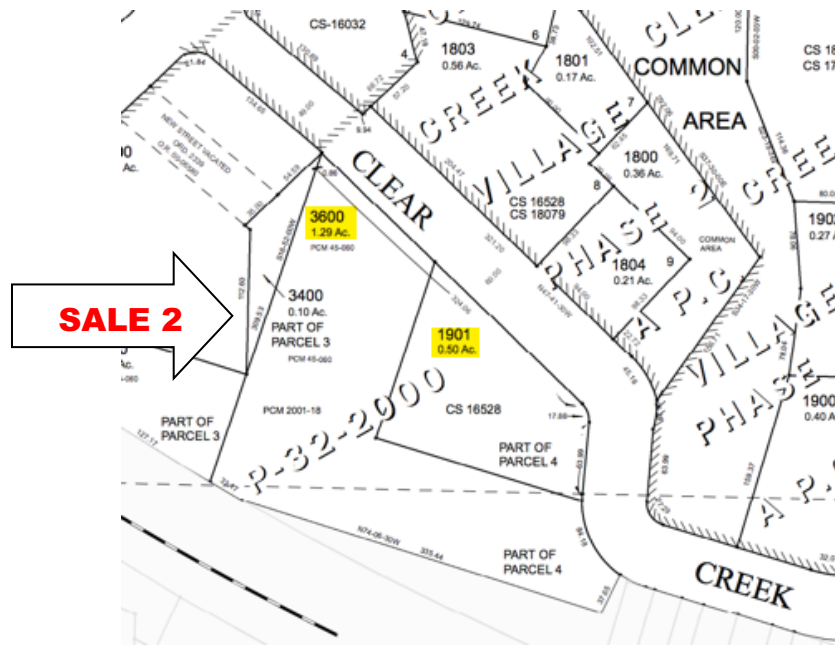
IMPROVEMENTS: Finished underground site work but no vertical improvements.

ZONING: E-1, Employment, City of Ashland. Permitted uses include professional and medical offices, retail, light manufacturing, hotel/motel, and residential on second floor (live/work).

REMARKS: The buyer intends to improve the property with a commercial building on the lower floor and residence on the upper floor. Plans have been submitted to Ashland Community Development Department.

MARKETING TIME: 106 days, approximately three and a half months.

### COMPARABLE LAND SALE DATA



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SALE NO.	2
LOCATION:	120 Clear Creek Drive, Ashland, Jackson County, Oregon.
GRANTOR:	Clear Creek Investments, LLC and Cooper Investments, LLC
GRANTEE:	Ashland Food Cooperative
DATE:	May 10, 2018
SALES PRICE:	\$1,550,000
TERMS:	All cash.
UNIT PRICE:	\$19.88 per square foot
DEED:	May 10, 2018
VERIFICATION:	Jeff Rodgers, listing broker, John L. Scott
ASSESSOR'S PARCEL NO.:	10940560 and 10940551 Map 39-0-1E-04-CD Tax Lots 3600 & 1901

SALE NO.: 2 (Continued)

SITE: Total 1.79-acres or 77,972 square feet; irregular shaped interior parcel with flat topography. All public utilities available or in use at the site.

IMPROVEMENTS: Unimproved raw land

ZONING: E-1 Employment by City of Ashland. Permitted uses include professional and medical offices, retail, light manufacturing, hotel/motel, and residential on second floor (live/work).

REMARKS: The property was listed for sale for \$1,500,000 and received two offers; one offer was slightly less than \$1,500,000, the second offer was slightly more at \$1,550,000, cash. The first offer/buyer intended to develop the property with a commercial building on the lower floor and residential units on the upper floor. The second offer and ultimate buyer intends to develop the property with a retail grocery store known as Ashland Food Co-Op.

MARKETING TIME: 407 days or slightly more than 13 months.

### COMPARABLE LAND SALE DATA



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SALE NO.	3
LOCATION:	1068 East Main Street, Ashland, Jackson County, Oregon.
GRANTOR:	Paulena Elizabeth Carter Verzeano, Trustee
GRANTEE:	Ten Sixth Eight, LLC (Laz Ayala)
DATE:	January 23, 2018
SALES PRICE:	\$1,200,000; \$1,000,000 adjusted for residence
TERMS:	Cash
UNIT PRICE:	\$15.39/SF including imps; \$15.10/SF-land or \$38,461/unit (26 units), \$657,895/acre
DEED:	Warranty Deed 2018-002266
VERIFICATION:	Laz Ayala
ASSESSOR'S PARCEL NO.:	10064287 and 10712432 Map 39-1E-09-AD Tax Lots 6800 & 6801



SALE NO.: 3 (Continued)

SITE: Total 1.71 acres, 1.52 acres net usable; rectangular shaped corner parcels with level topography, all public utilities are available or in use at the site.

IMPROVEMENTS: A good quality two-story single-family residence, built in 1900 with remodeling and renovation. Gross living area is 3,265 SF. Subsequent to sale the residence was moved to the north closer to the street. The contributory value of the residence including a 0.19-acre site was estimated at approximately \$200,000. The property was essentially unimproved raw land requiring new underground site work for development. Subsequent to sale the buyer began infrastructure improvements in order to develop. The cost of the underground site work only (no landscaping or hardscaping) was budgeted at \$780,000.

ZONING: R-3, High Density Residential with Pedestrian Overlay, by the City of Ashland.

REMARKS: The property was purchased for development of 26 townhouse units that are to be sold individually. The sale price was negotiated in February 2017, approximately 11 months prior to close.

MARKETING TIME: 283 days or slightly more than nine months.

### COMPARABLE LAND SALES DATA



LAND SALE NO.	4
LOCATION:	960 B Street, Ashland, Jackson County, Oregon 97520
GRANTOR:	Marian Agnes Crumme, et al
GRANTEE:	Igor Livshits
DATE:	January 31, 2017
SALES PRICE:	\$863,000
TERMS:	30 percent down (\$259,000) with mortgage financing provided by Evergreen Federal Bank for remaining balance at conventional terms, considered cash equivalent.
UNIT PRICE:	\$23.04 per square foot; \$50,765 per allowable unit
DEED RECORDING:	2017-3611
VERIFICATION:	Mary Lou Gross, listing agent and Monica Nery, selling agent
ASSESSOR'S PARCEL NO.:	Map 39-1E-09AD Tax Lot 2500

LAND SALE NO. 4 (Continued)

SITE: Total site area is 0.86 acres or 37,785 square feet. It is a rectangular shaped parcel with flat topography at surrounding street grade. The site dimensions are approximately 137.4' +/- wide and 275' +/- deep. The site is development land with utilities to the property. Vehicular access is provided by a reciprocal ingress and egress agreement on the west boundary of the parcel serving the neighboring fourplex (Carrington Court PUD) and extending from B Street to Eureka Street.

ZONING: R-3, High-Density Multiple Family Residential, by the City of Ashland. The development density is 20 units per acre. On this basis, up to 17 units would be allowable on the property.

USE AT SALE: This was essentially a raw land parcel requiring some new site work for development. At the date of sale the property was improved with perimeter chain link fencing, a 1,414 square foot single family home built in the 1940s, an ice house and barn. At the date of sale, the existing improvements had been leased on a month-to-month basis but the tenant had received notice to vacate and was in process of moving out of the property. The existing improvements were at the end of their economic life and slated for removal upon development of the property. According to the listing agent, Ms. Mary Lou Gross of Gateway Real Estate, and Ms. Monica Mary, selling broker with John L. Scott representing the buyer, the existing improvements were given no value as part of the sale transaction. Based on conversations with the City of Ashland Community Development Department, SDC credits attributed to the existing improvements upon development are projected to be offset by required demolishing costs.

REMARKS: The property was listed for sale at the price of \$889,000 and went pending within five days. As of this writing no development plans have been submitted to Ashland Community Development.

MARKETING TIME: 5 days

**COMPARABLE LAND SALE DATA**



SALE NO.	5
LOCATION:	188 Garfield Street, Ashland, Jackson County, Oregon.
GRANTOR:	Rivergate Assembly of God Church of Ashland
GRANTEE:	Spartan Ashland Rivergate Real Estate, LLC
DATE:	Deed June 30, 2017 Memorandum of Sale July 18, 2016
SALES PRICE:	\$1,680,868 plus \$430,534 total \$2,111,402
TERMS:	Cash to the seller
UNIT PRICE:	\$23.08/SF; \$1,005,430/Ac; \$30,163/Unit
DEED:	Warranty Deed 2017-22327 & Memo 2016-23096
VERIFICATION:	Rick Harris, broker Coldwell Banker Real Estate
ASSESSOR'S PARCEL NO.:	10076940 and 11000343 Map 39-1E-10-CB Tax Lots 2100 and 2101

SALE NO.: 5 (Continued)

SITE: 2.10 acres, 91,476 square feet; ell shaped double corner parcel with frontage and access from Garfield Street, Iowa Street, and Quincy Street. Topography is gently sloping downward from south to north. All public utilities are available or in use at the site. Street frontages are improved to urban standards with curbs, gutters, sidewalks and storm drainage.

IMPROVEMENTS: The property was previously improved with a church, approximately 22,000 SF, built in the 1960s. As a condition of sale, the church paid approximately \$250,000 for demolition and environmental clean-up. Upon demolition of existing improvements, this was essentially a raw land parcel requiring underground site work for development. Subsequent to sale the buyer has proposed expenditures of approximately \$1,800,000 attributed to the underground site work for utilities and storm water detention. Total site improvement costs including underground, landscaping, sidewalks and asphalt paving is \$2,100,000.

ZONING: R-3, High Density Residential, by the City of Ashland

REMARKS: The sale was agreed upon in 2016. The sale was not recorded by deed until the improvements were razed and the site was made vacant and ready for development. There were actually two sales. The \$1,680,868 (WD 2017-22327) describes both parcels but doesn't show the sale/consideration for the 0.43 acre parcel of \$430,534. Total consideration was \$2,111,402 for 2.1 acres or \$23.08/SF. The church paid demolition \$162,000 and environmental (popcorn ceiling) mitigation of \$88,000, or \$250,000 total demo and clean up. The property will be improved with Ashland Urban Lofts Apartments (70 studio apartments). Density is 33.33 dwelling units per acre.

MARKETING TIME: 16 days

**LAND SALE SUMMARY**

<b>SALE NO.</b>	<b>IDENTIFICATION</b>	<b>DATE</b>	<b>SALE PRICE</b>	<b>AC/SF</b>	<b>ZONING/ DENSITY DU/AC</b>	<b>PRICE/ ACRE</b>	<b>PRICE/ SF</b>	<b>PRICE/ UNIT</b>
1	469 Russell Street Ashland	5/25/2018 DOM: 106	\$495,000	0.43 18,731	E-1	\$1,151,162	\$26.42	N/A
2	120 Clear Creek Drive Ashland	5/10/2018 DOM: 407	\$1,550,000	1.79 77,972	E-1	\$865,922	\$19.88	N/A
3	1068 E. Main Street Ashland, OR	1/23/2018 DOM: 283	\$1,200,000  \$1,000,000 Net of Home	1.79  1.52 66,211 Net Area	R-3	\$670,391  \$657,895	\$15.39  \$15.10	  \$38,462
4	960 B Street Ashland, OR	1/31/2017 17-3611 DOM: 5	\$863,000	0.86 37,462	R-3	\$1,003,488	\$23.04	\$50,765
5	188 Garfield Street Ashland, OR	7/18/2016 16-23096 DOM: 16	\$2,111,402	2.10 91,476	R-3	\$1,005,429	\$23.08	\$30,163

## **SALES COMPARISON APPROACH ANALYSIS**

In the subject's market area of Ashland, the common units of comparison for residential land are price per acre, per unit or price per square foot. Based on the available data set, for this analysis the land sales will be compared to the subject on the price per square foot unit basis and will be cross-checked with the price per dwelling unit in the conclusion.

The sales range in price from \$15.10 to \$26.42 per square foot. Most were raw land parcels not truly similar to the subject's site with shared parking lot.

The sales occurred over the time period from July 2016 to May 2018. The most dated sale was negotiated in January 2016. During the time period of the comparable sales, the residential land market in the subject area has been increasing. None of the sale represent a recent sale and resale to allow for paired sales analysis, in order to extract a specific rate of price appreciation. Based on recent increasing housing market conditions, as described in the Location Analysis and Market Analysis sections of this report, the sales dated over one year are rated inferior to the subject in market conditions and are adjusted upward by 4 percent annually.

All of the sales are located closer to downtown Ashland than the subject. There were no recent sales of residential land in the subject's North Mountain Neighborhood area due to a lack of available supply. The sales are adjusted downward by 10 percent for superior central Ashland locations as compared to the subject. This is based on recent sales of residential units in Ashland which demonstrate some price premium for central locations within close proximity of downtown.

None of the sales were truly similar in zoning and development density. The subject's NM-C zoning and City approval for 29 units equals 51 units per acre (net usable area). The sales were zoned E-1 or R-3. The E-1 zone allows for second floor residential units (live/work) and R-3 allows for 20 units per acre. Sale 5 zoned R-3 was proposed for 33 units per acre based on all studio units. The allowable density of the sales therefore ranges from less than 30 percent to less than 49 percent of the subject's. Based the price per square foot unit of comparison, the sales are rated inferior to the subject in development density and were adjusted upward by 20 to 25 percent. The E-1 zoned sales are the least similar in residential development density, requiring the greatest upward adjustment.

The sales were similar in physical characteristics but most did not include completed infrastructure as the subject. Sale 1 was the only comparable similar in completed site

improvements and off-site parking similar to the subject's Plum Ridge Court parking lot. Sales 2 through 5 were adjusted upward by 20 percent for lack of completed parking lot as compared to the subject's Plum Ridge Court.

The table below summarizes a quantitative analysis of the sales as they relate to the subject property based on the elements of comparison.

**LAND SALE ADJUSTMENT SUMMARY**

	<b>SALE 1</b>	<b>SALE 2</b>	<b>SALE 3</b>	<b>SALE 4</b>	<b>SALE 5</b>
<b>Date</b>	5/18	5/18	1/18	1/17	6/17
<b>Sale Price</b>	\$495,000	\$1,550,000	\$1,000,000 <sup>1</sup>	\$863,000	\$2,111,402
<b>Price/SF</b>	\$26.43	\$19.88	\$15.10	\$23.04	\$23.08
<b>TRANSACTION DATA</b>					
<b>Sale or Financing Concessions</b>	None	None	None	None	None
	0%	0%	0%	0%	0%
<b>Date of Sale/ Market Conditions</b>	Similar	Similar	16 mos ago	18 mos ago	23 mos ago
	0%	0%	5%	5%	8%
<b>Property Rights Conveyed</b>	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
	0%	0%	0%	0%	0%
<b>Adjustment</b>	0%	0%	5%	6%	8%
<b>TRANSACTION ADJ. PRICE</b>	<b>\$495,000</b>	<b>\$1,550,000</b>	<b>\$1,050,000</b>	<b>\$914,780</b>	<b>\$2,280,314</b>
<b>PROPERTY DATA</b>					
<b>Location</b>	Superior	Superior	Superior	Superior	Superior
	-10%	-10%	-10%	-10%	-10%
<b>Site Area/Acres</b>	0.43	1.79	1.52	0.86	2.10
	0%	10%	10%	5%	10%
<b>Zoning/DU per Acre</b>	E-1	E-1	R-3	R-3	R-3
	25%	25%	20%	20%	20%
<b>Physical Characteristics</b>	Similar	Similar	Similar	Similar	Similar
	0%	0%	0%	0%	0%
<b>Parking/Infrastructure</b>	Yes-Similar	None-Inferior	None-Inferior	None-Inferior	None-Inferior
	0%	20%	20%	20%	20%
<b>NET PROPERTY ADJ.</b>	15%	45%	40%	35%	40%
<b>Adjustment</b>	\$74,250	\$697,500	\$420,000	\$320,173	\$912,126
<b>ADJUSTED SALE PRICE</b>	<b>\$569,250</b>	<b>\$2,247,500</b>	<b>\$1,470,000</b>	<b>\$1,234,953</b>	<b>\$3,192,440</b>
<b>Adjusted Price/SF</b>	<b>\$30.39</b>	<b>\$28.82</b>	<b>\$22.20</b>	<b>\$32.97</b>	<b>\$34.90</b>

<sup>1</sup>Sale price and acreage net of existing home value.



The sales indicate an adjusted price range from \$28.82 to \$34.90 per square foot. The mean (average) adjusted price of all five sales is \$29.86 per square foot. As compared to the subject, Sales 3, 4 and 5 from \$22.20 to \$34.90 per square foot are rated most comparable and were given emphasis. The most recent Sale 1 at \$30.39 per square foot is most similar to the subject in completed site improvements/infrastructure and size but is less similar in E-1 zoning. While more dated, Sales 3 through 5 are the most similar in zoning/multi-family development appeal. Sales 3 and 5 are currently under construction or proposed for multi-family developments.

Based on the elements of comparison a value of \$35.00 per square foot is concluded achievable for the subject land. This is at the upper end of the adjusted market range, which is viewed appropriate based on reconciliation with the price per unit comparison analysis at the end of this section.

It is noted none of the comparable land sales included approved City plans with completed architectural & engineering similar to the subject. The above summary does not include an adjustment for this factor. In order to avoid a double-accounting in the following cost approach, the value of entitlements of the subject will be added separately to provide Market Value As-Is for the subject land at the end of this report.

### **Land Value Conclusion**

Based on the comparative analysis, the market value of the subject site is estimated to be:

$$24,904 \text{ Square Feet} \times \$35.00/\text{Sq. Ft.} = \$871,640$$

$$\text{Rounded} = \mathbf{\$900,000}$$

The estimated value for the subject of \$900,000 as established by the price square foot equals \$31,034 per dwelling unit (29 units). Sale No.'s 3, 4 and 5 showed unadjusted prices of \$38,461, \$50,765 and \$30,163 per unit based on proposed or allowable development densities. The development density of the sales ranged from 20 to 33 units per acre, as compared to the subject's proposed density of 51 units per acre (including 1/3 shared interest Plum Ridge Court parking lot with total effective site area of 0.52 acres). Based on the development densities of the sales, the subject's price per unit is supportable.

**DEVELOPMENT COST APPROACH:**

The estimated cost of all improvements new today is presented in the following summary of the development cost approach. The unit cost estimates are self-explanatory. They are based on a combination of the developer’s cost budget and cost comparable data in the market area.

**Developer’s Cost Budget**

According to the developer’s construction cost budget, the total project cost is \$6,750,000. Not including the developer’s land cost (\$1,000,000), the net costs including all hard and soft costs is \$5,750,000. This equals \$200.17 per square foot (28,725 SF living area). It includes total direct and indirect costs plus contingency (builder’s risk), but no developer’s profit.

The developer’s vertical construction cost budget (hard costs only) totals \$4,940,000, or \$172 per square foot, as summarized below.

<b>Meadowbrook Square Lots 70 and 71 Construction Budget</b>			
	<b>Cost</b>	<b>Cost/Unit</b>	<b>Contributed to Date</b>
Land	1000000	34483	1,000,000
Civil Engineering	25000	862	10,000
Surveyor	25000	862	2,000
Accounting	5000	172	
Interest	100000	3448	
Loan fees	15000	517	
Permits/SDC	250000	8621	
Vertical construction	4940000	170345	
Contingency	100000	3448	
Architect/Structural Engineering	140000	4828	140,000
Entitlements	75000	2586	75,000
Builders Risk	75000	2586	
<b>Total Costs</b>	<b>6750000</b>	<b>232759</b>	<b>1,227,000</b>
<b>Vertical Construction Costs</b>			
	<b>Total SqFt</b>	<b>Total Cost</b>	<b>Cost/Unit</b>
<b>Units 1-29 Residential</b>	<b>28725</b>	<b>4940000</b>	<b>170,345</b>

Source: Subject Developer

**Cost Comparable Data**

Cost comparable data for multi-family residential development has been reviewed based on known costs of other proposed developments and interviews with various market participants. Two recent Ashland cost comparable properties are described below:

1. **Ashland Urban Lofts** at 188 Garfield Street is the only known apartment complex currently proposed in the city other than the subject. Reference is made to Land Sale No. 5 in this section of the report. The complex is proposed to include 70 units, all studios with a gross living area of 546 square feet. The gross living area is 38,220 square feet. The construction is of good quality, modern design with an upper end finish. It is proposed to include nine, 8-unit, two-story buildings. The 2018 construction cost budget totals approximately \$8,300,000, or \$217 per square foot. This includes \$4,900,000 in direct vertical construction costs (\$128/SF) and \$2,100,000 in site improvements (underground utilities and drainage, asphalt paving, concrete flatwork, landscaping, and labor). Indirect costs total approximately \$1,300,000 including A&E (10%), permits and SDCs (5%), and financing fees. The budgeted total hard and soft costs of \$8,300,000 or \$217 per square foot include contingency but no developer’s profit. As compared to the subject this development is similar in GLA (38,220 SF) but has a smaller average unit size, resulting in a higher cost per square foot than what would be anticipated for the subject.
  
2. **1068 Main** is a 26-unit townhome development currently under construction by the subject developer (see Land Sale 3 in this section). The average unit size is 1,189 square feet. The development broke ground in 2018. The vertical construction cost budget of \$4,365,255 ranges from \$135 to \$175 per square foot of building area based on unit type. Based on the proposed townhome/apartment unit living area of 30,910 square feet, the cost budget averages \$141.22 per square foot. It is allocated by the developer as follows:

VERTICAL CONSTRUCTION COSTS:					
UNIT TYPE:	TOTAL SQFT	BEDS/BATHS	TOTAL COST	COST PER UNIT	COST PR SQFT
UNITS 1-19	23,073	3/2	\$3,114,855	\$163,940	\$135
UNITS 20,21,22, 25,26,29,30	4,843	2/1	\$726,450	\$121,075	\$150
UNITS 23,24,27,28, 31, 32	2,994	ADU'S 1/1	\$523,950	\$87,325	\$175
<b>TOTAL</b>	<b>30,910</b>		<b>\$4,365,255</b>		

Landscaping, hardscaping and site work costs including moving the existing residence were budgeted at \$275,000. Site and underground work was budgeted at \$780,000. The total cost budget for all hard and soft costs, not including land

value, is \$6,410,255, or \$207.38 per square foot. This includes vertical construction, site improvements, and soft costs for A&E, permits/SDCs, and loan fees. As compared to the subject this is a multi-building townhome development not truly similar. The total hard and soft costs of \$207 per square foot include contingency but no developer's profit.

<b>TEN SIXTY-EIGHT BUDGET</b>		
	<b>COST</b>	<b>COST/UNIT</b>
Land	\$ 1,200,000	\$ 36,364
Common Areas Landscape	\$ 100,000	\$ 3,030
Hardscape	\$ 75,000	\$ 2,273
Civil Engineering	\$ 25,000	\$ 758
Surveyor	\$ 35,000	\$ 1,061
Accounting	\$ 5,000	\$ 152
Interest	\$ 100,000	\$ 3,030
Loan fees	\$ 15,000	\$ 455
Permits/SDC	\$ 425,000	\$ 12,879
Vertical construction	\$ 4,365,255	\$ 132,280
Site/Underground	\$ 780,000	\$ 23,636
Contingency	\$ 250,000	\$ 7,576
Architect/Structural Engineering	\$ 60,000	\$ 1,818
Entitlements	\$ 75,000	\$ 2,273
House Move, Demo and Site Wrk	\$ 100,000	\$ 3,030
<b>TOTAL COSTS</b>	<b>\$ 7,610,255</b>	<b>\$ 230,614</b>

As summarized above, cost comparable data for multi-family residential unit development are reported to range from approximately \$207 to \$217 per square foot including total hard and soft costs, slightly higher than the subject's cost budget of \$200 per square foot. Vertical construction costs range from \$128 to \$175 per square foot, bracketing the subject developer's vertical cost budget of \$172 per square foot. Neither one of the cost comparables include an elevator similar to the subject. Based on this review, market cost data lends support to the developer's construction budget.

### **Direct and Indirect Cost Conclusions**

The subject developer's direct and indirect cost budget of \$5,750,000 (not including land) or \$200.17 per square foot is concluded supportable by market comparables. For this analysis, the subject's direct and indirect costs are estimated at \$200 per square foot.

### **Developer's Profit**

New construction projects are driven by the expectation of profit. No developer would begin a project such as the subject without the expectation of a return on the investment. Therefore, developer's profit is a legitimate item to be included in a cost breakdown. The amount of profit varies greatly. It is not always present. It depends upon a developer's ability to accurately estimate market forces and the ability to control construction costs. Typically, a minimum profit of at least 10-15 percent is needed before a developer will even consider a project. No prudent developer would begin a project where the expectation of profit was lower than the rate that could obtain from a secure and alternative investment. For this analysis a developer's profit of 10 percent is estimated. There has not been any recent sales of apartment or condominium developments in the Rogue Valley to demonstrate a specific rate of developer's profit. Given current market conditions, the estimate of developer's profit may be slightly conservative.

### **Depreciation**

Depreciation is the loss in value from replacement costs new today that results from any cause. Based on the subject's new improvements, design, and increasing market conditions, no depreciation is deducted in the analysis.

### **Development Cost Approach Conclusion**

Reference is made to the following development cost approach. The indicated land value was shown earlier in the report as \$900,000. The total value by the Development Cost Approach is \$7,219,500, rounded to **\$7,200,000**. The development cost approach value equals \$248,276 per unit or \$251 per square foot.

**DEVELOPMENT COST APPROACH**

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**Apartment Development**

Total Direct and Indirect Costs	28,725	Sq. Ft.	x	\$200	/SF	\$5,745,000
Developer's Profit & Overhead				10.0%		<u>\$574,500</u>
						\$6,319,500
Land Value						<u>\$900,000</u>
Total Development Cost						\$7,219,500
<b>DEVELOPMENT COST (Rounded)</b>						<b>\$7,200,000</b>

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**INSURABLE VALUE**

At the request of the client/intended bank user of this report, an insurable replacement cost for the subject facility has been estimated. Based on cost comparables in the subject market, the basic structure costs of the subject are estimated at \$200 per square foot of gross living area. Foundation and piping costs below ground are deducted from the basic structure cost in order to determine the insurable value estimated. Foundation costs below ground of 3 percent and piping below ground of 1 percent are estimated based on the Marshall & Swift service. The insurable value for the subject is estimated as follows:

**Insurable Value:**

Basic Structure Cost					
	28,725	Square Feet	X	\$200 /Sq. Ft.	\$5,745,000
Less:					
Foundation Below Ground @				3.00%	\$172,350
Piping Below Ground @				1.00%	\$57,450
Total Foundation and Piping Costs:					<u>\$229,800</u>
Insurable Replacement Cost					\$5,515,200
				Rounded,	<b>\$5,500,000</b>

## **SALES COMPARISON APPROACH**

The Sales Comparison Approach to value is based upon the assumption that a prudent buyer would not pay more for a property than the cost of acquiring an equally desirable substitute on the open market without undue delay. The approach itself is predicated upon prices paid for other comparable buildings. The differences between the comparable sales and the subject are analyzed in order to help estimate the value of the subject.

A survey was made for sales of similar apartment properties to help estimate the value of the subject. No sales of truly comparable new or nearly new apartment complexes were discovered in the Ashland-Medford market. However, nine sales of older apartment properties were reviewed in Ashland and Medford. In addition, five sales of newer (2014-17 built) apartment properties were available for review in the larger metropolitan area of Portland, Oregon. The Portland sales are more similar to the subject in age, design and quality, but less similar in location. The sales are summarized on the following pages. Although the sales are not truly comparable to the subject, they can be analyzed in the context or general market conditions; and they demonstrate a range of overall capitalization rates. They are useful for that purpose.

Elements of comparison included property rights conveyed, conditions of sale, market conditions (appreciation), financing terms (cash or cash equivalent), required expenditures upon sale, location, and physical characteristics including the number of units, average unit size, unit mix, quality, effective age, and condition. All sales conveyed fee simple interest and all sales were cash or cash equivalent terms.

The unit of comparison most commonly used for analyzing apartment properties is the price per unit and the price per square foot of gross living area including land value.



**SUMMARY OF ASHLAND-MEDFORD APARTMENT SALES**

<b>SALE NO. LOCATION</b>	<b>DATE SALE PRICE</b>	<b>LAND-SF LAND-AC LAND:BLDG</b>	<b>IMPS-SF BR/BA YR. BLT.</b>	<b>PRICE/UN PRICE/SF</b>	<b>OAR NOI/UN</b>
No. 1 Park Street Condos 719 Park Street Ashland, OR	2/18/2016 \$3,555,000	66,647 SF 1.53 ac. 2.27:1	29,317 SF 30 Condos (w/ 8 Affordable) 2 br/2 ba 977 SF Avg. 1991	\$118,500 \$121.26	6.35% \$7,524
No. 2 585 Allison Street Ashland, OR	8/27/15 \$670,000	6,970 SF 0.16 ac. 2.22:1	3,135 SF 6 Units 1Br/1Ba 523 SF Avg 1910 Rmdld	\$111,667 \$213.72	6.15% \$6,395
No. 3 1035 Eureka Street Ashland, OR	12/26/13 \$792,000	10,454 SF 0.24 ac. 1.94:1	5,400 SF 6 Units 2Br/1Ba 900 SF Avg 1977	\$132,000 \$146.67	5.74% \$7,582
No. 4 371 Bridge Street 1131 Lee Street Ashland, OR	3/31/14 \$625,000	12,920 SF 0.30 ac. 2.91:1	4,435 SF 7 Units 5-1Br/1Ba 2-2Br/1Ba 634 SF Avg 1952-1963 1977	\$89,286 \$140.92	5.14% \$4,593 below market rents
No. 5 Mariposa Townhouses 2981-3003 State St. Medford, OR	9/19/17 \$6,450,000 \$6,800,000 Adj expdtr after sale	209,088 SF 4.80 ac. 2.33:1	89,644 SF 101 Units 888 SF Avg 1972	\$63,861 \$71.95	6.44% \$4,115 6.11% Adj.
No. 6 Willow Creek Estates 427 Western Avenue Medford, OR	4/19/17 \$2,750,000	54,014 SF 1.24 ac. 2.21:1	24,492 SF 32 Units 824 SF Avg 2002	\$85,938 \$104.92	5.66% \$4,860
No. 7 Grandview Apts. 2115 Roberts Road Medford, OR	2/15/18 \$4,500,000 \$4,800,000 adj expdtr after sale	164,221 SF 3.77 ac.	55,928 SF 64 Units 874 SF Avg 1973 8-1Br/1Ba 30-2Br/1Ba 18-3Br/1Ba 8-4Br/1Ba	\$70,313 \$80.46 \$75,000 \$85.83 Adjusted	7.53% \$5,293 Actual 7.06% Adj.
No. 8 Bennett Arms Apts. 721-725 Bennett St. Medford, OR	5/30/17 \$1,850,000	33,106 SF 0.76 ac.	20,972 SF 24 Units 874 SF avg Blt 1965 1Br/1Ba 2Br/2Ba	\$77,083 \$88.21	6.24% \$4,811
No. 9 Ridgewood Condos 3115 Alameda Street Medford, OR	1/28/15 \$12,592,230	304,049 SF 6.98 ac.	132,344 SF 96 Units 1,379 SF Average 3BR/2Ba	\$131,169 \$95.15	6.00% \$7,870

**SUMMARY OF PORTLAND AREA APARTMENT SALES**

<b>SALE NO. LOCATION</b>	<b>DATE SALE PRICE</b>	<b>LAND-SF LAND-AC LAND:BLDG</b>	<b>IMPS-SF BR/BA YR. BLT.</b>	<b>PRICE/UN PRICE/SF</b>	<b>OAR NOI/UN</b>
No. 10 Lambert Lofts 1311 SE Lambert Street Portland, OR	1/18 \$4,120,000	13,284 SF 0.30 Ac 1.60:1.0	8,289 SF 19 Units Studio 1 Br/1 Ba Built 2017	\$216,842 \$497.04	4.90% \$10,622
No. 11 Corbett Heights 3916 SW Corbett Ave Portland, OR	2/17 \$15,000,000	59,636 SF 1.37 AC 1.44:1.0	41,328 SF 48 Units Studio 2 Br/2 Ba Built 2015	\$312,500 \$362.95	4.25% \$13,281
No. 12 The Verona 446 NE Simpson Street Portland, OR	1/16 \$3,785,000	22,367 SF 0.51 ac. 1.81:1.0	12,324 SF 16 Units Studio 2 Bd/2 Ba Built 2015	\$236,563 \$307.12	5.25% \$13,199
No. 13 King Street Lofts 405 NE Mason Street Portland, OR	4/16 \$8,300,000	46,262 SF 1.06 ac 2.15:1.0	21,512 SF 36 Units Studio 1 Bd/1 Ba Built 2015	\$230,556 \$385.83	5.10% \$11,758
No. 14 Provi Apartments 4720 NE Glisan Street Portland, OR	11/17 \$5,130,208	19,464 SF 0.45 ac 1.91:1.0	10,160 SF 23 Units Studio 1 Br/1 Ba 2 Bd/1 Ba Built 2014	\$223,053 \$504.94	4.80% \$10,707

Upon completion of construction, the subject will consist of 29 new, very good quality 2 bedroom/2 bath apartment units, with an average gross living area of 990 square feet. The value estimate derived from the cost approach is \$6,880,000. This value estimate equals \$237,241 per apartment unit or \$239.51 per square foot of gross living area (28,725 SF).

The Ashland sales demonstrate a price range of \$89,286 to \$132,000 per dwelling unit or \$121.26 to \$213.72 per square foot of gross living area. All sales are apartment complexes with older effective ages and inferior construction quality.

The Medford sales demonstrate a price range of \$63,861 per unit to \$131,169 per unit or \$71.95 to \$104.92 per square foot of gross living area. The Medford sales are all older facilities with improvements of lesser quality construction and much older effective ages. Medford is rated inferior to the subject's Ashland location, as demonstrated by the lower average rents/NOI per unit of the sales.

The Portland apartment sales reflect a similar investment magnitude as the subject. They also demonstrate achievable rents similar to the subject's Ashland market area. The Portland sales indicate a range of \$216,842 to \$312,500 per unit or \$307.12 to \$504.94 per square foot of gross living area. Most of the Portland apartment sales include a higher concentration of studio units as compared to the subject's 2 BD's, and thus a higher price per square foot range is indicated by the sales. However, the prices per unit bracket the indicated cost approach value estimate for the subject.

Overall, the Portland data set is rated more reliable than the older Ashland apartment building sales. The Portland sales are most similar in age, quality/design, and economic characteristics (achievable rent income). However, reliance upon Portland sales as compared to the subject is less credible due to the extreme differences in location. The Ashland-Medford apartment sales are also considered less credible due to the significant adjustments required for differences in age and quality.

In conclusion, in comparison to the subject assumed complete as proposed, the adjustments to the sales are of such a magnitude that they significantly reduce the reliability of the comparative analysis. The sales comparison approach is therefore not fully developed in this report, based on the quality of the market data set.

The primary usefulness of the apartment sales lies with the extraction of overall capitalization rates and existing market conditions. The sales demonstrated an effective range of overall capitalization rates of 4.25 percent to 7.06 percent. An appropriate overall capitalization rate for the subject will fall within this range. The selection of an appropriate overall capitalization rate for the subject will be determined in the following Income Approach section of this report.

A macro-analysis of the sales indicates a value for the subject greater than \$150,000 and less than \$300,000 per dwelling unit.

## **THE INCOME APPROACH**

The Income Approach focuses on a property's capacity to earn money. Income producing properties are generally purchased for investment purposes and investors demand profit. A property's capacity to earn income of both quality and duration is critical to its value.

The underlying concept of the Income Approach is that the higher the earnings, the higher the value. While there are many different techniques that can be used to derive a value for a specific property, all of them ultimately convert an estimate of income into an indication of present value.

### **SUBJECT INCOME**

The subject developer's projected rent for each of the proposed 2 BD/2 BA units is \$1,650 per month. The rent includes use of on-site storage, garbage removal and water/sewer, with the tenant paying for all other utilities. Based on the subject's average unit size of 991 square feet, the developer's projected rent equals \$1.67 per square foot.

### **RENTAL SURVEY**

For purposes of this analysis, income was estimated based upon the rental survey summarized on the next pages. Due to a limited supply of new apartment units similar to the subject available for lease in Ashland, the units include apartments, townhomes and condominiums rated most similar to the subject. The rentals were analyzed and compared to the subject's unit type. A location map and photographs of the comparable rentals are located on the following pages. A discussion of the rentals as compared to the subject is presented in the following section.

**COMPARABLE RENTAL DATA NO. 1**



IDENTIFICATION: Meadowbrook Square Condominium Unit 302  
LOCATION: 596 Fair Oaks Avenue, Ashland  
NO. UNITS: 1  
YEAR BUILT: 2017  
TYPE: 2 BD / 2 BA condominium unit in 7-unit, three-story building.  
SIZE/GLA: 950 square feet  
PARKING: First floor garage  
COMMON AREAS: Central green of North Mountain Neighborhood adj. east  
UNIT AMENITIES: Refrigerator, range/oven, dishwasher, washer/dryer  
OCCUPANCY: 100 percent  
LEASE DATE: June 2018  
LEASE TERM: 12 months

RENTAL NO.: 1 (Continued)

UNIT RENT: \$1,800 per month

RENT/SF: \$1.89

UTILITIES INCLUDED: Rent includes garbage (T = trash removal)

CONCESSIONS: None.

VERIFICATION: Laz Ayala (developer/owner) and Claudia (property manager), lease agreement.

REMARKS:

This unit is located in the condominium development adjacent southwest of the subject. Upon completion of the property in 2017 a total of four units were sold by the developer and three were retained as rentals. This is the most recent lease. Other units are rented on a furnished basis at higher rates.

## COMPARABLE RENTAL DATA NO. 2



IDENTIFICATION: Falcon Heights Mixed-Use Facility

LOCATION: 474 Russell Street, Ashland

NO. UNITS: 1

YEAR BUILT: 2018

TYPE: 2 BD / 2 BA second floor unit.

SIZE/GLA: 1,100 square feet

PARKING: Garage and open on-site parking

COMMON AREAS: None

UNIT AMENITIES: Refrigerator, range/oven, dishwasher, washer/dryer

OCCUPANCY: 100 percent

LEASE DATE: June 2018

LEASE TERM: 12 months

RENTAL NO.: 2 (Continued)

UNIT RENT: \$2,600 per month

RENT/SF: \$2.36

UTILITIES INCLUDED: Rent includes all utilities including water, sewer, electricity, garbage, cable tv and internet.

CONCESSIONS: None.

VERIFICATION: Laz Ayala (developer/owner) and Claudia (property manager), lease agreement.

REMARKS: This unit is located in the mixed-use Falcon Heights development currently in the final phases of construction. The property includes residential units on the second floor and commercial units on the first floor. It is within the Historic Railroad District of Ashland on the north side of the railroad.



**COMPARABLE RENTAL DATA NO. 3**



IDENTIFICATION: Lancaster Cottages  
LOCATION: 100-132 Lincoln Street, Ashland  
NO. UNITS: 14  
YEAR BUILT: 2006  
TYPE: 2 BD / 2 BA  
SIZE/GLA: 964 square feet  
PARKING: Covered carports  
COMMON AREAS: Storage units in carports  
UNIT AMENITIES: Refrigerator, range/oven, dishwasher, washer/dryer  
OCCUPANCY: 100 percent with minimal vacancy in recent years.  
LEASE DATE: Current rates  
LEASE TERM: 6-12-months

RENTAL NO.: 3 (Continued)

UNIT RENT: \$1,625 per month

RENT/SF: \$1.69

UTILITIES INCLUDED: Rent includes water, sewer, and garbage (W/S/T).

CONCESSIONS: None.

VERIFICATION: CPM, property manager.

REMARKS: This complex includes seven duplex buildings. Unit types vary from 1 BD to 2 BD units. It was built in 2006 as part of a larger, 8-building, 16 unit development. Upon completion the duplex buildings were offered for individual sale by the developer. The asking price in April 2007 was \$444,000 per duplex building (\$222,000 per unit). During the subsequent recession it reverted to the lender. One building was sold separately, and the remaining seven buildings (14 units) were acquired by Ron DeLuca of Pacific Properties in October 2011 for \$1,000,000 (\$71,428/unit). Since the sale the buyer has increased unit rents and operates the property as an apartment complex. It is an average to good quality project.

**COMPARABLE RENTAL DATA NO. 4**



IDENTIFICATION: Manzanita Estates Townhomes  
LOCATION: 327-329 N. Main Street, Ashland  
NO. UNITS: 8  
YEAR BUILT: 1979  
TYPE: 2 BD / 1.5 BA  
SIZE/GLA: 952 square feet  
PARKING: Covered carports; two off-street spaces per unit  
COMMON AREAS: Site landscaping  
UNIT AMENITIES: Refrigerator, range/oven, dishwasher, washer/dryer in unit, private fenced patio.  
OCCUPANCY: 100 percent with two units available at the end of June  
LEASE DATE: Current  
LEASE TERM: 12-month lease required

RENTAL NO.: 4 (Continued)

UNIT RENT: \$1,625 per month

RENT/SF: \$1.71

UTILITIES INCLUDED: Rent includes water, sewer, and garbage (W/S/T).

CONCESSIONS: None.

VERIFICATION: Rogue Real Estate, property manager.

REMARKS: This is an older complex including two fourplex buildings. Most units are separately owned, and several units are leased. Two units will be available at the end of the month at the above rents. They have recently been renovated and interiors include newer bamboo floors, newer Formica kitchen countertops, fixtures and new carpeting upstairs. The quality is average. There is a half bathroom located off the living area, and a full bathroom upstairs between the two bedrooms. The property is located one-half mile north of downtown.

**COMPARABLE RENTAL DATA NO. 5**



IDENTIFICATION: Clear Creek 2<sup>nd</sup> Floor Apartment  
LOCATION: 127 Clear Creek Drive, Ashland  
NO. UNITS: 1  
YEAR BUILT: 2004  
TYPE: 2 BD / 2 BA  
SIZE/GLA: 1,000 square feet  
PARKING: Open on-site parking  
COMMON AREAS: Site landscaping  
UNIT AMENITIES: Refrigerator, range/oven, dishwasher, washer/dryer, large deck  
OCCUPANCY: 100%  
LEASE DATE: June 2018  
LEASE TERM: 12 months

RENTAL NO.: 5 (Continued)

UNIT RENT: \$1,600 per month

RENT/SF: \$1.60

UTILITIES INCLUDED: The rent includes garbage

CONCESSIONS: None

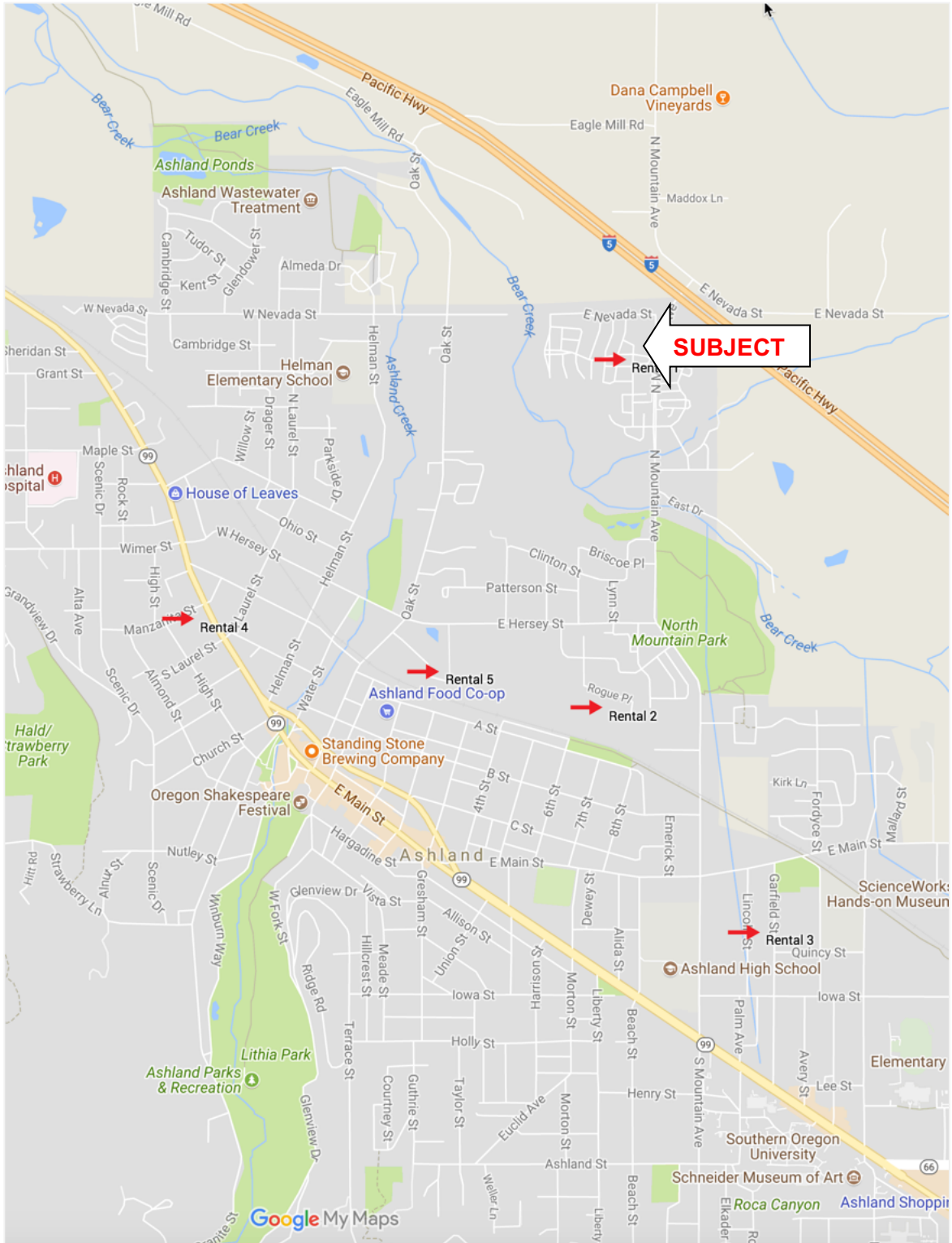
VERIFICATION: Eric Hansen, landlord

REMARKS: This apartment is located in a mixed-use building on the second floor above True South Solar. The interior includes hardwood floors, wood cabinets, and stainless steel appliances. There is a large concrete patio with French doors off the open-concept living room/kitchen area. The unit includes a full size washer/dryer. The building is located in a commercial mixed use area on Clear Creek Drive just north of the railroad tracks from Ashland Hardware.

## SUMMARY OF COMPARABLE RENTALS

NO.	IDENTIFICATION	UNIT TYPE	UNIT SIZE (SF)	CURRENT MONTHLY RENT	RENT/SF/MO	LANDLORD EXPENSES
1	Meadowbrook Square Condo 596 Fair Oaks Avenue Ashland, OR Built 2017	2 BD / 2 BA	950	\$1,800	\$1.89	T
2	Falcon Heights 474 Russell Street Ashland, OR Built 2018	2 BD / 2 BA	1,100	\$2,600	\$2.36	W/S/T Cable TV Internet
3	Lancaster Cottages 100-132 Lincoln Street Ashland, OR Built 2006	2 BD / 2 BA	964	\$1,625	\$1.69	W/S/T
4	Manzanita Estates Townhomes 327-329 N. Main Street Ashland, OR Built 1979	2 BD / 1.5 BA	952	\$1,625	\$1.71	W/S/T
5	Clear Creek Apartment 127 Clear Creek Drive Ashland, OR Built 2004	2 BD / 2 BA	1,000	\$1,600	\$1.60	T
Subject	Meadowbrook Apartments 601 Fair Oaks Avenue Ashland, OR Proposed 2019	2 BD / 2 BA	991	\$1,650 Developer pro forma	\$1.67	T

# COMPARABLE RENTALS MAP





## **Rental Discussion**

The survey includes a variety of 2 BD rental units in the market area similar to the subject. Due to a lack of newer 2 BD apartment units in Ashland, the rentals include condo/townhome/duplex units and mixed-use facilities with 2nd floor residential (live-work). The comparable rentals were the best data available within the subject's market area of Ashland. They show current rents from \$1,600 to \$2,600 per month, with most from \$1,625 to \$1,800 per month. The monthly rents range from \$1.60 to \$2.36 per square foot, with the majority from \$1.69 to \$1.89 per square foot.

The lease types vary. The most similar to the subject (Rental 1) includes garbage service only. This is the same lease structure proposed for the subject units by the developer. Some rentals include utility expenses paid by the landlord for water, sewer and garbage (trash removal), with the tenant paying all other utilities. Lease terms varied with most representing 12 month terms. No concessions such as free rent were provided as part of the lease agreements.

The rentals were all 2 BD unit types with gross living areas ranging from 950 to 1,100 square feet, bracketing the subject. All but one rental included on-site parking. Most of the rentals were built since 2004 and were reasonably similar in quality and interior finish. The exception was Rental 4 built in 1979 and rated inferior in quality and effective age, requiring an upward adjustment. Rentals 1 and 2 built between 2017-18 are most similar to the subject in age, requiring no adjustment. Rentals 3 through 5 built between 1979 and 2006 are inferior requiring upward adjustment.

Rental 1 is located adjacent southwest of the subject in the Meadowbrook Square Condominiums and is most similar in location, age, quality and appeal. The condo-designed interior finish is slightly higher quality than the subject apartment units, requiring a downward adjustment.

Rentals 2 through 5 are all located closer to the downtown district of Ashland, requiring downward adjustments as compared to the subject. Rentals 2 through 5 are located between 0.20 to 0.60 miles from downtown (Lithia Way/E. Main Street), as compared to the subject's 1 mile (as the crow flies) or 1.35 miles (via N. Mountain Avenue, Hersey and Oak Streets).

The following table summarizes a quantitative analysis of the rentals as they compare to the subject based on the elements of comparison.

**RENT COMPARATIVE ANALYSIS**

<b>RENTAL</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
<b>Monthly Rent</b>	<b>\$1,800</b>	<b>\$2,600</b>	<b>\$1,625</b>	<b>\$1,625</b>	<b>\$1,600</b>
<b>Rent/SF</b>	<b>\$1.89</b>	<b>\$2.36</b>	<b>\$1.69</b>	<b>\$1.71</b>	<b>\$1.60</b>
<b>Quality/ Appeal</b>	Similar 0%	Similar 0%	Similar 0%	Inferior 5%	Similar 0%
<b>Year Built/ Condition</b>	2017 0%	2018 0%	2006 5%	1979 10%	2004 5%
<b>Location</b>	Similar 0%	Superior -10%	Superior -10%	Superior -10%	Superior -10%
<b>Unit Amenities/ Interior Finish</b>	Superior -5%	Similar 0%	Inferior 5%	Inferior 5%	Deck- Superior -5%
<b>Unit Size/SF</b>	950 0%	1,100 -10%	964 0%	952 0%	1,000 0%
<b>Property Amenities</b>	Similar 0%	Similar 0%	Similar 0%	Similar 0%	Similar 0%
<b>Covered Parking</b>	Similar 0%	Similar 0%	Similar 0%	Similar 0%	Inferior 5%
<b>Utilities w/ Rent</b>	Similar 0%	Superior -10%	Superior -5%	Superior -5%	Inferior 5%
<b>Net Rental Adjustment</b>	-5%	-30%	-5%	5%	0%
<b>ADJUSTMENT</b>	\$(90)	\$(780)	\$(81)	\$81	\$-
<b>Adjusted Rent/Month</b>	<b>\$1,710</b>	<b>\$1,820</b>	<b>\$1,544</b>	<b>\$1,706</b>	<b>\$1,600</b>
<b>Rent/SF</b>	<b>\$1.80</b>	<b>\$1.65</b>	<b>\$1.60</b>	<b>\$1.79</b>	<b>\$1.60</b>

The adjusted rents range from \$1,544 to \$1,820, with a mean (average) of \$1,676 per month or \$1.69 per square foot.

As compared to the subject, Rentals 1, 2 and 3 are newer units most similar to the subject in age, quality and appeal, and were given emphasis. They show adjusted rents of \$1,544 to \$1,820 per month, or \$1.60 to \$1.80 per square foot.

The subject developer's projected rent is \$1,650 per month, or \$1.67 per square foot based on the average unit size (991 SF). The developer's projected rent is well bracketed by the market data, including the most comparable.

Based on the comparative analysis, the estimated market rent for the subject apartment units is \$1,650 per month. The lease structure includes garbage removal service in the rent. It is likely some units may rent for slightly more and some units for slightly less depending on location in the facility. A market rent of \$1,650 per month is concluded a reasonable average rate. The estimated market rent results in a potential monthly gross income of \$47,850 per month, or \$574,200 annually (29 units X \$1,650 = \$47,850 X 12).

The following is a summary of the projected effective gross income and expenses for the subject property.

## **VACANCY**

This expense category accounts for the time period between tenants, as well as possible prolonged vacancies under slow market conditions. This assignment reflects the probable vacancy during the economic life of the property, not necessarily the current vacancy.

As previously described in the Market Analysis, the subject's apartment market is currently experiencing strong market conditions with minimal vacancy. The rent comparable data showed minimal vacancy is common, with most units at 100 percent occupancy. Demand for dwelling units including multifamily residential is currently strong in Ashland, with a very limited supply of new market rate apartments completed in the subject area since the recession. The subject's market area is currently experiencing very low vacancy for rental housing units including apartments and townhomes/condos offered for lease. Similar strong demand and a low supply of available units is common in the subject's larger market area. As of year-end 2017 the Southern Oregon Rental Owner's Association (SOROA) reported average vacancy of 1.95 percent within the

southern Oregon region consisting of Jackson and Josephine Counties. This is the lowest average vacancy rate since the figures have been charted since 1997. The 21-year (1997-2017) average vacancy rate is 3.88 percent.

For this analysis, a 4 percent vacancy and credit loss is concluded over the economic life of the subject property. Therefore, vacancy has been calculated at 4 percent of gross income, or \$22,968 (\$574,200 X 4 percent). Effective gross income (EGI) is therefore estimated at \$551,232.

### **ESTIMATED EXPENSES**

Estimated operating expenses must be deducted to arrive at the subject property's net operating income in the Income Capitalization Approach. The subject's market rent is based on a modified gross lease with the landlord responsible for water, sewer, trash removal, real estate taxes, insurance, management, advertising, building and site maintenance, redecorating and reserves for replacement expenses. The tenant is responsible for unit electricity, natural gas and cable television.

The subject property is currently proposed with no historical operating information. The developer's budgeted expenses are summarized below.

#### **MEADOBROOK SQUARE ANNUAL OPERATING SCHEDULE**

ITEM	COST	COST PER UNIT
TAXES	\$69,600	\$2,400
INSURANCE	\$14,500	\$500
IRRIGATION WATER	\$3,000	\$103
GARBAGE	\$4,800	\$166
LANDSCAPE MAINTENANCE	\$4,800	\$166
INTERIOR MAINTENANCE	\$3,600	\$124
MANAGEMENT	\$15,000	\$517
ACCOUNTING	\$5,000	\$172
Total	\$120,300	\$4,148

Source: Subject Developer

For this analysis, the expense projections have been based on the subject's budgeted operations, comparison of other developments' actual expenses, interviews with local area professional management firms and apartment owners, and interviews with local area utility companies and insurance agents. The comparable expense data includes confidential operating statements and related data based on apartment properties both appraised and appraisal reviewed by the appraiser. Expense comparable data is summarized below:

**EXPENSE COMPARABLES**

<b>COMPARABLE</b>	<b>Comp 1</b>	<b>Comp 2</b>	<b>Comp 3</b>	<b>Comp 4</b>	<b>Comp 5</b>
Number of Units	144	288	34	180	84
Year Built	2017	2007-14	2018	2013	2005
<b>EXPENSE</b>	<b>\$/Unit</b>	<b>\$/Unit</b>	<b>\$/Unit</b>	<b>\$/Unit</b>	<b>\$/Unit</b>
Taxes	\$1,000	\$900	\$2,500	\$1,368	\$1,223
Insurance	\$90	\$291	\$225	\$111	\$140
Repairs & Maintenance	\$541	\$532	\$1,186	\$450	\$490
Utilities	\$440	\$571	\$840	\$750	\$708
Management Fee	\$451	\$425	\$1,263	\$897	\$1,250
Reserves	\$200	\$0	\$210	\$210	\$200
<b>Total Expenses/Unit</b>	<b>\$2,722</b>	<b>\$2,719</b>	<b>\$6,224</b>	<b>\$3,786</b>	<b>\$4,011</b>

**Real Estate Taxes**— The subject's real estate taxes upon stabilization are estimated at \$70,000, or \$2,414 per unit. This conclusion is based on the stabilized tax estimate calculated in the Real Estate Taxes section of this report. The estimated taxes are at the upper end of the expense comparable range from \$900 to \$2,500 per unit. This is viewed supportable based on the subject's smaller development size and Ashland location.

**Insurance**—The expense comparables show insurance costs from \$90 to \$291 per unit. The developer's budget is \$500 per unit. For this analysis, the insurance expense is estimated at \$300 per unit based on the market data, or \$8,700.

**Repairs & Maintenance**--These costs include all repairs and maintenance expenses related to the subject including service contract, maintenance materials, supplies, landscaping, and unit turnover. This includes painting and redecorating but not reserves for replacement expenses. The developer's budgeted amount totals \$290 per unit for maintenance. The expense comparables are from \$450 to \$1,186 per unit, with most in the range of \$500 per unit. For this analysis, the on-going repairs and maintenance expense is estimated at \$600 per unit, or \$17,400.

**Utilities**--These expenses are for common area electricity, common area water (landscape irrigation), and trash removal. The developer's pro forma is \$272 per unit for garbage and irrigation water. Expense comparables in the market show utilities from \$440 to \$840 per unit, however this includes utilities for water (unit and common area)/sewer, common area electricity, and trash removal. Based on this review, on a utility expense of \$300 per unit or \$8,700 is estimated for the subject.

**Professional Management**—This expense reflects the professional management service in addition to on-site management for the subject. This expense typically ranges from 6 to 6.5 percent of EGI for comparable properties. Based on the subject's size, design, new construction, a rate at the low end of the range is supported. This equals \$33,704 or \$1,140 per unit.

**Reserves for Replacement**--Reserves for replacement are not typical annual cash expenditures, but rather the annualized cost of major expenses in the future, such as the repair of roof systems, exterior painting, floor coverings, HVAC systems, paving/landscaping replacements, and appliance replacements. A reserve allowance must be established for the replacement of those components during the economic life of the building. While it is common in the subject market to not allocate a specific line item

for reserves, most apartment owners plan for this expense. The allowance is usually expressed either as a percentage of effective gross income or as a dollar per unit factor. Based on market comparison, for this analysis the reserves expense is projected at \$250 per unit or \$7,250.

### **Expense Summary**

Total stabilized expenses equal \$146,124. This equals \$5,039 per unit, or 26.5 percent of EGI. This is higher than the developer's pro forma of \$4,148 per unit, but bracketed by the market expense comparables from \$2,719 to \$6,224 per unit. The most similar expense comparable in size and age to the subject, No. 3, is a 34-unit apartment complex built in 2018 located in Portland. The \$6,224 per unit expense are the developer's pro forma. The remaining expense comparables from \$2,719 to \$4,011 per unit are much larger facilities than the subject (84 to 288 units) with economies of scale. Based on the market data the estimated expenses of \$5,039 per unit or 26.5 percent of EGI are viewed supportable.

### **ESTIMATED ANNUAL NET INCOME FOR CAPITALIZATION:**

The preceding analysis results in an estimated net annual income for capitalization purposes of \$405,108 (\$551,232 effective gross income - \$146,124 expenses). The estimated net operating income equals \$13,969 per unit.

### **CAPITALIZATION RATE SELECTION**

In developing an opinion of the capitalization rate, also known as overall rate (OAR), the following techniques were used: Comparable Sales, Investors Surveys and Band of Investment.

### **Comparable Sales**

One of the best methods of deriving overall capitalization rates (OAR's) is to extract them from comparable sales. Income and expenses from comparable sales are analyzed in order to estimate their net income. Each sale's net income before debt service is divided by its sales price to derive an overall capitalization rate.

The overall capitalization rates indicated by the comparable improved sales presented previously in this report range from 4.25 to 7.53 percent. The Ashland-Medford area improved sales (No.'s 1 through 9) show OAR's from 5.14 to 7.53 percent, with a mean (average) of 6.14 percent. The Portland area improved sales (No.'s 10 through 14) indicated OARs from 4.25 to 5.25 percent, with a mean of 4.86 percent. Although the Portland area sales with OARs less than 5 percent are most similar to the subject in newer construction and project size, they are less comparable in location. The Ashland-Medford sales averaging around 6 percent are more similar in location but are typically much older facilities than the subject. Of the data set, Comparable Sale No.'s 1, 6 and 9 with OAR's of 6.25, 5.66 and 6.0 percent are rated most reliable, and were given emphasis. Based on the new construction quality of the subject a rate at the low end of the range is viewed appropriate. Consideration is also given to recent rising interest rate trends since the dates of sale.

### Investor Surveys

According to the PricewaterhouseCoopers *PwC Real Estate Investor Survey*, as of the 4th Quarter 2017, apartment capitalization rates nationwide ranged from 3.5 to 7.5 percent, averaging 5.32 percent, as summarized in the following national investor survey of various property types.

### OAR National Investor Survey

Economic Indicators   PwC Real Estate Investor Survey, Q4 2017								
	Regional Mall		CBD Office		Warehouse		Apartment	
	Q4 2017	Q3 2017	Q4 2017	Q3 2017	Q4 2017	Q3 2017	Q4 2017	Q3 2017
<b>Discount Rate (IRR)<sup>a</sup></b>								
Range (%)	5.00 – 11.50	5.00 – 11.50	5.50 – 9.00	5.50 – 9.50	5.50 – 9.00	5.50 – 9.00	5.50 – 10.00	5.50 – 10.00
Average (%)	7.60	7.60	7.05	7.13	6.60	6.65	7.26%	7.28%
Change (bps)		0		-8		-5		-2
<b>Overall Cap Rate (OAR)<sup>a</sup></b>								
Range (%)	4.00 – 10.00	4.00 – 10.00	3.50 – 8.00	3.50 – 7.50	3.30 – 6.90	4.00 – 6.90	3.50 – 7.50	3.50 – 7.50
Average (%)	6.25	6.23	5.73	5.66	5.06	5.22	5.32	5.35%
Change (bps)		+2		+7		-16		-3
<b>Residual Cap Rate</b>								
Range (%)	4.00 – 10.00	4.00 – 10.00	4.75 – 8.00	4.75 – 7.50	5.00 – 7.50	5.00 – 7.00	4.25 – 7.75	4.25 – 7.75
Average (%)	6.68	6.70	6.16	6.11	5.90	5.96	5.74	5.79
Change (bps)		-2		+5		-6		-5

Source: PriceWaterhouseCoopers/*Valuation Magazine* by the Appraisal Institute



Within the subject's Pacific Region, apartment OARs ranged from 3.50 to 6.0 percent, averaging 4.49 percent, according to the *PwC Real Estate Investor Survey*, as summarized in the chart below.

**Pacific Region Apartment OAR Survey**

CAPITALIZATION RATE (OAR)	YEAR/QUARTER	RANGE	AVERAGE
Pacific Region Apartment			PricewaterhouseCoopers
<b>Current Quarter</b>	<b>2017 Q3</b>	<b>3.50% to 6.00%</b>	<b>4.49%</b>
Last Quarter	2017 Q2	3.50% to 6.00%	4.49%
Four Quarters Ago	2016 Q3	3.50% to 6.00%	4.52%

**Band of Investment**

To analyze the capitalization rate from a financial position, the Band of Investment Technique is used. Available financing information indicates the following terms:

**Band of Investment Assumptions**

Loan Amortization Period	30 years
Interest Rate	5.0%
Loan-to-Value Ratio	75%
Mortgage Constant	6.51%

Equity dividend rates vary depending upon motivations of buyers and financing terms. For this analysis, the equity component has been estimated at 4.0 percent. The previous terms and an appropriate equity dividend rate are used in the Band of Investment calculated below.

**Band of Investment Calculation**

Mortgage Component	75%	x	6.51%	=	4.88%
Equity Component	25%	x	4.00%	=	1.00%
Indicated Capitalization Rate					<b>5.88%</b>

### **Capitalization Rate Conclusion**

For investments of the subject's general size and price, and when sales activity is brisk with relative market stability, the market extraction method is most often relied upon by buyers and sellers to develop capitalization rate decisions. Recent sales of apartment facilities in the subject's market typically ranged from 5.75 to 6.25 percent. The most similar sales indicated a rate in the range of 6 percent is achievable for the subject. National survey data from 3.5 to 7.5 percent, with an average of 5.32 percent, has limited direct application for the subject property; however, it helps establish general macro trends. The band of investment technique at 5.88 percent has limitations as it is difficult to confirm expected equity rates of return; however, it is consistent with local sales. Based upon the capitalization rates extracted from comparable investments, an overall rate of 6.0 percent is estimated for the subject.

### **INCOME APPROACH CONCLUSION – Hypothetical Value at Stabilized Occupancy**

The table on the following page summarizes the direct capitalization conclusion for the subject property. This analysis is based on estimated market rent, expense and capitalization rate data as of the current date, assuming the subject apartments were completed as of the date of inspection.

## INCOME & EXPENSE ANALYSIS

Meadowbrook Apartments - Hypothetical Value at Stabilization

<b>POTENTIAL INCOME:</b>				
2 BD / 2 BA	29	X	\$1,650	\$47,850
TOTAL ANNUAL RENTAL INCOME		X	12	\$574,200
LESS VACANCY & COLL. LOSS @	4.00%			-\$22,968
EFFECTIVE GROSS INCOME				\$551,232
LESS EXPENSES:				
Real Estate Taxes			\$71,000	
Insurance			\$8,700	
Repairs & Maintenance			\$17,400	
Utilities			\$8,700	
Management @	6.00%		\$33,074	
Replacement Reserves			\$7,250	
TOTAL EXPENSES				\$146,124
Expenses Per Unit				\$5,039
Expenses % EGI				26.5%
NET OPERATING INCOME				\$405,108
CAPITALIZATION RATE	6.00%			
CAPITALIZED VALUE	=			\$6,751,801
ROUNDED				<b>\$6,750,000</b>

The indicated stabilized value for the subject by the direct capitalization method of \$6,750,000 equals \$232,758 per unit, or \$235 per square foot of gross living area.

### Lease-Up Costs

The above value is based on stabilized occupancy. The subject does not currently have any pre-leasing activity, which is typical of multi-family developments, and therefore has an occupancy of 0 percent. Lease-up costs are applicable to arrive at the “As Complete” value and are described below.

As presented in the Market Analysis section of this report, recent apartment absorption comparable data has averaged 10 units per month in the subject’s market area. The local absorption comparable data represents units in Medford leased at much lower rents than what is anticipated for the subject in Ashland. Based on current supply and demand conditions in the subject’s market area and the subject’s specific

characteristics marketed to a higher income tenant base, it is anticipated the subject will lease-up approximately 4 units per month upon completion. This indicates an absorption period of approximately 7 months. Applicable absorption costs include rent loss, concessions/free rent, and overhead/contingency.

**Rent Loss** – Rent loss is calculated by applying the market rent of the vacant units over the absorption period.

**Concessions** - Concessions are not common in the current subject market. None of the rental data included concessions such as free rent. However, based on the number of subject units which will be completed near the same time, use of concessions may be needed in order to lease units. An offer of \$1,000 per unit (0.6 month’s rent) is therefore estimated in this analysis to induce lease-up.

**Overhead/Contingency** – A contingency of 20 percent of lease-up costs which accounts for the risk in leasing the vacant units is applied in this analysis.

The following table summarizes the lease up costs.

### LEASE-UP ANALYSIS

<b>Total Units</b>	29	<b>Units Preleased/Occupied</b>	1
<b>Absorption Rate</b>	4 Units/Mo.	<b>PGI per Unit per Month</b>	\$1,650
<b>Stabilized Occupancy</b>	96%	<b>Discount Rate</b>	0%

Month	Units Absorbed	Units Remaining	Units Occupied	Rent Loss/Month	PV of Rent Loss
1	4	24	5	\$39,600	\$39,600
2	4	20	9	\$33,000	\$33,000
3	4	16	13	\$26,400	\$26,400
4	4	12	17	\$19,800	\$19,800
5	4	8	21	\$13,200	\$13,200
6	4	4	25	\$6,600	\$6,600
7	3	0	28	\$0	\$0
Total Lost Income					\$138,600
Plus Marketing/Concessions		\$1,000 / unit			\$28,000
Subtotal Lease Up Costs					\$166,600
Overhead/Contingency		20%			\$33,320
<b>TOTAL LEASE UP COSTS</b>					\$199,920
					Rounded, <b>\$200,000</b>

### **INCOME APPROACH CONCLUSION – Hypothetical Value at Completion**

Based on deduction of the above lease-up costs, the hypothetical market value of the subject At Completion is **\$6,550,000**. This equals \$225,862 per unit or \$228 per square foot of gross living area.

### **INCOME APPROACH – Prospective Value**

The previous analysis was based on market rents, expenses and capitalization rate estimated as of the current date, based on the hypothetical assumption the proposed subject improvements were completed as of the date of inspection. This analysis considers the market value of the proposed subject property as of the estimated date of completion of construction of August 1, 2019.

Between the current and prospective dates of value, market conditions in the subject area are anticipated to continue increasing based on current supply and demand trends. As was described in the Location Analysis section of this report, the Federal Reserve Board at its June 13, 2018 meeting expressed confidence in the U.S. economy and predicts continued future growth. Recent ongoing economic expansion coupled with job growth has led the Fed to raise interest rates seven times since late 2015. Gradual rate hikes are anticipated to continue occurring through 2020. Fed policymakers projected gross domestic product would grow 2.8 percent in 2018, slightly higher than previously forecast, and decrease to 2.4 percent in 2019, while inflation is predicated to reach 2.1 percent this year and remain there through 2020. Previously, the Fed had been concerned inflation was too low, but a 2 percent rate is considered healthy. The Fed's short-term policy rate, a benchmark for other borrowing costs, is now roughly equal to the rate of inflation, assisting the Fed's efforts to return monetary policy to a normal pattern.

Mortgage lending rates have thus far risen only slightly. Overall capitalization rates for apartment properties have been relatively stable in recent years. However, additional interest rate increases in the next year may ultimately exert upward pressure on OAR's.

Apartment rental rates have been increasing in the subject market in recent years. As was described in the Market Analysis section of this report, apartment rents in Ashland

have increased by up to 10 percent per year, but some participants see a plateau and lower increases of 5 percent in the next year.

Based on the above considerations, it is likely the subject's net operating income may be higher upon completion in 2019 than what was currently estimated in the hypothetical valuation. Rental rates may continue increasing (up to 5%) at rates higher than inflation (2%) adjusted expenses. However, an increase in net operating income may be offset by an increase in overall capitalization rates based on anticipated Fed policy and continued interest rate increases.

For this analysis, it is viewed very speculative to project the prospective market value of the subject upon completion in August 2019. There are global economic and geopolitical concerns and potential unforeseen factors which may influence the economy and subject apartment market upon completion. Based on currently known expectations, including Federal Reserve projections and current apartment market supply/demand trends, the prospective value income analysis is based on the following:

**Rental Income:** The subject's current market rents are estimated to increase by 3 percent upon completion in August 2019. The prospective market rent upon completion is thus estimated at \$1,700 per month. Vacancy and collection loss is estimated to remain the same at 4 percent.

**Expenses:** Based on current and projected rates of inflation, operating expenses are estimated to increase by 2 percent.

**OAR:** The current capitalization rate of 6.0 percent is adjusted upward by 10 basis points for the prospective valuation. This is based on the anticipation of continued rising interest rate Fed policy, which will exert upward pressure on overall capitalization rates.

The appraisal assumes no substantial unforeseen economic shifts will occur between now and the prospective valuation dates.

### **INCOME APPROACH CONCLUSION – Prospective Value at Stabilized Occupancy**

The table on the following page summarizes the direct capitalization conclusion for the subject property based on the above parameters.

## INCOME & EXPENSE ANALYSIS

Meadowbrook Apartments - Prospective Value

<b>POTENTIAL INCOME:</b>				
2 BD / 2 BA	29	X	\$1,700	\$49,300
TOTAL ANNUAL RENTAL INCOME		X	12	\$591,600
LESS VACANCY & COLL. LOSS @	4.00%			-\$23,664
EFFECTIVE GROSS INCOME				\$567,936
LESS EXPENSES:				
Real Estate Taxes			\$72,400	
Insurance			\$8,900	
Repairs & Maintenance			\$17,800	
Utilities			\$8,900	
Management @	6.00%		\$34,076	
Replacement Reserves			\$7,400	
TOTAL EXPENSES				\$149,476
Expenses Per Unit				\$5,154
Expenses % EGI				26.3%
NET OPERATING INCOME				\$418,460
CAPITALIZATION RATE	6.10%			
CAPITALIZED VALUE	=			\$6,859,997
ROUNDED				<b>\$6,860,000</b>

The indicated stabilized prospective value for the subject by the direct capitalization method of \$6,860,000 equals \$236,551 per unit, or \$239 per square foot of gross living area.

### Lease-Up Costs

The above value is based on stabilized occupancy. Lease-up costs are deducted in order to arrive at the "As Complete" value. The lease-up costs are estimated based on the same absorption rate of 4 units per month. There is no known supply coming on-line in 2019 which will compete directly with the subject and change the previously estimated absorption rate. The following table summarizes the lease-up analysis.

### LEASE-UP ANALYSIS – Prospective Value

Total Units	29	Units Preleased/Occupied	1		
Absorption Rate	4 Units/Mo.	PGI per Unit per Month	\$1,700		
Stabilized Occupancy	96%	Discount Rate	0%		

Month	Units Absorbed	Units Remaining	Units Occupied	Rent Loss/Month	PV of Rent Loss
1	4	24	5	\$40,800	\$40,800
2	4	20	9	\$34,000	\$34,000
3	4	16	13	\$27,200	\$27,200
4	4	12	17	\$20,400	\$20,400
5	4	8	21	\$13,600	\$13,600
6	4	4	25	\$6,800	\$6,800
7	3	0	28	\$0	\$0

Total Lost Income	\$142,800
Plus Marketing/Concessions	\$1,000 / unit
Subtotal Lease Up Costs	\$170,800
Overhead/Contingency 20%	\$34,160
<b>TOTAL LEASE UP COSTS</b>	<b>\$204,960</b>
	Rounded, <b>\$200,000</b>

### INCOME APPROACH CONCLUSION – Prospective Value at Completion

Based on deduction of the above lease-up costs, the prospective market value of the subject At Completion is **\$6,660,000**. This equals \$229,655 per unit or \$232 per square foot.



## **RECONCILIATION OF VALUE INDICATIONS**

### **MARKET VALUE AS-IS**

At the date of inspection the subject was bare land proposed for development. The land value opinion was previously concluded at \$900,000 in this report. The subject property also includes entitlements attributed to City Planning approval and completed architectural and engineering plans. The value of the subject's in-place entitlements are estimated at \$215,000 based on the developer's budget (24% of land value). This is added to the land value to indicate the As-Is Market Value of the subject with entitlements. The opinion of the Market Value of the Fee Simple Interest in the Subject "As Is" as of **June 15, 2018** was \$1,1150,000, rounded to **\$1,100,000**.

### **MARKET VALUE AS PROPOSED**

Of the three valuation methods, the development cost approach was the high indicator reflecting the significant increase in the cost to construct new due to increasing demand. The sales comparison approach was not fully developed due to the quality of the market data set available for review. However, the sales most similar to the subject in age and quality (Portland data) lend support to the value estimates by the income approach. The income approach best reflects the motivations of investors. The reliability of the income approach as applied to the subject is good. There was a reliable set of comparable rentals to estimate the potential gross income for the subject. Expenses were based on similar facilities in the market area and the subject's budgeted costs. An overall capitalization rate was developed from knowledge of rates derived from investor surveys, comparable sales and the band of investment technique. Overall, the data available for application of the income approach was considered credible. Based on the likely buyer of the subject being an investor, the income approach is given primary emphasis to estimate value.

## FEE SIMPLE VALUE CONCLUSIONS

Based upon the previous analysis, the opinions of market value of the fee simple interest of the subject property are as follows:

VALUATION SCENARIO	INTEREST APPRAISED	DATE	VALUE
As-Is Market Value	Fee Simple	June 15, 2018	\$1,100,000
Hypothetical Market Value at Completion	Fee Simple	June 15, 2018	\$6,550,000
Hypothetical Market Value at Stabilization	Fee Simple	February 15, 2019	\$6,750,000
Prospective Market Value at Completion	Fee Simple	August 1, 2019	\$6,660,000
Prospective Market Value at Stabilization	Fee Simple	March 1, 2020	\$6,860,000

## ESTIMATED MARKETING AND EXPOSURE TIME<sup>2</sup>

Marketing time is defined as “an opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.”

Under current and projected market conditions for the year, the subject should experience a normal marketing period. The improved sale comparables presented in the valuation section of this report typically indicated marketing times of less than one year. Over the time period of the comparable sales the subject’s apartment market has been increasing. Based on this review, the marketing period of the subject is estimated to be less than 12 months.

Exposure time is defined as “the time a property remains on the market. It is the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market.” Based on a review of comparable sales, SOMLS data, public records, and interviews with real estate brokers and developers, the estimated exposure time for the subject is less than 12 months.

<sup>2</sup> Source: *The Dictionary of Real Estate Appraisal*, 5th Edition.

## **COLETTE J. MEYER, MAI QUALIFICATIONS**

Colette Meyer is a professional commercial real estate appraiser and consultant. She conducts real estate appraisals plus market, economic feasibility, and highest and best use studies. She has been appraising commercial real estate since 1990. She was awarded the State Certified General Appraiser's License from the State of Oregon's Appraiser Certification and Licensure Board on September 16, 2003 (License No. C000767, expiring 11/30/2019).

Ms. Meyer was awarded the MAI designation by the Appraisal Institute on May 2, 2013.

Ms. Meyer earned a Bachelor of Science from the University of Oregon in June 1990. Her major area of study was Finance. Her secondary area of study within the Business School was Real Estate Finance, and her minor was in Geography. She received Dean's List honors. Some additional real estate appraisal courses, seminars and examinations that she has completed are as follows:

### Appraisal Institute

- Foundations of Real Estate Appraisal
- Uniform Standards of Professional Appraisal Practice
- Business Practices and Ethics
- Basic Income Capitalization
- Advanced Income Capitalization
- Advanced Sales Comparison and Cost Approaches
- Highest & Best Use and Market Analysis
- Report Writing and Valuation Analysis
- Advanced Applications
- Comprehensive Examination
- Experience Credits
- Demonstration Narrative Appraisal Report
- Condemnation Appraising, Basic and Advanced Principles
- Small Hotel/Motel Valuation
- Apartment Appraisal Concept and Applications
- Subdivision Valuation

Ms. Meyer's appraisal experience includes a wide variety of commercial, industrial and multi-family properties in southern Oregon and throughout the nation. From 1990 to 1999, she worked as a licensed appraiser and appraiser assistant with Brown, Chudleigh, Schuler, & Associates in Medford, Oregon. From 1999 to 2004, Ms. Meyer served as an independent contractor, assisting and completing valuations with Evan Archerd, MAI of Ashland, Oregon, William Miller, MAI and Steve Graham of Medford, Oregon, and Paul Zacha, MAI of Grants Pass, Oregon. Since 2004, she has served as the sole proprietor of Meyer Appraisal & Consulting, currently doing business as Colette Meyer, MAI. Her appraisal experience includes professional office buildings, regional and community

shopping centers, restaurants, subdivision analysis, industrial buildings, service stations, and apartment complexes. Ms. Meyer has also conducted condemnation appraisals of both partial and complete takings. Her appraisal experience includes the following properties:

Rogue Valley Mall, Medford, Oregon  
Pioneer Place Retail Center and Pioneer Place Office Tower, Portland, Oregon  
Kruse Way Office Buildings, Lake Oswego, Oregon  
One Maritime Plaza Office Tower, San Francisco, California  
Flex Industrial Buildings, San Jose, California  
TIAA Apartment Complex Portfolio, Los Angeles, California  
Low Income Housing Tax Credit (LIHTC) Apartment Portfolio, Nationwide

Clients include People's Bank of Commerce, Evergreen Federal Bank, Umpqua Bank, Washington Federal Bank, Summit Bank, Siuslaw Bank, Scott Valley Bank, Jackson County Housing Authority, attorneys, developers and private individuals.

Ms. Meyer is also active in community service. She has served as a mentor with the HATS (Help a Teen Succeed) program of Rogue Valley Youth for Christ, a resident visitor with Three Fountains Nursing Home, and a STARS mentor with the State of Oregon Department of Human Services.



## **ADDENDA**

## APPRAISAL ENGAGEMENT CONTRACT

Colette J Meyer MAI  
Meyer Appraisal & Consulting  
2640 E. Barnett Road, Suite E - 426  
Medford, , OR 97504  
541-261-0565  
colettejmeyer@gmail.com

5/29/2018

Dear Colette J Meyer MAI:

This letter serves as an Engagement Contract for the above-noted Appraiser to provide appraisal services in accordance with the standards of the Uniform Standards of Professional Appraisal Practice (USPAP), Title XI of FIRREA, and Washington Federal's general appraisal policies.

### **Appraisal Project:**

RIMS Project #:	18-002582-01-01
Property Type:	Multi-FamilyOther
Property Name:	Meadowbrook
Property Address:	Fair Oaks Ave AshlandOR97520
Property Size:	29Units
Site Size:	0.43Acres
Improvement Status:	Proposed Construction
Occupancy Status (%):	0
Loan Purpose:	New Loan
Borrower:	Ayala Properties LLC
Special Comments:	Appraiser should not deliver hard copies until requested to do so by the reviewer. Please refer to Delivery Instructions on where to ship hard copy appraisal report.
Additional Property Info:	29 Unit (Apartments) proposed construction on 0.43 parcel of land in Ashland, OR.

### **Assignment Contacts:**

Property Contact(s):	Laz Ayala 541-944-9561
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### **Assignment Summary:**

Report Format:	Narrative
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Report Type: Self-Contained (Style) - Appraisal Report  
 RFP Comments: Include Insurable Replacement Cost in report for all properties except subdivisions.  
 Agreed-Upon Fee: \$5,250.00  
 Delivery Date: 6/27/2018

Delivery Instruction: Please upload a PDF copy to [www.rimscentral.com](http://www.rimscentral.com) by 6/27/2018. Upon completion of review and at the request of the Reviewer please deliver 2 Copies to:  
*final* hard copies to:

**Hard Copies:**  
 Washington Federal  
 Jerry Herbold  
 891 O'Hare Parkway  
 Medford, OR97504

Invoice Questions: Phillip Majarucon

Late Fees: We rely on timely appraisal delivery. A late fee of \$100 per day may be deducted from the agreed upon fee if the appraisal report is not received by the due date. Any extension must be requested and approved in writing (email is acceptable) by Phillip Majarucon.

**Scope of Work Requested:**

Intended Use: The intended use of this appraisal is for valuation of the asset for financial decision-making purposes

Intended User: The intended user of this report is Washington Federal and-or affiliates

Approaches to Value: All applicable approaches

Inspection Requirements: An interior and exterior inspection of the subject property, as well as an inspection of all comparable properties utilized

Additional Work Scope: None.

<u>Premise</u>	<u>Qualifier</u>	<u>Interest</u>	<u>Comment</u>
Market Value	As-Is	Fee Simple	0.43 acre project site
Hypothetical Market Value	Upon Completion of Construction	Fee Simple	29-unit apartment project
Hypothetical Market Value	Upon Stabilization	Fee Simple	Stabilization
Prospective Market Value	Upon Completion of Construction	Fee Simple	29-unit partment project
Prospective Market Value	Upon Stabilization	Fee Simple	Stabilization



## Value

1. The appraisal must be prepared in compliance with USPAP as well as federal and state appraisal regulations. It must also comply with Washington Federal Appraisal Policy, a current copy of which will be provided upon appraiser's written request.
2. All applicable approaches to value and valuation methods for a credible appraisal, with adequate explanation of the Scope of Work chosen and any valuation approaches not developed, as required under USPAP.
3. **Include Title XI of FIRREA definition of Market Value in Report:** The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) Buyer and Seller are typically motivated; (2) Both parties are well informed or well advised, and acting in what they consider their own best interest; (3) A reasonable time is allowed for exposure in the open market; (4) Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto and; (5) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.
4. Values contemplated by Washington Federal are listed above. However, **if the appraiser becomes aware of any listed values that are not applicable or any values (or approaches to value) not listed that a lender would normally request, then the appraiser should contact the undersigned to clarify the assignment** and, if necessary, the fee and delivery date.
5. Prospective value estimates must have an effective date of value.
6. Marketing time must be estimated even though not required by USPAP.
7. For proposed construction including renovations, financial feasibility including entrepreneurial profit must be addressed.
8. Appraisals involving unsold units in a tract development (subdivision or condo) must estimate the time required to sell out the project. A summary of absorption rates experienced in similar projects (closed sales) is expected.
9. A lease up analysis must be considered if a commercial property is operating below stabilized occupancy or at below market rental rates and should consider not only rents and tenant reimbursements but also concessions, tenant improvements, leasing commissions, entrepreneurial profit and both fixed and variable operating expenses.
10. If a sale is pending at the time of the appraisal, the appraiser must make every effort to interview the buyer or buyer's agent for details on how and when the sale was negotiated, and the buyer's intended use of the property. The pending sale price should be discussed in relationship to the concluded market value. Differences between the contract price and the concluded market value should be discussed.
11. The appraisal should include a statement as to whether the subject is legally conforming to zoning code. If the subject is non-conforming, the appraisal should report whether the subject can be rebuilt if wholly or partially destroyed.
12. For net-leased properties (NNN), report all operating and expenses (not just owner-paid items) showing off-setting reimbursements as income. Washington Federal must know cost to operate without tenant contributions. Any appraisals without a full expense analysis will be

returned to the appraiser for revision.

**13.** Washington Federal hires individual appraisers not appraisal firms. **The appraiser engaged to perform this appraisal as named in the Engagement Contract must inspect the subject property, all comparables used in the analysis, participate in the inspection interview, and sign the report.** The engaged appraiser must be prepared to answer questions and resolve issues brought up by the reviewer regarding the appraisal.

**14.** We understand that you and all personnel associated with the assignment will be available to discuss any concerns we have about the completed report or analysis, and the value conclusions. Washington Federal reserves the right to withhold payment if our concerns are not addressed within five working days of such notice.

**15.** **Washington Federal is your client** and, unless authorized, you cannot disclose confidential data, including the value, to anyone other than the undersigned, including the property owner, our borrower, or any other individuals contacted during the course of this assignment.

**16.** With the exception of a Restricted Report, which may just state market trends, **all appraisal reports must include** a market analysis specific to the subject property type and market area. At a minimum, this should include an analysis of supply/demand trends and a discussion of the subject's competitive position and marketability within the context of the specific market. The subject's buyer profile should be identified within the market analysis, the highest and best use analysis, or somewhere else within the report.

**17. A report for an existing apartment property** must include an analysis of the subject's historical income and expenses. If you are unable to obtain these from the owner, please contact the undersigned at Washington Federal for further instruction before completing the report. The report should discuss any significant difference between the concluded income and expenses for the direct capitalization or the discounted cash flow, and the historical data. Any significant difference should be reason to assess whether a stabilized value is different than the "as is" value, and consider time and costs to achieve the stabilized value.

**18.** Washington Federal reserves the right to cancel an appraisal assignment any time without cause. Upon such cancellation, payment of the fee will be limited to actual time spent and any out-of-pocket expenses incurred up to the date of termination.

**19. A report for a subdivision appraisal** must include an absorption analysis. In addition, existing entitlements such as preliminary plat approval or engineering approval should be addressed. The possible value added by entitlements should be considered, but also the expiration date. If an expiration of the entitlements is in the near future, the procedure and likelihood of renewal should also be discussed.

**20. PERSONAL PROEPRTY DISCLOSURE.** Please provide a statement that "no personal property value was included in the estimate of value(s)." If a value for personal property (FF&E) is included, it is necessary to identify the relevant personal property, its value and methodology for estimating its value.

**21. Include the following in the report, as applicable to the appraisal assignment:**  
Photographs of the subject and comps; Location maps for the subject and comps; Site plan/plat map; Building plans; Purchase and sale agreement; Rent roll; Operating statement(s); Qualifications of the appraiser(s); Copy of this Engagement Contract \*Residential appraisals do NOT need to include EL in report.

**22. VALUE AND ANALYSES REQUIRED FOR THIS ASSIGNMENT:** The appraisal must state that **DISCOUNTS** and **DEDUCTIONS** were *considered* whether they were necessary or not. Appraisals lacking such statements will not be acceptable.

**23.** It is Washington Federal's preference that the Remaining Economic Life (REL) be

stated in a range of years.

**Independent Appraisal Process:**

In connection with Client's duty to ensure that its appraisals are independent of influence by parties having an interest in the property to be appraised, including borrowers and lending officers, we will rely on the Confidentiality requirement under USPAP's Ethics Rule. That requirement prohibits disclosure of confidential appraisal information to other than the Client and persons specifically authorized by the Client. Accordingly, we authorize only appraisal officers and, if different, also the person who signed this engagement letter, to receive confidential appraisal information. This is not intended to prevent the appraiser from contacting interested parties to obtain factual information and documents for the appraisal assignment.

If any necessary information or documents are not included with this Engagement Contract, the borrower or other listed party may be contacted directly to obtain them. Please notify your RIMS Job Manager (listed below) promptly, if the lack of such information would result in special assumptions and/or late delivery.

Phillip Majarucon  
Washington Federal  
phillip.majarucon@wafd.com

# SUBJECT DEED/LEGAL DESCRIPTION\*

Jackson County Official Records **2011-035108**

R-BSD

Stn=10 ALONZOKM 11/10/2011 10:43:23 AM

\$10.00 \$10.00 \$5.00 \$11.00 \$15.00 \$3.00 **\$54.00**

I, Christine Walker, County Clerk for Jackson County, Oregon, certify that the instrument identified herein was recorded in the Clerk records.

Christine Walker - County Clerk



After recording return to:  
Ayala Properties, LLC  
132 West Main Street #103  
Medford, OR 97501

Until a change is requested all tax statements shall be sent to the following address:  
Ayala Properties, LLC  
132 West Main Street #103  
Medford, OR 97501

File No.: 7151-1776950 (KAF)  
Date: November 08, 2011

THIS SPACE RES

## STATUTORY BARGAIN AND SALE DEED

**Umpqua Bank**, Grantor, conveys to **Ayala Properties, LLC, an Oregon Limited Liability Company**, Grantee, the following described real property:

**LEGAL DESCRIPTION:** Real property in the County of Jackson, State of Oregon, described as follows:

**Lots 70, 71 and 73, MEADOWBROOK PARK II AT NORTH MOUNTAIN, a Planned Unit Development in the City of Ashland, Jackson County, Oregon, according to the Official Plat thereof, recorded in Volume 32, Page 87, Plat Records.**

The true consideration for this conveyance is **\$62,500.00**. (Here comply with requirements of ORS 93.030)

BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, OF CHAPTER 424, OREGON LAWS 2007, AND SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009. THIS INSTRUMENT DOES NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL, AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.930 AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, OF CHAPTER 424, OREGON LAWS 2007, AND SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009.

Page 1 of 2

\*Subject property includes Lots 70-71



# PLUM RIDGE COURT DEED

THIS SPACE RESERVED FOR RECORDER'S

Jackson County Official Records **2013-008336**  
R-BSD  
Stn=10 ALONZOKM **03/12/2013 03:46:43 PM**  
\$20.00 \$10.00 \$5.00 \$11.00 \$15.00 **\$61.00**

I, Christine Walker, County Clerk for Jackson County, Oregon, certify that the instrument identified herein was recorded in the Clerk records.  
Christine Walker - County Clerk

North Mountain Land Company, LLC

Grantor's Name and Address

Grantee's Name and Address

After recording return to:  
Laz Ayala  
132 W Main St Suite 202  
Medford, OR 97501

Until a change is requested all tax statements shall be sent to the following address:  
Laz Ayala  
132 W Main St Suite 202  
Medford, OR 97501

Escrow No. \_\_\_\_\_  
Title No. \_\_\_\_\_

## BARGAIN AND SALE DEED

KNOW ALL MEN BY THESE PRESENTS, That

North Mountain Land Company, LLC, an Oregon limited liability company, hereinafter called Grantor, for the consideration hereinafter stated, does hereby grant, bargain, sell and convey unto:

Ayala Properties, LLC, an undivided 75% interest and Scott Lissberger, Trustee of the Scott Lissberger Revocable Trust an undivided 25% interest, hereinafter called Grantee, and unto Grantee's heirs, successors and assigns all of that certain real property with the tenements, hereditaments and appurtenances thereunto belonging or in any way appertaining, situated in the County of Jackson, State of Oregon, described as follows, to wit:

**Lot 81 in Meadowbrook Park II at North Mountain, a Planned Unit Development in the City of Ashland, Jackson County, Oregon, according to the official plat thereof, now of record.**

The following conditions shall run with the land:

The property shall be owned and used in common and only for ingress, egress and parking for the benefit of and appurtenant to lots 70, 71, 72 and 73 in Meadowbrook Park II at North Mountain, a Planned Unit Development in the City of Ashland. Each individual lot shall be entitled to an undivided 25% of the parking spaces. Individual parking spaces maybe assigned to and in proportion with the percentage interest of each lot and upon the approval of no less than 75% of the lot owners. Repairs, maintenance, taxes, insurance and any other expenses attributed to the common property will be equally assessed to each lot.

Approved by: *Laz Ayala*  
Approved by: *Scott Lissberger*

FOR INFORMATION PURPOSES ONLY, THE MAP/TAX ACCT #(S) ARE REFERENCED HERE:  
**1-098461-1, code 5-01                      39-1E-04AD TL 1400**

The true and actual consideration paid for this transfer, stated in terms of dollars, is Vesting Correction  
However, the actual consideration consists of or includes other property or value given or promised which is the whole /  
part of the consideration.

To Have and to Hold the same unto grantee and grantee's heirs, successors and assigns forever.

In construing this deed, where the context so requires, the singular includes the plural and all grammatical changes shall  
be made so that this deed shall apply equally to corporations and to individuals.

BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON TRANSFERRING FEE TITLE SHOULD INQUIRE ABOUT THE PERSON'S RIGHTS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010. THIS INSTRUMENT DOES NOT ALLOW USE OF THE PROPERTY DESCRIBED IN THIS INSTRUMENT IN VIOLATION OF APPLICABLE LAND USE LAWS AND REGULATIONS. BEFORE SIGNING OR ACCEPTING THIS INSTRUMENT, THE PERSON ACQUIRING FEE TITLE TO THE PROPERTY SHOULD CHECK WITH THE APPROPRIATE CITY OR COUNTY PLANNING DEPARTMENT TO VERIFY THAT THE UNIT OF LAND BEING TRANSFERRED IS A LAWFULLY ESTABLISHED LOT OR PARCEL, AS DEFINED IN ORS 92.010 OR 215.010, TO VERIFY THE APPROVED USES OF THE LOT OR PARCEL, TO DETERMINE ANY LIMITS ON LAWSUITS AGAINST FARMING OR FOREST PRACTICES, AS DEFINED IN ORS 30.930, AND TO INQUIRE ABOUT THE RIGHTS OF NEIGHBORING PROPERTY OWNERS, IF ANY, UNDER ORS 195.300, 195.301 AND 195.305 TO 195.336 AND SECTIONS 5 TO 11, CHAPTER 424, OREGON LAWS 2007, SECTIONS 2 TO 9 AND 17, CHAPTER 855, OREGON LAWS 2009, AND SECTIONS 2 TO 7, CHAPTER 8, OREGON LAWS 2010.

In Witness Whereof, the grantor has executed this 6 day of MARCH, 2013; if a corporate grantor, it has caused its name to be signed and its seal if any, affixed by an officer or other person duly authorized to do so by order of its board of directors.

North Mountain Land Company, LLC

BY: Jack Monteith  
Jack Monteith, Member

State of Oregon  
County of WASHINGTON

On this 6 day of MARCH, 2013, before me, Brianne M. Lee the undersigned, a Notary Public in and for said State, personally appeared Jack Monteith as Member of North Mountain Land Company, LLC a Limited Liability Company, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that he executed the same in such capacity.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, the day and year in this instrument first above written.

B Lee  
Notary Public for Oregon  
Residing at: Portland, OR  
Commission Expires: 01/23/2015





In Witness Whereof, the grantor has executed this instrument this 12 day of March, 2013; if a corporate grantor, it has caused its name to be signed and its seal if any, affixed by an officer or other person duly authorized to do so by order of its board of directors.

North Mountain Land Company, LLC

BY: [Signature]  
Steve DeCarlow, Member

State of Oregon  
County of Jackson

On this 12 day of March, 2013, before me, Lavonne Thomas, the undersigned, a Notary Public in and for said State, personally appeared Steve DeCarlow as Member of North Mountain Land Company, LLC a Limited Liability Company, known to me to be the persons whose names are subscribed to the foregoing instrument, and acknowledged to me that he executed the same in such capacity.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal, the day and year in this instrument first above written.

[Signature]  
Notary Public for Oregon  
Residing at: Medford, Grants Pass  
Commission Expires: 2-3-17



## ALLOWABLE USES IN NM-C ZONE

Table 18.3.5.050 – North Mountain Neighborhood Uses Allowed by Zone <sup>12</sup>					
	North Mountain Neighborhood Zones <sup>13</sup>				
	NM-R-1-7.5	NM-R-1-5	NM-MF	NM-C	NM-Civic
<b>A. Residential</b>					
Residential Uses, subject to density requirements in Table 18.3.5.050	P	P	P	P	N
Accessory Residential Units	S	S	N	P	N
Home Occupations	P	P	P	P	N
Agricultural Uses, except Keeping of Livestock	P	P	P	P	S
Keeping of Micro-Livestock and Bees	S	S	S	N	S
Keeping of Livestock	N	N	N	N	N
Marijuana Cultivation, Homegrown	S	S	S	S	N
<b>B. Public and Institutional Uses</b>					
Community Services	N	S	N	S	P
Parks and Open Spaces	P	P	P	P	P
Public Parking Lots	N	N	N	CU	N
Religious Institution, Houses of Worship	N	N	N	S	N
Utility and Service Building, Public and Quasi-Public, excluding outdoor storage and electrical substations	N	N	N	S	N
<b>B. Commercial</b>					
Neighborhood Clinics	N	N	N	S	N
Neighborhood Oriented Retail Sales, Services, and Restaurants	N	N	N	S	N
Offices, Professional	N	N	N	S	N
Temporary uses	N	N	N	CU	N
<b>C. Industrial</b>					
Manufacturing, Light	N	N	N	S	N

Source: City of Ashland Land Use Code

## NORTH MOUNTAIN NEIGHBORHOOD DESIGN STANDARDS

Table 18.3.5.060 North Mountain Neighborhood Dimensional Standards				
North Mountain Neighborhood Zones <sup>14</sup>				
	NM-R-1-7.5	NM-R-1-5	NM-MF	NM-C
Residential Density (dwelling units/acre) <sup>1</sup>	3.6 du/ac	5 du/ac	12 du/ac	20 du/ac
<sup>1</sup> Density is computed by dividing the total number of dwelling units by the acreage of the project, including land dedicated to the public. Fractional portions of the answer shall not apply towards the total density, except that units less than 500 square feet gross habitable floor area shall count as .75 units in the NM-MF and NM-C zones. Accessory residential units are not subject to the density requirements of the zone in the NM-R-1-7.5 and NM-R-1-5 zones.				
Standard Yards – Minimum (feet)				
Front – Standard	10 ft minimum/ 25 ft maximum	10 ft minimum/ 25 ft maximum	10 ft minimum/ 25 ft maximum	No minimum yard requirements, except as required for parking, landscaping and building design requirement in chapters 18.4.2, 18.4.3, and 18.4.4.
Front – Unenclosed Porch	5 ft	5 ft	5 ft	
Front – - Garage <sup>2</sup>	15 ft from building face / 20 ft from sidewalk	15 ft from building face / 20 ft from sidewalk	15 ft from building face / 20 ft from sidewalk	
Side – Standard <sup>3</sup>	5 ft per building story	5 ft per building story	5 ft per building story	
Side – Adjacent to Street	10 ft	10 ft	10 ft	
Side – Single-Story, Detached Garage and Accessory Buildings <sup>4</sup>	3 ft	3 ft	3 ft	
Rear – Standard	10 ft per building story	10 ft per building story	10 ft per building story	
Rear – Upper Floor Dormer Space	15 ft	15 ft	15 ft	
Rear - Single-Story, Detached Garage and Accessory Buildings Adjacent to Alley	4 ft	4 ft	4 ft	
Rear – Two-Story Accessory Adjacent to Alley	4 ft	4 ft	4 ft	
<sup>2</sup> No greater than 50 percent of the total lineal building façade facing the street can consist of garage, carport, or other covered parking space.				
<sup>3</sup> No additional side yard is required for half-stories and upper floor dormer space.				
<sup>4</sup> No side yard is required for accessory buildings sharing a common wall.				
Solar Access	Solar access setback required pursuant			No solar

Table 18.3.5.060 North Mountain Neighborhood Dimensional Standards				
North Mountain Neighborhood Zones <sup>14</sup>				
	NM-R-1-7.5	NM-R-1-5	NM-MF	NM-C
	to chapter 18.4.8 Solar Access.			access setback required.
Lot Coverage – Maximum (% of lot area)	45%	50%	75%	80%

Source: City of Ashland Land Use Code