APPRAISAL REPORT

Ground Rental Rate Analysis

Salem Airport
(McNary Field – SLE)
Salem, Oregon

Valuation Date |	January 23, 2020
Prepared For |	Clint Dameron Real Property Services Manager Urban Development Department City of Salem
Prepared By |	William E. Adams, MAI
File No. |	191101

♦ **William E. Adams, MAI** ♦
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January 31, 2020

Mr. Clint Dameron
Real Property Services Manager
City of Salem
350 Commercial Street NE
Salem, Oregon 97301

RE: Appraisal Assignment - Ground Rental Rate Analysis Involving the Salem Airport (McNary Field) in Salem

Dear Mr. Dameron:

At your request, I have prepared a real estate appraisal estimating the ground rental rate for land within the boundaries of the Salem Airport (McNary Field). Land within the airport's boundaries is owned by the city of Salem. Historically, the airport was segregated into six areas (subzones), with ground rental rates established for each area. Currently, the city's ground lease agreement charges the same ground rental rate for new tenancy regardless of location within the airport. Every five years, a ground rental rate analysis is conducted. The last analysis was conducted in February 2015. This current appraisal assignment establishes a ground rental rate for new land leases and renewals beginning in 2020.

As the parcels within the airport's boundary vary in attributes such as size, vehicle access, utility availability, and access to taxiways, a set of lot attributes needed to be determined for this appraisal assignment. Therefore, by mutual agreement between the appraiser and the client, this appraisal assignment estimates the annual ground rental rate for a typical lot, with the typical lot attributes & entitlements identified as follows. Specifically, the assumed typical lot has available municipal utilities, a parcel size between 15,000 SF and 1 acre (43,560 SF), a utilitarian shape, aircraft taxiway access, available vehicle access (either gated or unrestricted from public roadway), and the underlying land is zoned I-P.

The annual ground rental rate for the typical lot is estimated as of January 23, 2020, coinciding with the appraiser's most-recent property inspection. The interest appraised is the fee simple estate. The intended use of this appraisal is to assist the client (City of Salem) in their establishment of a rental rate for land leases and renewals within the Salem Airport. The intended user of this report is limited to the client. The use of this appraisal by anyone other than the stated intended user, or for any use than the stated intended use, is prohibited.

This report is prepared in compliance with the current Uniform Standards of Professional Appraisal Practice (USPAP), as formulated by The Appraisal Foundation as well as the Standards of Professional Appraisal Practice and the Code of Professional Ethics of the Appraisal Institute.

The appraisal is prepared in accordance with USPAP Standards Rule 2-2(a) for an appraisal report. The scope of work utilized for this assignment is considered typical for this property type and the intended use.

The appraiser has sufficient education and experience in valuing similar properties to satisfy the competency rule of the Uniform Standards. The estimated ground rental rate is not based on a requested rate and the appraiser was acting independently of the client during the course of this assignment.

Reference to the Assumptions and Limiting Conditions section of the attached report is recommended for a complete understanding of the basis on which the value of the assumed typical lot and the estimated ground rental rate are predicated. At the client's direction, the following hypothetical condition (as defined by USPAP) is employed.

This appraisal assignment does not estimate a ground rental rate for a particular parcel of property within the Salem Airport. Rather, the ground rental rate estimate applies to a "typical lot" within the airport that has specified land attributes and entitlements. For the purpose of this assignment, the assumed typical lot has available municipal utilities, a parcel size between 15,000 SF and 1 acre (43,560 SF), a utilitarian shape, aircraft taxiway access, available vehicle access (either gated or unrestricted from public roadway), and the underlying land is zoned I-P. The preceding lot attributes are recognized as a hypothetical condition for this assignment.

After considering all of the data assembled for this appraisal assignment, the ground rental rate for the assumed typical lot within the Salem Airport boundaries as of the January 23, 2020 valuation date is estimated to be:

$0.35/SF Annually on a Triple Net (NNN) Expense Basis

The preceding ground rental rate is dependent upon the hypothetical condition cited above. The reasoning and analysis leading to this conclusion are discussed in the following appraisal report.

Respectfully Submitted,

William E. Adams

William E. Adams, MAI

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ADDENDA

SCOPE OF WORK

The City of Salem owns the land within the Salem Airport (McNary Field) and negotiates land leases to various parties for allowed airport-related uses. The City charges a similar ground lease rate throughout the airport's boundaries regardless of location. The City has requested a ground rental rate analysis estimating the annual ground rental rate to be charged for newly-negotiated ground leases within the airport. By mutual agreement with the client (City), specific lot attributes are identified for the purpose of estimating the ground rental rate. These attributes for a "typical lot" within the airport include a parcel size between 15,000 and 43,560 SF, an I-P land zone, a utilitarian-shaped site with available utilities, aircraft taxiway access, and vehicle access to the typical lot. In estimating the ground rental rate for this typical lot, this appraisal assignment involved the following scope of work.

- A physical inspection of the airport's boundaries and areas was performed by William E. Adams, MAI on January 23, 2020, with this date setting the valuation date for this appraisal assignment. During the course of this assignment, the appraiser corresponded with Mr. John Paskell (Airport Administrator) and other City staff. The appraiser conducted a similar appraisal assignment for the city of Salem in February 2015.

- A search of all available resources was made to identify market trends, comparable sales & rental data, and other significant factors affecting the subject's estimated ground rental rate.

- Market data were verified, photographed, and physically inspected. Market data was confirmed by a party to the transaction and supplemented by information obtained from the local multiple listing service (MLS), deeds, county records, or other informed parties.

- The subject's highest and best use was determined as if vacant assuming the property to be a legal and separately marketable tax lot having the stated attributes of the defined "typical lot".

- The subject's "typical lot" consists of land only and is valued using the Sales Comparison Approach. The ground rental rate is estimated using comparable land sales, lease rates, and return rates assembled from the market area and other area airports. One hypothetical condition establishing the attributes of the "typical lot" is used for this appraisal assignment.

- Interviews were conducted with persons considered informed regarding the subject property and similar properties, including real estate professionals, property owners, and various departments of the City of Salem, Marion County, and the State of Oregon.

CLIENT-INTENDED USER-INTENDED USE

This appraisal was prepared at the request of Clint Dameron of Salem's Urban Development Department. The intended use of this appraisal is to assist the client (city of Salem) in their establishment of a ground rental rate for land leases & renewals at the Salem Airport. The intended user of this report is limited to the client. The use of this appraisal by anyone other than the stated intended user, or for any use other than the stated intended use, is prohibited.

PROPERTY RIGHTS APPRAISED

Title to the property appraised is fee simple interest, subject to typical easements, encroachments, and encumbrances. This appraisal considers the property to include all rights lawfully held under Fee Simple Estate exclusive of any encumbrances, liens, or restrictions on ownership. The valuation includes any interest in real estate and real estate improvements, but excludes any personal property components.

EFFECTIVE DATE OF APPRAISAL

The subject property was inspected on January 23, 2020, the effective date of this report.

DEFINITIONS

Market Value is the most probable price that 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:

(a) *both the buyer and seller are typically motivated;*
(b) *both parties are well informed or well advised, and acting in what they consider their best interests;*
(c) *a reasonable time is allowed for exposure in the open market;*
(d) *payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and*
(e) *the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale*.[1]

Fee Simple Estate is 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.[2]

1 Rules and Regulations, Federal Register, Vol. 55, #165, p. 34696

2 The Dictionary of Real Estate Appraisal, Sixth Edition, 2015, the Appraisal Institute, p 90.

Leased Fee Estate is an ownership interest held by the lessor, which includes the right to receive the contract rent specified in the lease plus the reversionary right when the lease expires.[3]

Leasehold Estate is the right held by the lessee (tenant) to use and occupy real estate for a stated term and under the conditions specified in the lease.[4]

As Is Market Value is the estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date.[5]

Extraordinary Assumption is an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser's opinions or conclusions. Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property such as market conditions or trends; or about the integrity of data used in the analysis.[6]

Hypothetical Condition is a condition that is presumed to be true when it is known to be false. Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in the analysis.[7]

Highest and Best Use is defined as "the reasonably probable use of property that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financially feasible, and maximally productive".[8]

Marketing Time is 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 the appraisal. Marketing period differs from **exposure time**, which is always presumed to precede the effective date of an appraisal.[9]

Based on the market conditions, market data and the subject's attributes discussed in this appraisal report, a marketing time not to exceed one year from this report's valuation date is considered reasonable. Given market conditions evident prior to the report's valuation date, the subject's exposure period is estimated to be similar to the property's marketing period. These time estimates presume that the subject property is aggressively marketed at the appraised value through normal marketing channels appropriate for the property type.

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3 Ibid., p. 128

4 Ibid., p. 128

5 Ibid., p. 13

6 Ibid., p. 73

7 Ibid., p. 113

8 Ibid., p. 109

9 Ibid., p. 140

ASSUMPTIONS AND LIMITING CONDITIONS

1. The report and all matters contained within are prepared on behalf of the addressee only. No responsibility is assumed for its possession, use or reliance on either factual data or conclusions by anyone other than the addressee. It is intended for use only for the purpose stated herein, and only in its entirety.

2. No opinion as to title is rendered. The estimated value and/or rental rate is based on the assumption that the property is free of liens such as mortgages, deeds of trust, and judgments, and is not burdened by any other encumbrances including easement restrictions, special assessments, bonds, leases or other similar matters, except those specifically noted in the report.

3. The sketches and maps in the report are prepared to aid the reader in visualizing the property, and are based on field investigations conducted for this assignment. Dimensions and descriptions are based on public records, the property inspection, and information furnished by others, and are not meant to be used as references in matters of survey. **Please read the Hypothetical Conditions & Extraordinary Assumptions discussion regarding the attributes of the "Typical Lot" being used to estimate the annual ground rental rate.**

4. Information supplied by others and considered in the valuation is believed to be reliable, but no further responsibility is assumed for its accuracy.

5. No responsibility is assumed for matters which are legal in nature, including the validity or accuracy of the property's legal description.

6. The value of oil, gas and mineral rights, if any, was not considered in the value estimated in this appraisal assignment.

7. The appraisal report is prepared in accordance with USPAP Standards Rule 2-2 (a). Retained in the appraiser's bulk file are interview notes, maps and illustrations not included in the appraisal report, as well as third-party reports, area data and duplicative property, market and cost data that may or may not have been used for the development of the value conclusion.

8. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The descriptions and resulting comments presented in this report are the results of routine observations made during the appraisal process. The appraiser is not qualified to make any type of environmental judgment regarding the subject property. The value(s) estimated in this report are predicated on the assumption that there are no such materials in, on, or near the property that would cause a loss in value.

9. The estimates contained in this report are the opinions of the appraiser, based upon his independent interpretation of the data provided to or accumulated by him, and are not intended in any way to constitute a guarantee of value.

10. No encroachment of real property improvements is assumed to exist.

11. The appraiser disclaims responsibility for the ability or inability of the present owner, or any future purchaser or lessee, to obtain the permits, licenses, environmental impact studies, or other approvals necessary for the successful operation of the property for its highest and best use, or to the use contemplated by any owner, purchaser or lessee. The appraiser disclaims responsibility for, and renders no opinion on, conformity to specific governmental requirements, such as fire, building and safety, earthquake or occupancy codes, which conformity cannot be assumed without provision of specific professional or governmental inspection.

12. Those who use this report are cautioned that any forecasts shown herein are intended to illustrate the attitudes and projections of those persons and entities comprising the real estate market at the date of valuation. Such attitudes and projections change from time to time consistent with changes in the real estate market, supply and demand, investor attitudes, and general economic conditions. However, the projections shown are thought to approximate investor attitudes and current trends and conditions at the date of valuation. Inasmuch, however, as the projections are based upon assumptions and estimates of future events, no opinion is offered or expressed on the achievability of the projections and estimates.

13. Testimony or participation in any litigation or arbitration by reason of this appraisal shall not be required unless arrangements have previously been made.

14. The Americans with Disabilities Act (ADA) became effective February 26, 1992. The appraiser has not made a specific survey or analysis of the subject property to determine whether or not the physical aspects of the improvements (if any) meet the ADA accessibility guidelines.

15. This appraisal assumes competent management and/or ownership of the subject property.

HYPOTHETICAL CONDITIONS AND EXTRAORDINARY ASSUMPTIONS

At the client's direction, the following hypothetical condition (as defined by USPAP) is employed. No extraordinary assumptions are utilized for this appraisal assignment.

This appraisal assignment does not estimate a ground rental rate for a particular parcel of property within the Salem Airport. Rather, the ground rental rate estimate applies to a "typical lot" within the airport that has specified land attributes and entitlements. For the purpose of this assignment, the assumed typical lot has available municipal utilities, a parcel size between 15,000 SF and 1 acre (43,560 SF), a utilitarian shape, aircraft taxiway access, available vehicle access (either gated or unrestricted from public roadway), and the underlying land is zoned I-P. The preceding lot attributes are recognized as a hypothetical condition for this assignment.

APPRAISER'S CERTIFICATION

I do hereby certify that, except as otherwise noted in this appraisal report:

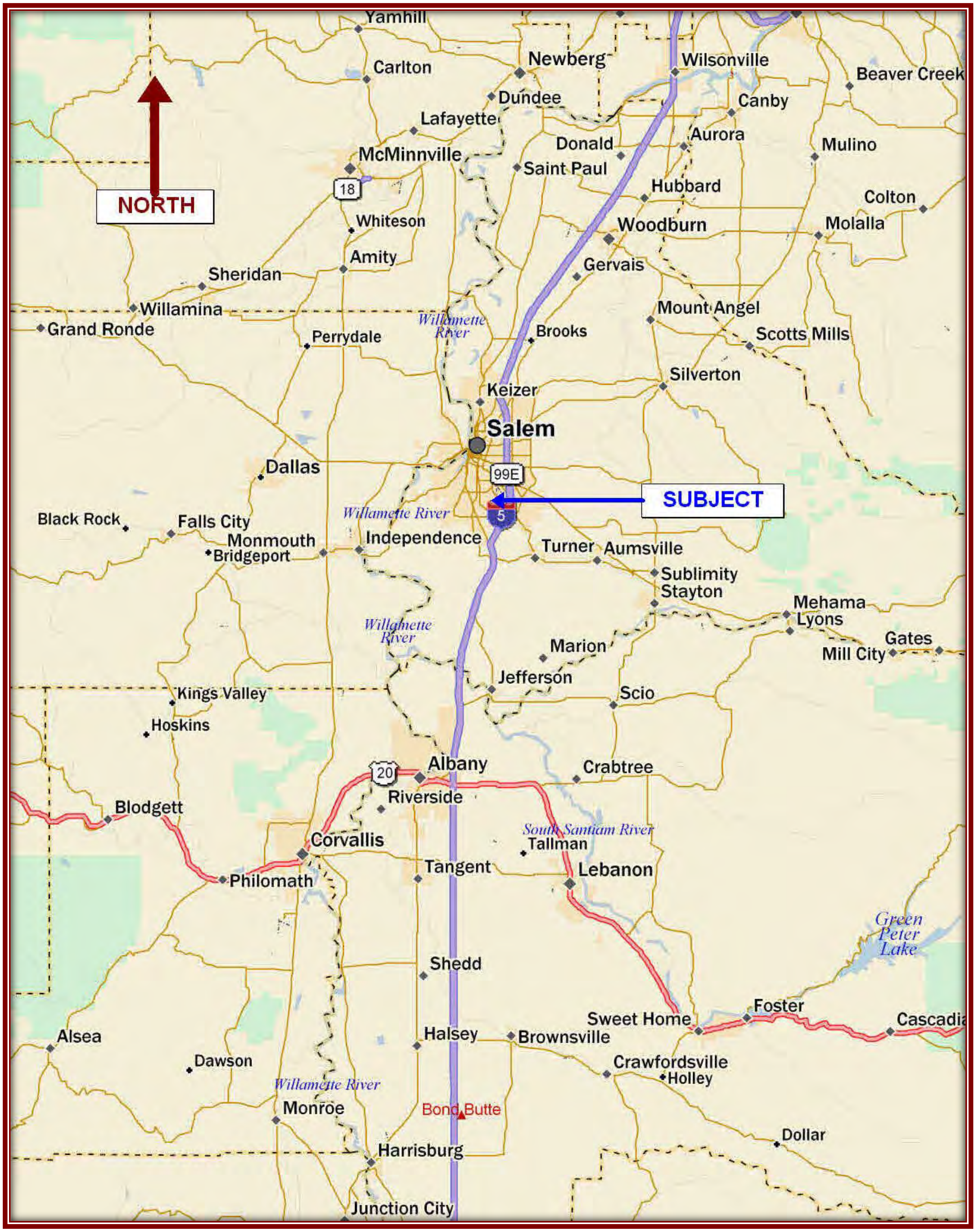
1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest with respect to the parties involved.
4. I have no bias with respect to the property(s) that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results. Future employment is not dependent upon reporting a specified value(s). Neither employment nor compensation are dependent upon the approval of a loan application.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value(s) 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.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Appraisal Institute's Code of Professional Ethics and the Standards of Professional Practice; and the Appraisal Foundation's Uniform Standards of Professional Appraisal Practice ("USPAP").
8. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
9. As of the date of this report, I have completed the continuing education program for Designated Members of the Appraisal Institute.
10. I made a personal inspection of the property(s) that is the subject(s) of this report as well as the market data utilized in the analysis.
11. No one other than the undersigned provided assistance in preparing this appraisal report.
12. I do not authorize the out-of-context quoting from or partial reprinting of this appraisal report. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of media for public communication without prior written consent of William E. Adams, MAI.
13. I have acquired through study and practice the necessary knowledge and experience to complete this assignment competently.
14. I have not performed a prior appraisal involving the subject property(s) during the past three years.

William E. Adams

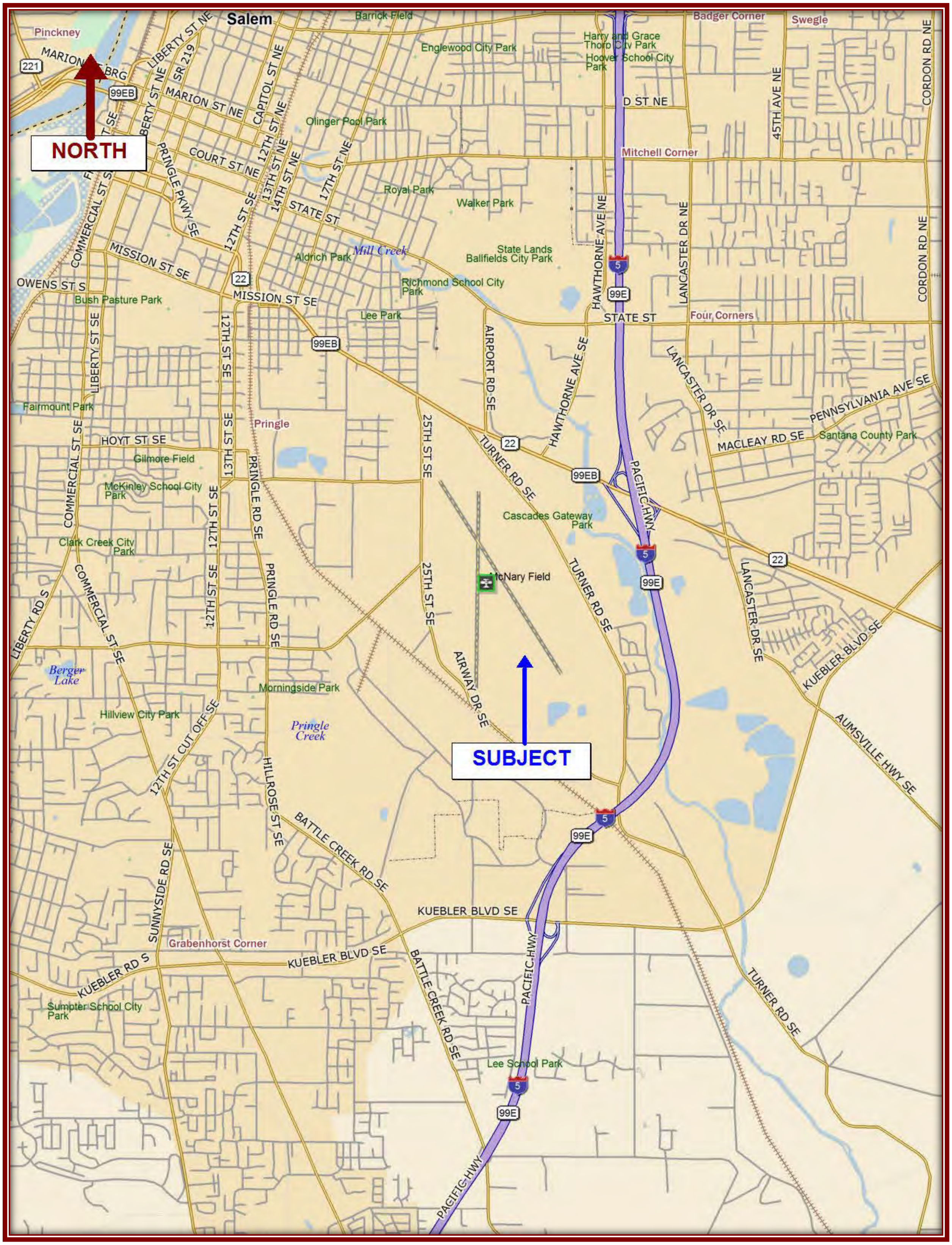
William E. Adams, MAI

Oregon General Appraisal Certificate C00495

Expires 11-30-2020


NORTH
SUBJECT
Yamhill
Carlton
Newberg
Wilsonville
Beaver Creek
Dundee
Canby
Lafayette
Aurora
Donald
Mulino
McMinnville
Saint Paul
Hubbard
Colton
Whiteson
Woodburn
Molalla
Amity
Gervais
Sheridan
Willamina
Grand Ronde
Mount Angel
Perrydale
Willamette River
Brooks
Scotts Mills
Silverton
Keizer
Salem
99E
Dallas
Black Rock
Falls City
Willamette River
Monmouth
Bridgeport
Independence
Turner
Aumsville
Sublimity
Stayton
Mehama
Lyons
Willamette River
Marion
Gates
Mill City
Jefferson
Scio
Kings Valley
Hoskins
Albany
Crabtree
Riverside
Blodgett
South Santiam River
Corvallis
Tallman
Tangent
Philomath
Lebanon
Green Peter Lake
Shedd
Foster
Sweet Home
Cascadia
Alsea
Halsey
Brownsville
Crawfordsville
Holley
Dawson
Willamette River
Monroe
Bond Butte
Dollar
Harrisburg
Junction City

AREA MAP



LOCATION MAP

AREA DESCRIPTION

The City of Salem is located in the mid-Willamette Valley along the Interstate 5 corridor in Western Oregon. Portland is situated 50 miles to the north, the Pacific Ocean is approximately 50 miles west, and the Cascade Mountains are roughly 50 miles east. Salem is the capitol city of Oregon and the county seat of Marion County. Keizer is located adjacent to the northerly Salem city limits (east of the Willamette River). Salem and Keizer are considered one metropolitan area and share a common urban growth boundary.

Salem is Oregon's third most populous city behind Portland and Eugene. According to the Portland State University's Population Research Center, the cities of Salem and Keizer had year-2019 populations (as of July 1) of 167,220 and 38,580 within their corporate limits, respectively. During this past year, Salem experienced a growth rate of 1.2 percent, which is only slightly higher than the previous year. Keizer witnessed a growth rate of 0.2 percent, which is down from prior years but reasonable given the lack of available land for new construction. The Salem Metropolitan Statistical Area (MSA), which is comprised of both Marion and Polk Counties, totals 430,700 residents for 2019, up 1.1 percent from 2018. This rate is slightly less than the 1.3 to 1.6 percent growth rates evident annually during the past few years.

Salem continues to annex land for additional development; however, Keizer lacks the ability to annex land until Salem's land inventory declines as both cities share a similar urban growth boundary. New home construction is evident in both communities. While activity levels are still significantly below pre-recession levels, Salem has witnessed a resurgence in new home construction during the past few years. Permit activity for new single family homes were 270 and 272 in 2014 and 2015 respectively, down slightly from 283 permit issuances for 2013. 2016 and 2017 showed continued growth in new home construction with 302 permits issued for 2016 and 317 issued for 2017. For 2018, the 484 issued permits surpass annual permit activity since 2007. For 2019, 426 permits were issued. 2019 activity reveals a slight decline from 2018, but still greater than the previous 10-year annual figures.

The Salem-Keizer economy has been primarily supported by employment in government, food processing, and wood products. The leading employment categories are local, state and federal government; food processing; wood products; metal fabrication and printing. Being the State's capitol city, a large number of Salem residents are employed in state government. This government employment results in a lower than normal unemployment rate relative of other Oregon communities. Agriculture and agriculturally-related businesses provide the second largest source of economic support for the area. The Willamette Valley is highly productive and raises over 100 different agricultural commodities for market. Marion County typically leads the State in total agricultural production.

On May 16, 2000, the Salem electorate passed a charter amendment requiring voter approval for all annexation requests. Since its passage, the Salem electorate has approved essentially all annexation requests. Keizer did not require voter approval for annexations. In 2015, the Oregon Legislature approved legislation disallowing voter approval for annexations. Currently, the City of Corvallis is challenging this legislation in court. Until a change in the law occurs, the City of Salem can no longer require voter approval for annexation requests; however, requests must follow city process.

The inventory of available relatively-level residential land within Salem was limited in the early 2000s. As a result, new projects were developed in the south and west Salem hills that historically were too costly to develop. With the increases in home prices in the early to mid-2000s, the cost of developing hillside land became more feasible, particularly with the views these hillside locations enjoy. The Salem electorate approved annexations encompassing several hundred acres throughout the community. Currently, this increased residential land inventory is ample for the foreseeable future.

The recession resulted in a significant softening of demand for residential subdivision land and the value/price of subdivision land declined dramatically compared to pre-recession levels. Prior to the recession, land outside the city limits was in demand as urban transition land. The buyers of this land anticipated the inventory of developable subdivision land within the city limits to decline to the point where the urban transition land could be approved for annexation and subdivision development. However, these circumstances did not occur due to the recession.

In 2018 and 2019, demand for residential land increased, with a higher volume of land sales evident than in prior years. However, price levels have not shown significant increase despite the increase in demand. Brokers indicate that they have multiple developers and builders interested in purchasing subdivision land, but are having difficulty finding suitable land meeting their criteria. Although there is a significant inventory of residential zoned land in the city limits, many parcels are either not listed for sale or are under options/contracts. In addition, some properties pose development issues due to terrain. Overall, numerous subdivisions are under construction or in the planning approval process and some real estate professionals are citing concern of too many lots/homes coming on the market in the next few years.

Housing product is being developed in Keizer and Salem to accommodate all income levels. As a result of the recession, the local housing market witnessed significant decline. However, the volume of sales in recent years reveals improvement in market conditions over previous years. Available residential inventory is declining and price appreciation is evident for both existing and new homes. The local multiple listing service indicates that the average home price increased 6.3 percent and 8.5 percent for Salem & Keizer respectively between 2018 and 2019. Within various Salem neighborhoods, price growth was between a relatively wide range of 1.03 and 12.90 percent.

Housing opportunities in the Salem's downtown area have also improved, with over 10 apartment or condominium projects being proposed/developed during the past five to seven years. Two new projects are in site development downtown, with the developers each anticipating a high capture rate and quick absorption.

In total, these downtown projects represent in excess of 350 new residential units being placed in the downtown area. Certain projects involve upper-floor conversions while others involve new construction. Sales and leasing activity are expected to be a catalyst for other residential projects in the downtown area, with absorption during the past year exceeding previous years.

The most notable downtown project is the former Boise Cascade property located adjacent to Salem's Riverfront Park. This property was purchased by a local developer who intended to develop a multi-phase mixed-use project anticipated to contain residential and commercial uses. The developer expected the project to take between 5 and 10 years to complete.

However, in September 2013, the developer decided against pursuing the initial development plan and placed the project on hold. In January 2014, the developer unveiled a revised multi-phase plan which included conveying land to the City for inclusion into Riverfront Park and developing the balance of the property with apartments, a medical rehabilitation facility, an office building, and open space in proximity to Pringle Creek & the Willamette Slough. Construction of the apartments is complete in the south portion of the project as well as an office building in the north portion. Also, a buyer intends to develop a senior care facility in the north portion of the project.

Apartment occupancies have been strong over the past five years. Historically, apartment vacancy has hovered between 4 and 6 percent, with the variance dependent upon pre- and post-1990s facilities. Currently, apartment vacancy is less than 4 percent for all segments. While rental rates increased between 2008 and 2009, a stabilization of rates occurred during 2009 and 2010. While stabilization is evident in the current market, some areas are witnessing rent growth. New apartment construction declined in the mid-2000s due to the lack of land suitable for new apartment construction as well as higher vacancy attributed to low mortgage rates that created opportunities for many apartment tenants to purchase homes. During the past few years, new apartment construction increased with 2016 witnessing 466 new units permitted and 2017 witnessing approvals for 633 new units. The 2017 unit count is the largest evident for the past decade. For 2018, permits for 314 units were issued while 2019 witnessed 570 new units permitted. There are also some relatively large apartment developments in the planning stages that have not yet pulled building permits. This increase in apartment construction during the past few years is attributed to the increased land inventory created from voter-approved annexations and the demolition of under-utilized property zoned for multi-family residential use. It is also noted that new apartment and attached housing projects are currently being constructed throughout the Salem market area and to a lesser degree, the Keizer market area. The quality of the projects varies, with rental rates catering to various income levels.

With regard to the commercial sector, new retail commercial activity is evident throughout Salem with Lancaster Drive, Mission Street, and South Commercial Street witnessing new commercial construction. With the expanding population base and the anticipated increase in demand for goods & services by the growing population during the mid-2000s, developers responded by constructing a significant amount of new retail space. Additional neighborhood retail centers were constructed/planned for the south Salem market along Commercial Street and Liberty Road. These centers enjoy good proximity to newly-developed residential neighborhoods although pre-lease activity took longer than expected.

During and immediately following the recession, demand for many commercial properties throughout Salem dropped, as businesses actually witnessed a decline in demand for their goods & services. These circumstances were attributed to people being more cautious about spending in the recession. In recent years however, demand for commercial properties has significantly improved, spurring an increase in new commercial construction.

Permit activity for new commercial construction rose from 18 to 49 permits annually between 2013 and 2016, to 120 permits for 2017. For 2018, 112 permits were issued and in 2019, 91 permits were issued.

Retail vacancy is less than 10 percent, with different surveys portraying significantly different vacancy rates (4.6% vs. 9.6%). Retail vacancy began to increase in the second half of 2008 and early 2009, with continued increases evident citywide. In 2014 through 2016, downtown Salem experienced higher than average demand, which resulted with much-needed absorption of excess available space. Currently, the downtown area is witnessing retail vacancy around 8 percent. This is significantly lower than the 20 percent vacancy evident 5 years ago. East Salem as well as the North Salem/Keizer market areas are witnessing retail vacancy exceeding 10 percent, while West and South Salem are experiencing vacancy of less than 5 percent. The South Salem submarket is recovering from slow absorption of newly-constructed space as well as the absorption of vacant anchor units. The significant development activity along the Commercial Street commercial corridor resulted in a large inventory of retail space during the past few years. Improved conditions have absorbed much of this space. West Salem continues to witness the lowest retail vacancy citywide, due primarily to the low amount of retail space in relation to the large supporting residential base in West Salem.

Commercial lease rates reversed their downward trend evident during the recession with rental rates rising in recent years. Previously, rental rates declined in order to attract new tenants and retain existing tenants. Tenant pressure for tenant improvement allowances and rent concessions were also evident. These pressures have subsequently diminished. During the past year, new commercial construction is evident throughout the community. Forecasts for the commercial sector suggest continued improvement of market conditions in the near term.

The Keizer Station retail complex along Interstate 5 at Chemawa Road continues to witness new construction and strong demand. A number of new commercial buildings for national commercial tenancies have been constructed during the past three years, with more stores currently under construction. A motel, a Keizer Permanente Dental Clinic, and an In-n-Out Burger fast-food restaurant recently completed construction. Numerous national retailers have located to Keizer Station and either closed their existing stores in Salem or determined that the local market is strong enough to support two stores.

The high demand witnessed for Keizer Station has adversely impacted market conditions in north and northeast Salem as well as Keizer's River Road commercial corridor. These other retail areas are witnessing higher vacancy and lower customer patronage.

In the early to mid-2000s, Salem's inventory of office facilities grew, resulting in a significant increase in vacancy. During the recession, market conditions for offices continued to decline and limited new office construction occurred. During the past year, office vacancy declined. Market activity is occurring as many existing businesses are relocating to different office space within the community. Furthermore, the market continues to attract new office users to the area.

It is noted by local brokers that a few large-space office users are considering locating to the Salem/Keizer area and are evaluating the inventory of available space versus the possibility of constructing new space to meet their specific needs. Aside from the private market, State government has become more active in this market sector, with state-agency leasing activity increasing in recent years. Despite the aforementioned leasing activity, minimal new office development occurred during the past few years as developers felt that the inventory of available office space didn't justify the cost or risk of building new offices.

While Salem offers a large inventory of vacant commercially-zoned land, few parcels are available along the main commercial corridors. With limited inventory along South Commercial Street, Lancaster Drive, Mission Street and the Central Business District, an increasing amount of new construction has involved demolishing older residential and commercial structures. Land values in these locations have reached a level that justifies demolishing existing structures with remaining physical lives in order to better utilize the underlying land. Additionally, an increase in commercial land marketing is evident for parcels that will extend a commercial corridor or are adjacent to an established commercial corridor. This trend is expected to continue. Despite the limited inventory of relatively-small commercial parcels, the Salem area maintains a plentiful supply of commercial acreage parcels. Most of the available inventory have secondary locations or will extend an existing commercial thoroughfare. It is noted that the marketing periods of some of this inventory are becoming excessive and certain parcels have witnessed price reductions to spur interest.

Industrial real estate construction and leasing activity were tempered due to the recession. The majority of newly-constructed projects were for owner-occupancy rather than for a leased investment. Low interest rates allowed some tenants to either purchase or build facilities. According to multiple surveys, industrial vacancy dropped below 4 percent in 2015 and has subsequently remained below this rate through 2019. This is a dramatic improvement from vacancy rates near and above 10 percent a few years prior. The industrial market segment witnessed strong demand and absorption of space during the past two years, with rental rates showing some upward movement.

While new industrial construction was tempered a few years ago due to relatively soft conditions, the recent increase in demand and decline of existing industrial inventory will likely spur new industrial construction in the near future. It is noted that the existing inventory of industrial facilities varies and are appropriate for different industrial applications. The community continues to witness demand by national users; however, the existing inventory of large buildings in this market area has not met the requirements of some of these users. During the past five years, some national users built new facilities to accommodate their specific needs. These include the new distribution facilities for Amazon (1,000,000 SF), Home Depot (465,000 SF), and Fed Ex (49,800 SF) in the Mill Creek Industrial Park, the 240,000 SF Norpac/Henningsen cold storage facility along Madrona Avenue just south of the airport, and the 54,000 SF Garmin facility expansion along Turner Road north of the airport.

The inventory of large industrial-zoned parcels has improved over the past decade, with serviced industrial acreage now available along Blossom Drive, 14th Street, and extensions to the Fairview Industrial Park. Development activity has occurred in all three areas. An additional supply of industrial land has come on-line in the Mill Creek Industrial Park. This project is situated on 500 acres of State-owned land near the Corrections facility along Highway 22. This industrial complex includes both small and large industrial-zoned parcels as well as limited supporting commercial sites. As previously stated, FedEx, Home Depot, and Amazon built distribution facilities in this park. Henningsen Cold Storage is building a $27 million, 166,000 SF cold storage facility in this park, with a recent announcement of an expansion planned in the near future. According to the City, interest is reportedly strong by a number of other industrial users. The intention of the Mill Creek Industrial Park is to develop industrial uses providing significant employment opportunities as well as various warehousing and distribution uses that tend to require lower employee loads.

The City is also marketing land in their Salem Renewable Energy and Technology Center located along Gaffin Road within ½ mile north of the Mill Creek Industrial Park. This 80-acre center offers both small and large industrial sites. The City initially had a preferred profile for users in this park, with Sanyo Solar of Oregon being the sole occupant. The focus of this center was to attract companies involved in renewable energy research, manufacturing, and related services. After extensive marketing, this Center failed to attract much interest (aside from Sanyo). In 2018, Sanyo closed its facility. The buyer of the Sanyo facility recently announced plans for conversion to an Amazon Delivery Station for local delivery services.

The table and chart on the following page depict building permit activity for new construction in the Salem area since 2006. Pre-recession building permit activity is evident for 2006 and 2007, with construction impacts from the recession evident in subsequent years. As previously stated, the construction activity for multi-family units remained relatively strong with 2017 witnessing the highest activity for the past decade.

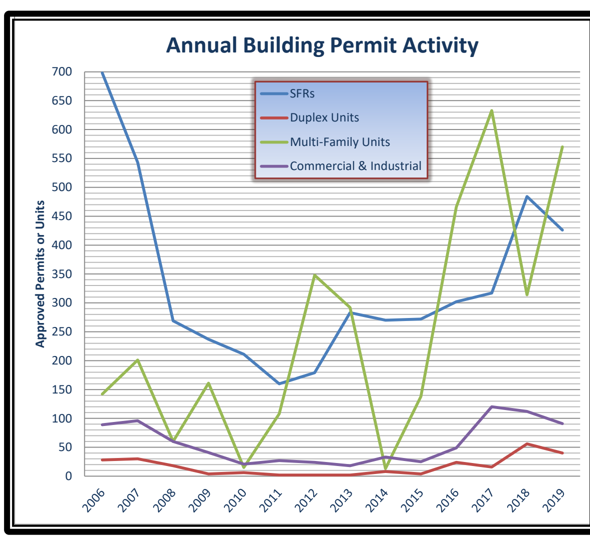
Construction activity for single-family dwellings was significantly curtailed as a result of the recession; however, 2013 through 2019 witnessed a strong rebound with 2018 witnessing the highest activity level since 2007.

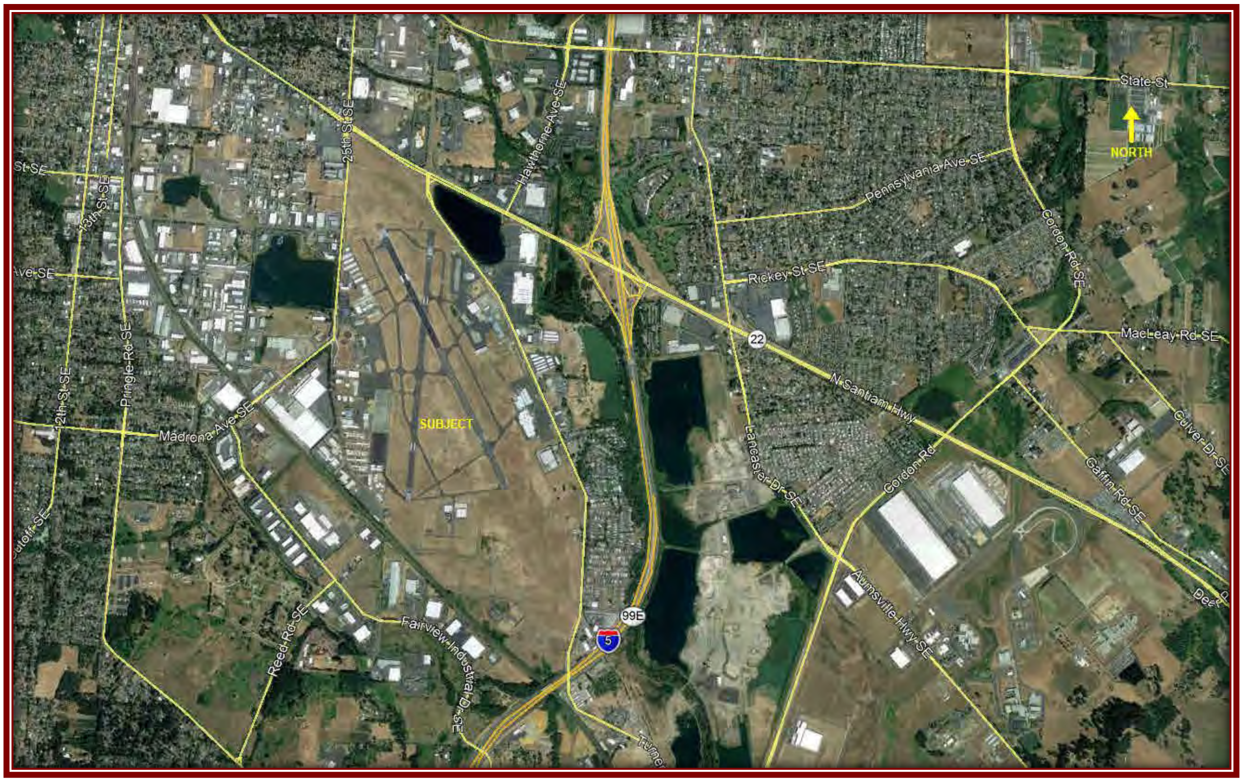
New construction activity for duplexes increased dramatically for 2016 with 24 new duplex units being permitted. This activity is significantly greater than the 4 to 8 new duplex units being permitted annually between 2009 and 2015. During 2016 and 2017, permit activity rose (16 & 24 units), while during the past two years, duplex permit activity has reached pre-recession levels with 40 & 56 permits issued. Commercial and industrial permit activity is not segregated by the City. Permit activity for these commercial & industrial market segments remained relatively stable between 2010 and 2015 (18-33 permits annually), increased significantly in 2016 (49 permits), and again showed a significant increase in 2017 (120 permits). 2017 represents the highest permit activity in over a decade, with 2018 and 2019 activity still strong at 112 and 91 permits respectively.

In summary, the Salem/Keizer area witnessed declines in all market segments during the recession. Since 2016, a resurgence in development activity occurred for all property types. As recently as three years ago, conditions stabilized in many market segments as the market was in a recovery phase from the recession. More recently however, market segments have returned to a growth phase.

Salem Building Permit Activity
Permit Issuances for New Construction Only

Year	SFRs	Duplex Units	Multi-Family Units	Commercial & Industrial
2006	698	28	142	89
2007	543	30	201	96
2008	269	18	60	60
2009	237	4	161	41
2010	211	6	15	21
2011	160	2	108	27
2012	179	2	348	24
2013	283	2	292	18
2014	270	8	13	33
2015	272	4	138	25
2016	302	24	466	49
2017	317	16	633	120
2018	484	56	314	112
2019	426	40	570	91





NEIGHBORHOOD DESCRIPTION

The subject property is located within the boundaries of the Salem Airport. A separate discussion of the airport follows this neighborhood discussion. Briefly, the Salem Airport is located in southeast Salem in a mixed-use neighborhood containing commercial, industrial, mixed-density residential, and municipal uses. Interstate 5 is situated within ½ mile east of the airport with a highway interchange at Mission Street.

Mission Street abuts the airport property to the north and is also identified as State Highway 22. Mission Street in this vicinity is a commercial corridor containing commercial retail, big-box, service, and automobile dealership facilities. Additionally, three former dealership facilities were demolished and the land was purchased for the development of a home improvement store. To date, the store has not yet been developed. Other uses along this corridor include fast-food & sit-down restaurants, service stations, Costco, motels, financial institutions, auto-repair facilities, retail strip centers, and a convenience store. A large retail space formerly occupied by K-Mart remains vacant across the street from the Airport in proximity to the Mission Street and 25th Street intersection.

Turner Road abuts the east side of the Salem Airport and intersects with Mission Street. Turner Road provides access to Lowes, Wal-Mart, multiple fast-food restaurants, numerous light industrial & commercial service uses, a dog kennel, a manufactured home park, an RV sales lot, a large-equipment sales/service facility, and a community park. Three additional uses that are within the airport boundaries but also have vehicular access from Turner Road include the Oregon Air National Guard facility, Garmin, and West Coast Washers. South of the airport along Turner Road are a mini-storage facility, additional light industrial uses, the Humane Society, and a gravel quarry.

25^{th} Street abuts the west side of the airport and provides multiple access points to the airport property. Uses along the west side of the airport include single and multi-tenant buildings having commercial retail & service tenancy, both single & multi-tenant industrial uses including cold storage & food processing facilities, auto service uses, a marijuana dispensary, and offices. A large cold storage facility is located at the southwest corner of 25^{th} Street and Madrona Avenue.

25^{th} Street transitions into Airway Drive along the airport's south boundary. All land on the north side of Airway Drive is within the airport's fence-line. Land on the south side of Airway Drive includes undeveloped land, a material's yard containing piping & construction items, and a recently-constructed waste-processing facility operated by the City.

Land in this neighborhood varies significantly in terms of zoning designations. As for the inventory of vacant land, both commercial and industrial land are present in this neighborhood, but only some of this land inventory is currently being marketed for sale. The neighborhood has undeveloped land available for additional development, but the pace of new development varies by location. It is also noted that certain vacant parcels that have been marketed for sale in this vicinity for several years have impaired access or physical attributes that impact marketability.

The inventory of improved buildings/space currently being marketed for sale or lease is not excessive. As previously stated, commercial growth is evident during the past few years in proximity to the Lowes/Walmart stores as well as along Mission Street and further north along Hawthorne Avenue (which extends north of Mission Street). Industrial growth is evident in the industrial area within ½ mile west of the airport in proximity to McGilchrist Street, along Madrona Avenue and in the Fairview Industrial Park southwest of the airport, and in the Mill Creek Corporate Center within one mile southeast of the airport.

Overall, the subject's neighborhood benefits from a good transportation network. The neighborhood is not in transition to uses other than those allowed under current zoning. The neighborhood contains no adverse businesses or land uses that negatively impact marketability, value, or development potential. The neighborhood is expected to continue witnessing development consistent with existing zoning.

SALEM AIRPORT DISCUSSION

The Salem Municipal Airport is also identified as McNary Field (SLE). This airport is owned and managed by the city of Salem. The airport was originally developed in the early 1900s. During its history, the airport has been used by the federal government and has been serviced by various national and regional commercial airlines. The airport currently measures in excess of 750 acres, with public roadways bounding the entire airport complex. The city of Salem owns a few structures within the airport complex and leases land for private development over the remainder of the airport. The Oregon Army National Guard operates an Army Aviation Support Facility in the northeast portion of the airport. Much of the land on the west side of the airport is developed; although a small amount of land in the southwest hanger area is available for new construction. The balance of the available land inventory is in the south side of the airport along Airway Drive or in the east side of airport along Turner Road. The Airport Overlay Zone limits this land to airport-oriented development.

The Salem Airport is currently identified as a Category 2 airport (Urban General Aviation) by the Oregon Department of Aviation. The Airport was previously a Category 1 airport (Commercial Service), with Delta Connections and Seaport Airlines providing commercial service for a short duration. The Salem Airport maintains its 139 Certification which allows commercial service, despite not currently having a commercial carrier utilizing the airport. This certification allows emergency landings or weather-related landings of commercial aircraft, as well as providing the airport with the proper certification should a commercial carrier begin serving the Salem Airport. A discussion of each airport category as well as a listing of all Oregon airports by category are found in the Addenda of this appraisal report. Briefly, a Category 1 airport is identified as an airport having regularly-scheduled commercial service. Currently, 7 airports in Oregon have this classification, with the nearest Category 1 airports being Portland International Airport (PDX) and Eugene's Mahlon Sweet Field (EUG). A Category 2 airport does not have scheduled commercial service, but typically accommodates corporate and general aviation activity. Currently, there are eleven Category 2 airports within Oregon (including Salem), with a number of such airports in the greater Portland Area as well as the Mid-Willamette Valley.

During the past 15 years, the Salem Airport witnessed service by two commercial carriers. Seaport Airlines commenced service to the Salem Airport in April 2011 with twice-daily weekday flights to Portland and Seattle as well as service to Newport. The service was originally scheduled for a six-month trial, but the airline ceased service after only a few months. Additionally, Delta Airlines provided commercial service to Salem Airport for a one-year trial basis ending in 2008. Historically, other commercial airlines have periodically served the Salem Airport, but the lack of travelers plus the high cost of fares in relation to traveling to Portland for flights were influential in the ceasing of air service. As recently as 2015, interest in the airport was received by EnviJet Airways, a regional startup airline. However, this service did not come to fruition.

Technical aspects of the Salem Airport are as follows. The airport has two asphalt runways measuring 5,145 & 5,811 feet long, the airport has an elevation of 200± feet, and the control tower operates 7 am to 9 pm daily. Runway 16/34 is the smaller, non-precision runway with a 100-foot width and a 30,000-pound single-wheel to 100,000-pound double-tandem weight limit. Runway 13/31 is the larger, precision runway with a 150-foot width and a

100,000-pound single-wheel & 185,000-pound double-tandem weight limit. The airport's landing & navigation systems include an Instrument Landing System (ILS), Visual Approach Slope Indicator (VASI), Precision Approach Path Indicator (PAPI), Medium Intensity Approach Landing System (MALSR), Omnidirectional Approach Landing System (ODALS), and Automated Surface Observation System (ASOS). Certain systems are only available for precision landing on Runway 13/31.

The airport's boundaries are within two separate zoning designations: PS (Public Service) and I-P (Industrial Park). Furthermore, the airport is within the boundaries of two separate overlay zones: Airport Overlay Zone and McNary Field Overlay Zone. Airport operations and land use must abide by requirements outlined in the two respective overlay zones, the appropriate zoning designation (IP or PS), Chapter 9 of the Salem Revised Code – Airport, as well as FAA criteria established for both FAR Part-77 Approach Overlay Zone and Runway Protection Zones (RPZs). These FAA zones are intended to protect air traffic as well as people working in proximity to the airport. The majority of land within the Salem Airport boundaries is zoned PS while two areas in the south and southeast portions of the airport are zoned I-P. Different allowable uses are identified in each of the two zoning designations; however, the overlay zones provide uniformity of allowed uses within the entire airport boundaries. The criteria established in the preceding zones & overlay zones dictate allowable building locations, height, exterior building surfaces, and land-use activity conducive to a safe airport environment. Particular attention is paid to eliminating glare, waterfowl attractions, and height or other view obstructions.

In 2012, the Salem Airport Master Plan was updated with a 20-year plan to improve runway lighting and navigational aids, reconfigure the taxiway system for efficiency and better line-of-site, develop additional hangars, and extend Runway 13/31 to 7,000 feet. Additional plans include the relocation of the aircraft rescue & firefighting station (Station 6) and improve the passenger terminal and supporting parking lot. Funding for these improvements include both state & federal sources.

During the past decade, the Airport completed a $3.3 million project on upgrades to the airport/runway lighting & electrical system. The city was also seeking approvals & funding for the southerly expansion of Runway 13/31. The runway was proposed to be extended 1,200 feet and will allow larger aircraft to land & depart. According to Airport staff, larger aircraft currently used by regional & national carriers can only depart with partial fuel & traveler/cargo loads. This is an issue for sporadically-occurring flights departing to Nevada casinos; whereby the aircraft must depart partially-fueled and must pick-up additional fuel & passengers in other regional airports further south in order to complete their journey. The airport expansion was intended to allow these larger aircraft to service this airport and would also increase the marketability of the Salem Airport to regional & national carriers who may be interested in providing regularly-scheduled commercial service to Salem. However, the Airport expansion project was placed on an indefinite hold as difficulties arose with funding as well as the FAA requirement to clear residential uses in proximity to the extended runway from the new RPZ.

The Salem Airport is supported by the Salem Air Center located in the west airport area near 25th Street. This fixed-base operation (FBO) provides fueling, maintenance services, a pilot's lounge, a transient aircraft ramp area with tie-downs, hanger space for temporary aircraft storage, charter services, and flight training. Near Salem Air Center is a restaurant serving airport customers, employees, as well as area restaurant patrons. Additional airport-related commercial services include VAL and Flite Wing, which are located north of the restaurant and the Salem Air Center.

As previously stated, the City leases land to various private & corporate entities within the airport's boundaries. It is noted that some land on the west side of 25th Street is under airport authority despite the properties not being within the airport's fence-line and having access to taxiways & runways. For ground lease purposes, the City has historically segregated the airport into six areas, with each area recognized as having some attributes not shared by all of the other areas. Such differences include access to airport taxi/run-ways, secured gated access to a site versus unrestricted site access from public roads, levels of utility availability, and land zoning & allowable uses provided by zoning. At the direction of the FAA, the airport changed its rental policy and now charges a similar annual ground lease rate ($/SF) for all new leases, regardless of location within the Airport's boundaries. In May 2013, the City adopted a new Airport Lease Policy. In April 2014, the City revised its Airport Ground Lease Agreement, with all new leases utilizing this new lease. Copies of the airport policy and lease agreement are found in the Addenda of this appraisal report.

It is noted that existing leases will continue through their initial lease term and available renewal terms. With regard to airport ground leasing activity, lease terms & rates have varied throughout the years, with some inconsistencies noted. The new lease policy and lease agreement provide a consistent and fair process for entering into Airport leases and provide a fair market return to the Airport to ensure it is as financial self-sustaining as possible. The ground lease rate for new leases and renewals will provide consistency & uniformity within all areas of the Airport and allow for a much-more efficient means of calculating ground lease rates for new ground leases & lease renewals. It also provides consistency for tenancy in knowing how & when their lease renewals will be determined and what obligations & responsibilities are imposed upon the City and the lessee.

Salem Revised Code (SRC) Chapter 9 – Airport outlines the airport's operations, ground lease & renewal procedures, and private development requirements. According to Chapter 9 and existing leases currently in force at the airport, the annual ground rent can be calculated using the following formula:

Land Area x Land Value x Return on Investment* = Annual Ground Rent

* *The Return on Investment is also identified as the annual rental return rate.*

The new lease agreement cites that the annual ground rent (base rent) is to be established as follows:

Square Footage of the Premises x Rental Rate = Base Rent

With both the existing lease and the new lease, the lease rate is subject to periodic adjustment. Existing leases cite that the adjusted lease renewal rate will be calculated using one of a few alternative methods (CPI adjustment, appraisal, Council action). According to the new lease agreement, the base rent shall be increased by 2.5 percent every July 1, except in those years ending in a 5 or 0, when the rent shall be adjusted to fair market value.

Leases are calculated on a triple net basis with expenses directly paid by the tenant. Such expenses include utilities, insurances, repairs & maintenance, but not property taxes. No property taxes are incurred on the land as the City of Salem is a tax-exempt entity. The lease duration and lease renewal terms are negotiable but are intended to coincide with the economic life or remaining economic life of the structure(s) proposed by the lessee. The City does not intend to offer a minimum lease term less than 10 years. This gives the tenant sufficient time to amortize the initial capital expenditure while preserving the City's future development plans at the Airport. The standard lease terms for a ground lease (not including option or renewal periods) shall be 30 years for Aircraft Hangers and 40 years for Commercial Buildings. The Airport Manager is given the discretion to consider a longer term lease depending upon the lessee's demonstrated need. A reversionary clause indicates that the lessee agrees to remove all lessee-constructed improvements and restore the leased land within 90 days of expiration or termination of the lease. The lessor (City) has the option to take title of lessee-constructed improvements in lieu of their removal. The lease also provides for an Airport User Charge; although City staff indicates that no such charge has been imposed in recent years.

As previously stated, the airport is segregated into six areas, with each area having different features and historically charged a separate annual ground rental rate. An exhibit depicting the various airport areas is found on the following page. Existing rates within these areas varied from $0.25 to $0.34 per SF annually. Currently, the annual ground rental rate for new leases and lease renewals within the airport's boundaries is a consistent $0.34/SF annually. The practice of charging separate ground rental rates for each area is no longer occurring for either new leases or lease renewals.

The airport has witnessed new construction during the past decade including additional hangers in the South Airport Industrial Park (in Area 5). This park is located within the fence-line in the south portion of the airport. Currently there are three corporate hangers in this park, all built since 2008. In the east portion of the airport (in Area 6), Garmin constructed an additional building for their operations during the past seven years. Additionally, multiple general aviation hangers have been constructed in the southwest airport area (Area 1). The Airport Administrator indicates that additional interest in airport sites is evident, with two new general aviation hangers nearing development approval. Currently, available sites are located in the Areas 1 and 5.

Overall, the Salem Airport is witnessing growth in terms of new development and additional serviced land inventory. The Salem Airport continues to serve the local & regional business & general aviation sectors as well as the Air National Guard. The airport is expected to continue witnessing growth in the foreseeable future.

AERIAL EXHIBIT OF AIRPORT AREAS

SUBJECT PHOTOGRAPHS (TAKEN JANUARY 23, 2020)

Area 1 in southwest portion of airport. (A12-337)

Area 2 along north side of Aerial Way. (A12-339)

Area 3 and Fire Department Training Facility. (A12-347)

25th Street access to hangers and north end of Area 3. (A12-348)

North end of Area 4 showing Hertz Car Sales facility. (A12-346)

North end of Area 4 showing Fed Ex facility. (A12-344)

Salem Air Center FBO in south portion of Area 4. (A12-341)

Gated entry to Area 5 and South Airport Industrial Park from Airway Drive at south end of airport. (A12-335)

Garmin facility along Turner Road in Area 6. (A12-332)

West Coast Washers facility along Turner Road in Area 6. (A12-333)

PROPERTY DESCRIPTION

OWNERSHIP CONTACT

Mr. John Paskell
Airport Manager
2990 25th Street SE
Salem, OR 97302
(503) 588-6314

The property being appraised involves leasable land within the boundaries of the Salem Airport. The airport is under the authority of Salem's Urban Development Department. For this appraisal assignment, Mr. Paskell (Airport Manager) provided information regarding the availability of sites, demand for sites, current ground rental rates, and general airport activity during the past few years.

LOCATION & ACCESS

While the Salem Airport contains land along both sides of 25th Street and Airway Drive, this appraisal assignment focuses only on the leasable land serviceable by aircraft and having aircraft access to the taxiways & runways. This assignment does not focus on the airport land located on the west side of 25th Street or the south side of Airway Drive which only provide vehicular site access. The Airport land that is the subject of this appraisal assignment is specifically bounded by 25th Street to the west, Airway Drive to the south, Turner Road to the east, and Mission Street to the north.

While land within all airport area (1 through 6) are being treated equally for the purpose of estimating annual ground rent, it is noted that some subareas have restricted or gated access while other areas have direct access from a public roadway. This latter scenario allows some tenants to operate businesses that allow commercial vehicle traffic/deliveries or customer access without entering the secured airport perimeter.

LEGAL DESCRIPTION

No legal description of the airport property was provided for this appraisal assignment. Briefly, the land within the boundaries of the Airport is within Section 36, Township 7 South, Range 3 West and within Section 1, Township 8 South, Range 3 West of the Willamette Meridian in Marion County, Oregon. The Airport is also commonly described as tax lot 100 of Marion County Assessor's Map 8S-3W-01. It is noted that this tax lot appears on other Assessor's Maps (including 7S-3W-36). The County indicates that this tax lot has a site area of 673.66 acres. It is also noted that hangers owned by tenancy are separately assessed by Marion County and have separate tax accounts.

PROPERTY PHYSICAL DESCRIPTION

In general, the airport property has a relatively level terrain varying in elevation from approximately 195 to 215 feet. The airport has an open interior with no tree cover. Areas adjacent to the runways (within the RPZ) have grass cover and chain-link fencing enclosing the perimeter of the airfield's secure area. While no bodies of water are within the airport's boundaries, various watercourses and ponds within ¼ mile of the airport's perimeter are present and migratory waterfowl are attracted to these bodies of water as well as the grass areas in the RPZ. The City has taken steps to discourage waterfowl intrusion into the airport's perimeter.

With regard to leased sites, parcel sizes vary significantly within the airport's boundaries.

For the purpose of this appraisal assignment and by mutual agreement with the client, the attributes of the typical lot being appraised measures between 15,000 SF and 1 acre (43,560 SF). This size range is noted from the market as requiring no parcel size adjustment. All lots are also assumed to have paved aircraft access to a taxiway and a utilitarian configuration with no unusable land area due to wetlands, watercourses, or other physical impairments. Furthermore, no view or other amenity features are present.

TAX AND ASSESSMENT INFORMATION

The City of Salem is a tax-exempt entity which owns the land within the Salem Airport. The majority of the airport land is contained within one tax lot that has a real market value estimate exceeding $100 million. Specifically, the property is contained within tax lot 100 of Assessor's Map 8S-3W-01 and its tax account number is R31213. The Marion County Assessor's office estimates the supporting building & site improvements owned by the City to total $4.82 million. The County did not calculate Assessed Values or a tax liability due to the owner's tax-exempt status. As this appraisal assignment involves a "typical lot" scenario, no further information on taxes or assessments is warranted.

ZONING

As previously stated, the Salem Airport contains land within two separate zoning designations. The majority of the land within the airport is zoned P-S (Public Service). Land within Areas 5 and 6 is zoned I-P (Industrial Park). The three zoning maps that encompass the Salem Airport are found following the Property Description discussion.

The P-S and I-P zoning designations allow for differing uses, with some common uses and some distinct uses. The City's Comprehensive Plan designation for the majority of the airport (including Area 6) is Community Service – Airport. The Comprehensive Plan designation for land within Area 5 is Industrial.

Briefly, the I-P zone allows an array of light and heavy industrial uses including manufacturing, warehousing, assembly, distribution, flex, wholesale trade, and industrial service uses. Certain commercial uses such as retail trade, offices, financial institutions, motels, and other service uses are also allowed. Additional uses are allowed with conditional use approval including an airport. The I-P zone requires no minimum parcel size or lot dimensions; however, a 20-foot building setback is imposed adjacent to streets. Side & rear yard setbacks are dependent upon building height. The maximum building height in this zone is 45 feet. Open storage is allowed in this zone provided the storage area is enclosed by a site-obscuring fence or other barrier.

The P-S zone is intended to implement the Community Service – Airport designation of the Comprehensive Plan. Allowed uses within this zone (either outright or with a conditional use approval) include retail sales & services, restaurants, offices (with limitations), outside storage uses, medical facilities, educational services, and limited warehousing & manufacturing. The P-S zone has a minimum parcel size of 10,000 SF, a minimum lot width of 50 feet, a minimum lot depth of 80 feet, and a minimum street frontage of 16 feet. Building setback varies by building height.

In addition to the two zoning designations, two City overlay zones and two FAA zones impact development within the airport boundaries. Copies of the zoning & overlay zone descriptions are included in the Addenda of this appraisal report The entire airport is within the McNary Field Overlay Zone and the Airport Overlay Zone. The McNary Field Overlay zone focuses on allowable uses within the airport while the Airport Overlay Zone imposes building height restrictions dependent upon location to the two runways. This latter overlay zone also imposes some building and use restrictions to avoid certain hazards and ensure a safe airport environment. The limitations imposed are considered reasonable and typical for an airport environment.

The McNary Field Overlay Zone (Chapter 629) identifies additional permitted uses that are compatible with the McNary Field Airport Master Plan. This overlay zone allows for transportation by airport uses, hangers, corporate hangers, as well as services to aircraft (upholstery, repairs, etc.).

The Airport Overlay Zone (Chapter 602) establishes standards to promote air navigational safety and prevent hazards and obstructions to air navigation and flight. This overlay zone places more height restrictions on buildings to allow the airport to serve larger aircraft.

The FAA imposes both the FAR Part 77 Approach Overlay Zone and Runway Protection Zone (RPZs) within airports. These two zones are intended to protect air traffic as well as people working within or near an airport. These two zones impose restrictions on building locations, heights, construction materials, and employee loads. Some of these restrictions are already outlined in the City's Chapter 9 and the two overlay zones.

The reader is reminded that this appraisal assignment values a "typical lot" having certain characteristics. With regard to allowable uses, those uses typically allowed in the I-P zone and subject to the limitations imposed by the various overlay zones are assumed.

FLOOD, EARTHQUAKE, & OTHER HAZARDS

According to the Federal Emergency Management Agency (FEMA), the land within the Airport's boundaries is situated within three flood hazard zones: Zone AO, Zone AE, and Zone X (both shaded & un-shaded). As shown on the Flood Zone Map, much of the west and southwest portions of the airport are in Shaded Zone X. This zone depicts an area of relatively minimal flood hazard risk (0.2% annual change flood hazard or 1% annual chance flood with average depth less than 1 foot). The majority of the balance of the airport is within the 100-year flood plain (Zones AO & AE). Development within this flood zone must include a building pad above the base flood elevation. Several pockets throughout the remainder of the airport is within Un-shaded Zone X, depicting an area outside the 500-year flood plain. As shown on the Flood Hazard Exhibit found later in this discussion, four FEMA maps encompass the Airport's boundaries.

Western Oregon is categorized as seismic zone 3. The current probability of the occurrence of a major seismic event has been calculated as moderate. The City indicates that the airport property is not within a landslide hazard zone or impacted by wetlands. Furthermore, the appraiser is unaware of any environmental conditions on, in, or near the airport that would impact marketability, development potential, or value.

UTILITIES

The City of Salem provides municipal water, sanitary sewer, and storm drainage services to the neighborhood surrounding the Salem Airport as well as to certain areas within the Airport. One of the reasons the City initially segregated the airport into specific areas was to recognize that certain areas within the airport didn't have the same utility availability as other areas. A Utilities Aerial Exhibit is found later in this report which shows the location of municipal utility services serving the Salem Airport and surrounding neighborhood. Aside from these services, other utilities serving or available to this property include natural gas by Northwest Natural; electricity by Portland General Electric; and local telephone service by CenturyLink. City staff indicates that utility lines currently serving the Airport or within adjoining roadways are sufficient in size and capacity to serve new development within the Airport's various areas.

It is noted that under the "typical lot" scenario for this appraisal assignment, the typical lot being appraised is assumed to have all available municipal utilities.

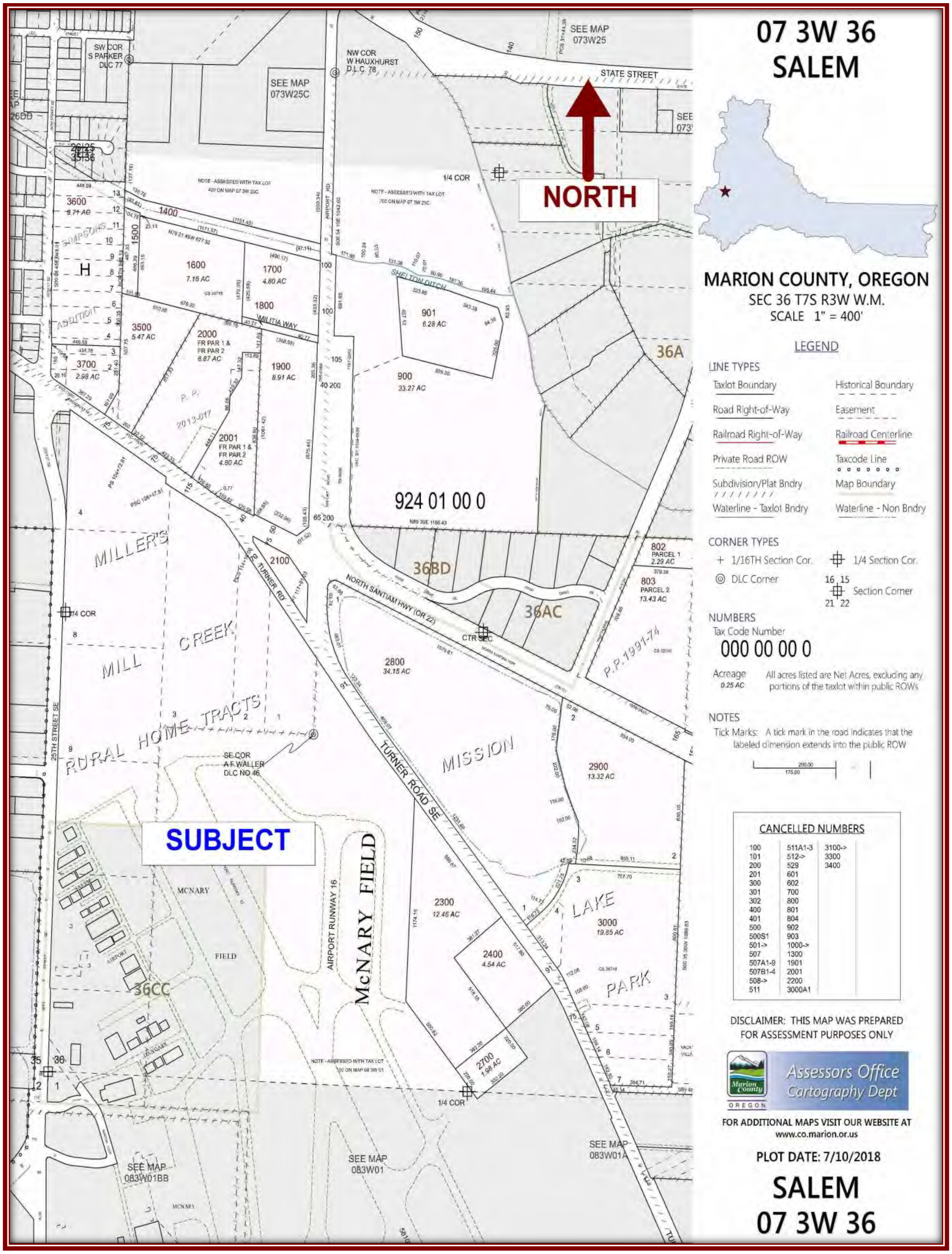
TITLE EASEMENTS AND ENCUMBRANCES

No title report was provided for this appraisal assignment and no specific investigation into title matters was conducted by the appraiser. The client indicates that the typical lot being appraised is assumed to have no adverse easements or encumbrances that negatively impact the land's marketability, value, or development potential. Easements for utilities are assumed to be within the building setbacks and not impair the developable area of the land being appraised.

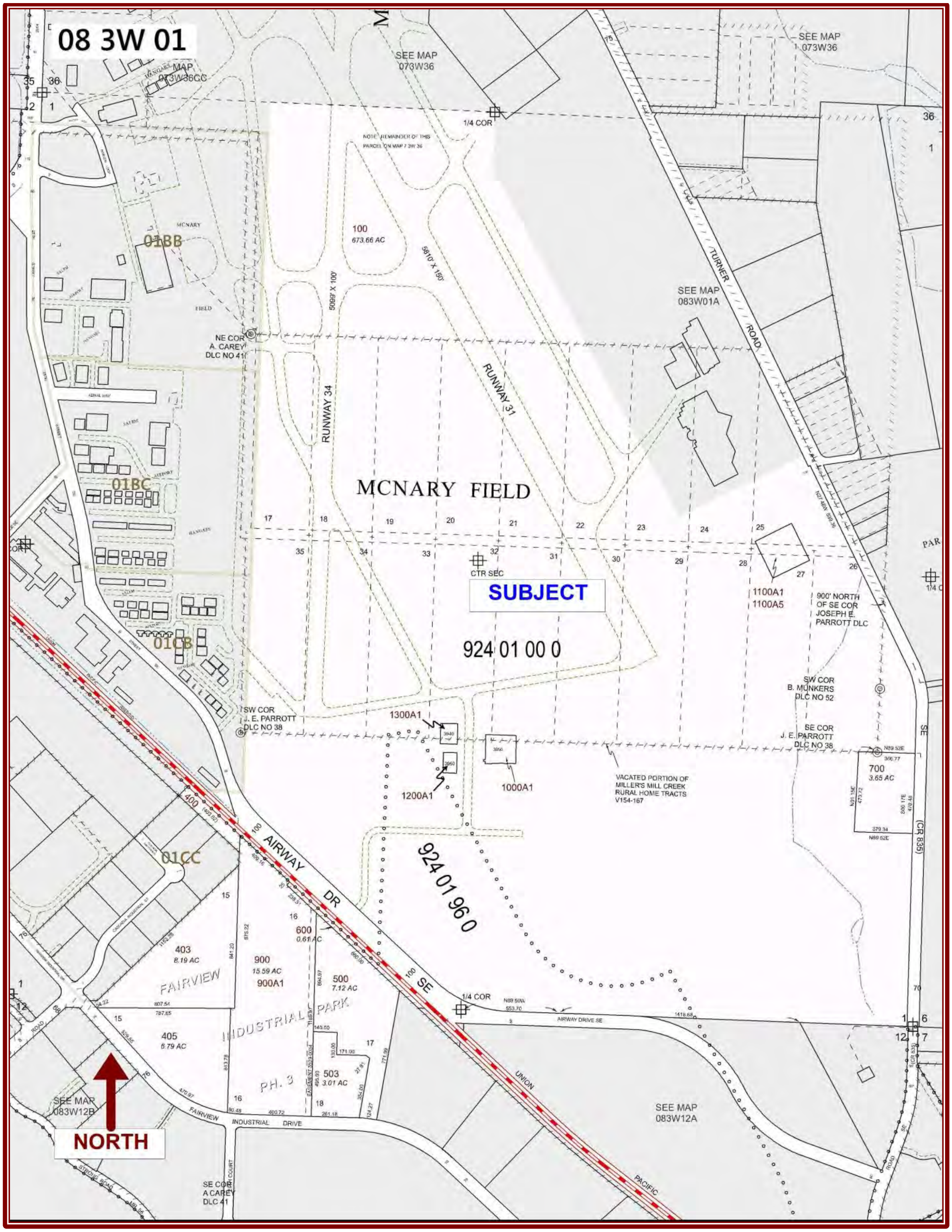
BUILDING & SITE IMPROVEMENTS

The typical lot being appraised is assumed to have available utilities, paved access to the airport taxiways & runways, paved vehicle access to a public roadway, and no recognition of any lessee-constructed site or building improvements within the leased site. The City is responsible for the maintenance of vehicle drives & taxiways as well as utility infrastructure serving the sites, but not within the boundaries of the assumed typical lot.

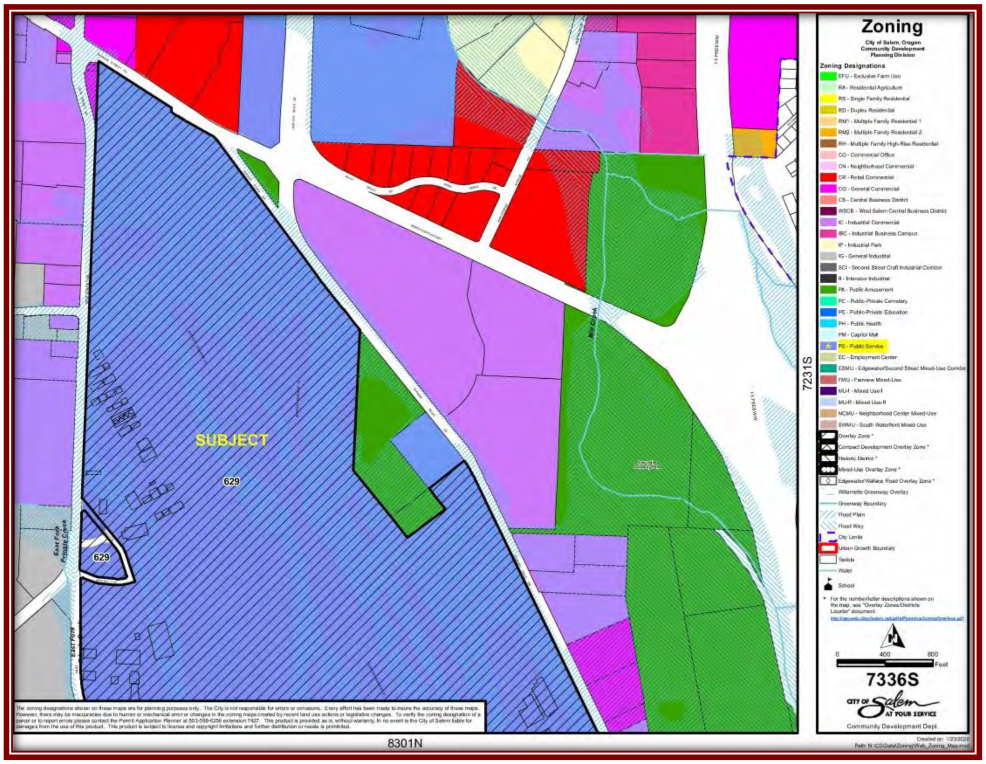
NORTHERLY PLAT MAP



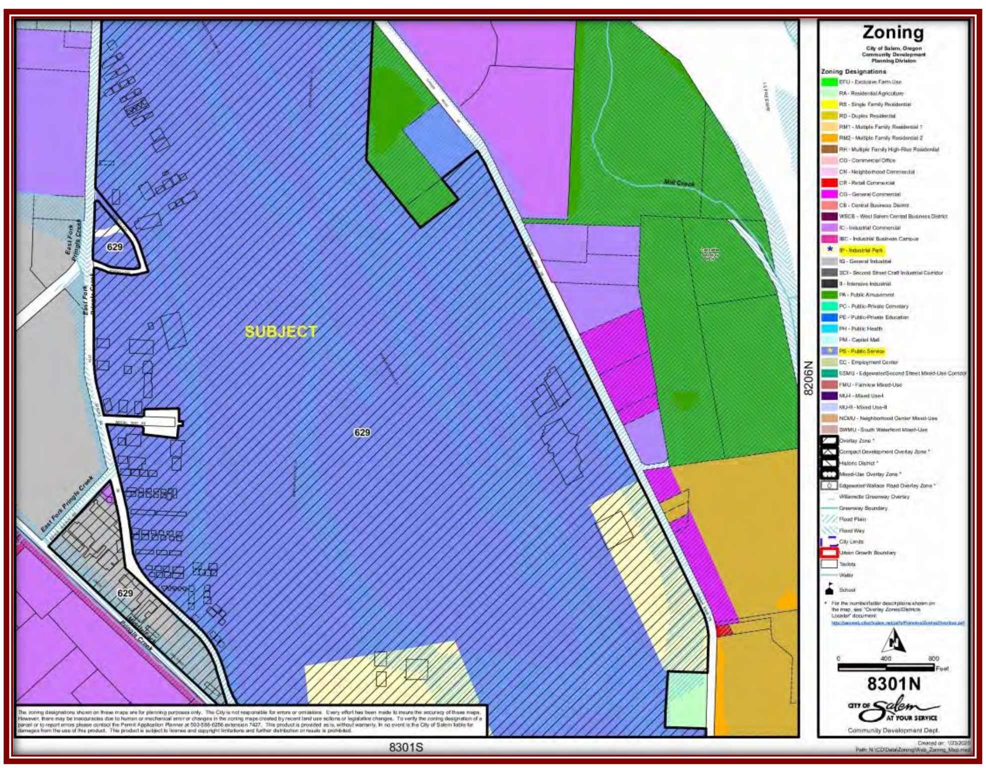
SOUTHERLY PLAT MAP



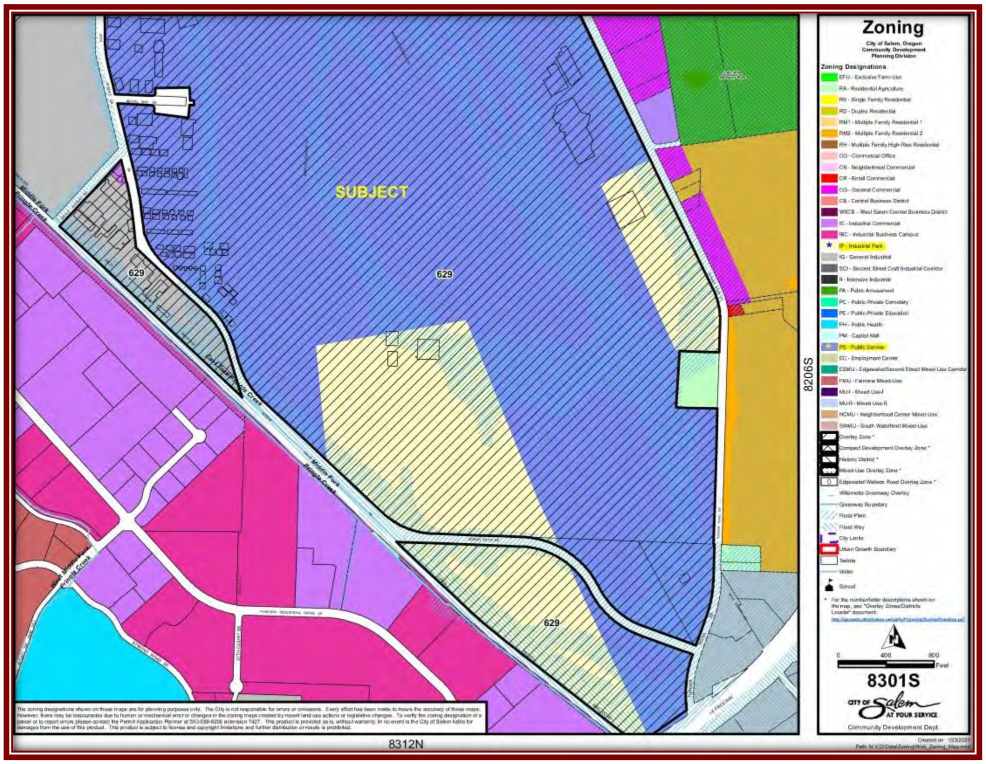
NORTH ZONING MAP



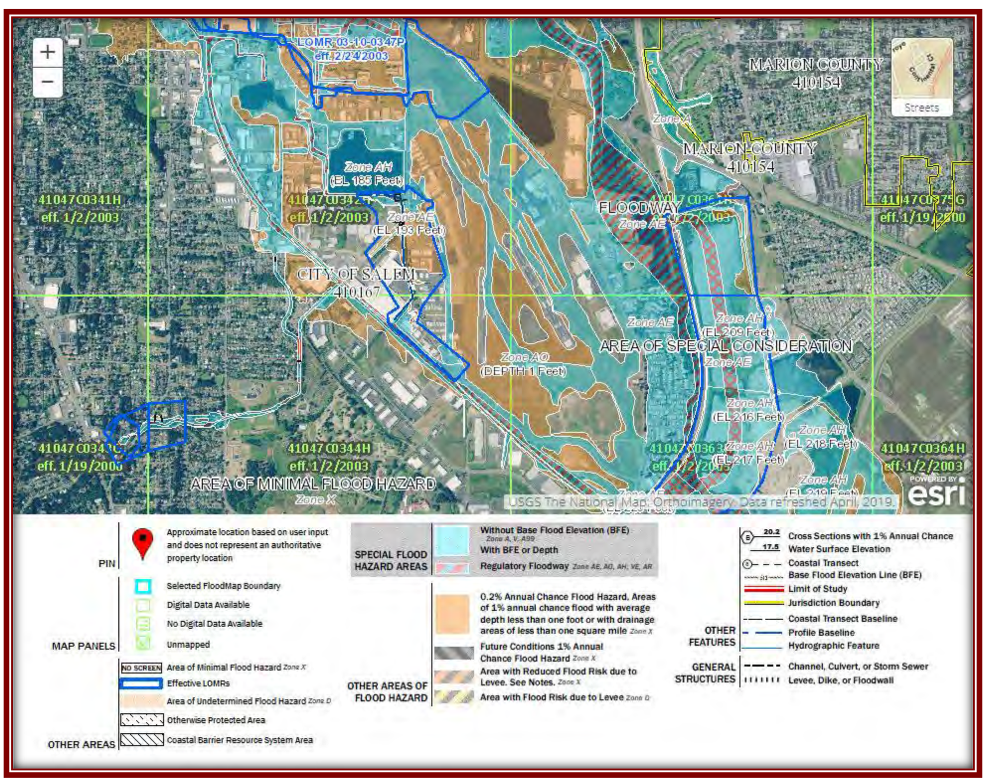
MIDDLE ZONING MAP



SOUTH ZONING MAP



FLOOD HAZARD MAP



AERIAL UTILITIES EXHIBIT

HIGHEST AND BEST USE ANALYSIS

HIGHEST AND BEST USE AS IF VACANT:

The typical lot being appraised at the Salem Airport is zoned I-P (Industrial Park). The City's comprehensive plan designation is therefore Industrial. The I-P zone allows an array of light and heavy industrial uses as well as a limited number of supporting commercial & service uses. In addition to the I-P zone, the land is subject to the requirements of the Airport Overlay Zone, the McNary Field Overlay Zone, and the FAA's FAR Part 77 & Runway Protection Zone (RPZ) criteria. These zones and overlay zones protect both aircraft and personnel within or in proximity to the airport. Requirements are imposed regarding the location of structures, building heights, construction components, and to restrict visual impairments or the hazard of aircraft strikes by waterfowl or obstructions. With regard to this assignment's typical lot, these legal influences do not unduly restrict allowable uses or building characteristics. The maximum building height imposed by zoning is sufficient for numerous structures allowed in the I-P zone. The other zoning & overlay zone restrictions do not further limit building heights. Furthermore, there are no easements, encumbrances, or other restrictions which are considered to impact the valuation of the assumed typical lot. While a portion of the airport land is within a 100-year flood plain, building pads can be constructed at a reasonable elevation (and cost) to remove a structure from the flood plain's base flood elevation. It is noted that a number of hangers and structures are within the 100-year flood plain within the airport's boundaries.

Physically, the subject's typical lot is assumed to have a utilitarian shape, available utilities, paved road & taxiway access, and measures between 15,000 SF and 1 acre (43,560 SF). Furthermore, the typical lot has an open interior with no adverse soil or other physical attributes that limit marketability, value, or development potential. The attributes of the typical lot is better suited to industrial rather than commercial utilization. This is despite the I-P zone allowing certain commercial uses. However, office utilization in conjunction with an allowed industrial use is expected to generate interest. The typical lot being appraised has vehicular access rights as well as aircraft access to taxiways & runways within the airport's boundaries.

During the past five years, the Salem Airport continued to witness interest by prospective tenants for the construction of a hanger or other airport-allowed use. New construction is evident in multiple areas within the airport's boundaries. The land being appraised is suitable for an array of industrial and commercial uses allowed within the I-P zone, but the overlay zones and SRC Chapter 9 specify that such uses developed within the airport's boundaries must be oriented toward airport usage or support airport-related uses. Thus, the pool of potential tenancy is slightly different than the user pool for industrial-zoned land in the greater Salem area. Other airports surveyed for this assignment reveal a wide array of airport-oriented or supporting uses developed during the past decade.

The ground lease rates currently charged in the Salem Airport are within the general parameters of other regional airports with similar attributes. Other airports in the region indicate that occupancy for sites and structures within their respective airports is relatively strong and the airports do not experience an excess supply of vacant structures. As such, new development can occur at most airports on vacant land being leased by the respective municipality or airport authority.

Financing options have improved subsequent to the recession, with a sufficient pool of lenders willing to finance new construction. As such, the pool of potential tenants willing & able to lease an airport site and develop a new structure is not limited to parties with sufficient cash to fund construction without lender assistance.

After reviewing the subject's attributes and current market conditions, the highest and best use of the subject's typical lot within the boundaries of the Salem Airport is for an airport-related industrial use allowed under the I-P zoning designation and the other overlay zones.

HIGHEST AND BEST USE AS IMPROVED:

The reader is reminded that this assignment focuses on the leasable airport land for the purpose of estimating an annual ground rent estimate. The building and site improvements constructed on certain sites within the Airport's leasable area by current or former ground lease tenants are not evaluated as part of this assignment. As such, no highest and best use conclusion as improved is analyzed for this appraisal.

LAND VALUATION

As cited earlier in this appraisal report, the method historically used to establish an annual ground rental rate for leases within the Salem Airport involves the following formula:

Land Area x Land Value x Return on Investment* = Annual Ground Rent

* *The Return on Investment is also identified as the annual rental return rate.*

This methodology is stated in many leases in effect at the airport. The City initiated a new lease agreement within the past five years that is being used for new leases and lease renewals. A copy of this lease agreement is found in the Addenda of this appraisal report. This lease agreement cites that the annual ground rent (base rent) is to be established as follows:

Square Footage of the Premises x Rental Rate = Base Rent

It is noted that the Square Footage of the Premises defined for the new lease agreement is similar to the Land Area defined for the prior lease agreement. Furthermore, the Rental Rate cited in the new lease agreement can be calculated in the same manner as the "Land Value x Return on Investment" methodology employed for the prior lease agreement.

The availability of land transactions within the boundaries of other airports in this region is essentially nil. Typically, land is leased by the airport authority or municipality owning the airport rather than being sold to a third party. This retains the airport authority's control over land within the airports boundary. Lacking land sales within the boundaries of area airports, consideration is given to the allowed industrial use of the subject's land area consistent with existing zoning. Comparables having similar industrial potential within the market area are analyzed in order to derive the land value for the typical lot within the Salem Airport. It is noted that the I-P zone does allow some commercial uses in addition to a wide array of industrial uses; however, access issues for commercial customers under the attributes of the typical lot being appraised suggest industrial rather than commercial utilization of the typical lot. Therefore, the market data assembled for this analysis primarily involves industrial land transactions.

The subject's typical lot measures between 15,000 SF and 1 acre (43,560 SF). A search for land market data was conducted throughout the area. The volume of sales involving small industrial properties suitable for industrial use is relatively low. The majority of sales activity involving small industrial-zoned parcels were for commercial rather than industrial utilization and their resulting prices were more consistent with commercial land than industrial land. The market activity for land best suited to industrial utilization involved parcels primarily sized over 1 acre.

After reviewing the available market activity in this market area, seven comparables are considered suitable for this analysis. These comparables specifically consist of one pending escrow and six sales which occurred between September 2017 and November 2019. These comparables range in size from 0.51 to 10.18 acres, and indicate unit prices between $3.78 and $5.92/SF. The properties have zoning designations allowing industrial use, with some zones allowing both commercial and industrial use. The comparables are located in Salem, Stayton, Silverton, and Hubbard.

The selected comparables are considered the best available data-set for analysis purposes. For this analysis, the appropriate unit of comparison is the price per SF.

The reader is encouraged to review the attributes of the subject's typical lot cited earlier in this appraisal report. In estimating the land value of the subject's typical lot, consideration is given to property rights conveyed, financing, conditions of sale, market conditions (time of sale), locational attributes (environs, frontage, access), terrain, utility availability, parcel size, configuration, zoning, the presence of offsite improvements, the cost to demolish existing improvements, or the contributory value of any improvements with remaining economic life. Due to the lack of data to reliably quantify adjustments, adjustments are made on a qualitative basis in accordance with the market.

No adjustment for property rights is necessary. All seven comparables either conveyed or are currently marketing a similar fee simple estate as the subject's interest being appraised.

With regard to financing, all of the sales involve cash or cash to seller terms. As such, no cash equivalency adjustment is warranted for these transactions. It is reported that the financing terms for the current escrow of Item 7 also involve cash equivalent terms; although, the specific terms cannot be divulged until escrow closes.

Regarding conditions of sale, the transactions are arm's length and do not appear to involve duress. As such, no conditions of sale adjustment is necessary for these comparables.

The sales occurred between September 2017 and November 2019, with the escrow for Item 7 commencing in January 2020. Arraying the market data by date of sale reveals no discernable time trend. The fluctuation in prices over the time span of these comparables is attributed to factors other than time of sale. It is noted that the three sales within the Fairview Industrial Park witness lower prices over time. However, differences in physical attributes are factors influencing price. Overall, there is no time adjustment warranted for the six sales.

With regard to the pending escrow of Item 7, the escrow price cannot be disclosed until escrow closes. As such, the listing price is used for this analysis. The confirming party indicates that the negotiated price is lower than the listing price. For this analysis, a downward adjustment is warranted for the use of the listing price of Item 7.

All of the comparables have available municipal utilities, similar to the subject's typical lot. While the zoning designations vary (IP, IC, and IL), all allow industrial development. The IC zone allows some commercial uses along with industrial uses and is placed in areas where either commercial or industrial utilization are appropriate. Zoning adjustments are made as warranted.

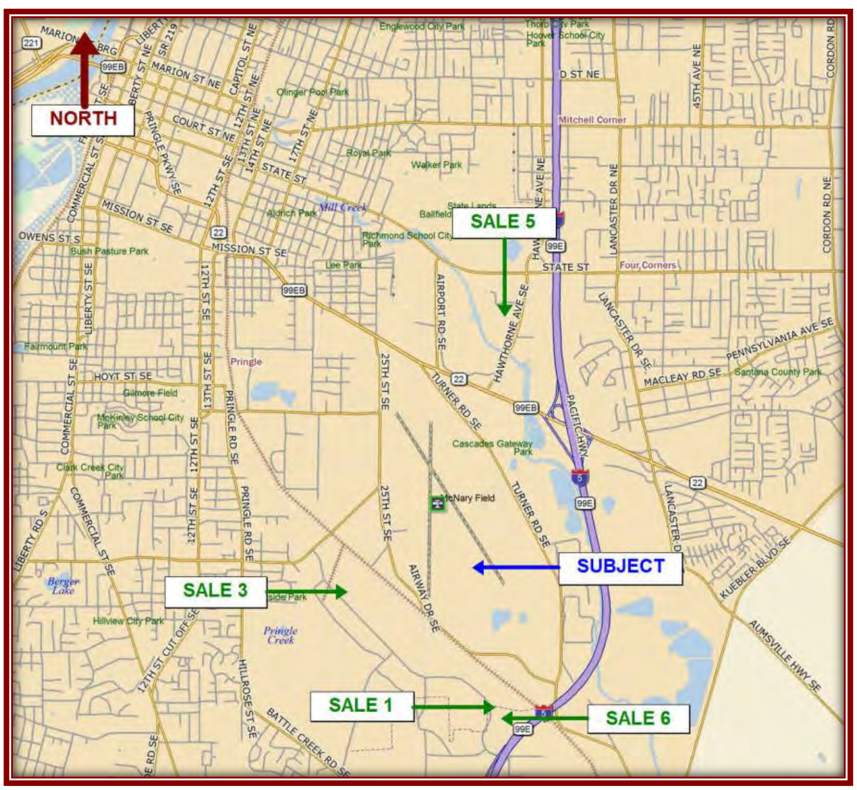
As previously stated, the subject's typical lot has a parcel size between 15,000 SF and 1 acre. The comparables used for this analysis range in size from 0.51 to 10.18 acres. When arraying this data by size, no obvious price trend is evident. Typically, smaller sites will generate a higher unit price than larger sites with similar attributes. There are also ranges of site sizes where the market is insensitive to size with regard to pricing. After considering the size range of the subject's typical lot, no size adjustment is warranted for Comparables 1, 2, 4, and 7 which range in size from 0.51 to 2.71 acres. An upward size adjustment is applied to the remaining three comparables ranging in size between 5.03 and 10.18 acres.

Below and on the following pages are tables summarizing the land comparables as well as a Land Sales Map. Photographs of each comparable are included in each comparable's market discussion.

SALE	LOCATION	PRICE/ SALE DATE	SIZE/ ZONING	UNIT PRICE	COMMENTS
1	**4070 Fairview Ind.** **Southeast Salem** 8S-3W-12A: 806 Doc. No.: 2017-48107	$549,000 Cash to Seller (9/17)	2.14 Ac. IC	$5.89/SF	In Fairview Industrial Park near airport, has good visibility and access. Parcel has gentle terrain, open interior, available utilities, full offsites, irregular shape. Some unusable area due to shared access drive and landscaping along south boundary serving this lot and adjacent building.
2	**E/S Hwy 99, South of Industrial Ave.** **Hubbard** 5S-1W-04: 200 Doc. No.: 2019-5322	$500,000 Cash (2/19)	2.71 Ac. IC	$4.24/SF	Located next to Hubbard Industrial Park and has good visibility & access along Highway 99 in mixed commercial & industrial neighborhood. Parcel has level terrain, at road grade, open interior with a few trees, utilitarian shape, partial offsites, available utilities, no unusable land.
3	**E/S Fairview Ind.** **Southeast Salem** 8S-3W-02: 1804 Doc. No.: 2019-47600	$981,250 Cash to Seller (10/19)	5.03 Ac. IC	$4.48/SF	In Fairview Industrial Park near airport. Parcel has gentle terrain, at street grade, open interior, full offsites, available utilities, utilitarian shape, good visibility & access, and no unusable land.
4	**1005 Commerce Ct** **Silverton** 6S-1W-26A: 1500 Doc. No.: 2019-45867	$325,000 Cash (10/19)	1.26 Ac. IP	$5.92/SF	In Silverton Industrial Park with 3 road frontages, but access only via Commerce Court. Parcel has good visibility & access, level to gentle terrain, open interior with a few trees, available utilities, utilitarian shape, partial offsites, and no unusable land.
5	**SWC Kettle Court & Hawthorne Ave.** **Southeast Salem** 7S-3W-36A: 1300 Doc. No.: 2019-50935	$2,505,204 Cash to Seller (10/19)	10.18 Ac. IP	$5.65/SF	Located in Hawthorne Industrial Park in mixed commercial and industrial area. Parcel has level & gentle terrain with wetlands along portion of east boundary and 100-year flood plain along middle of parcel. Parcel also has good visibility and access, an irregular shape, available utilities, partial offsites, and portion covered with Christmas trees. Suitable for industrial use, but bought for corporate office development.

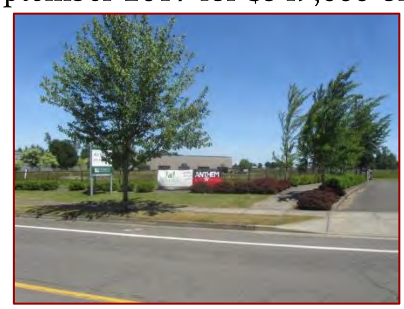
SALE	LOCATION	PRICE/ SALE DATE	SIZE/ ZONING	UNIT PRICE	COMMENTS
6	**4072 Fairview Ind. Southeast Salem** 8S-3W-12A: 807 Doc. No.: 2019-56075	$1,300,000 Cash (11/19)	7.18 Ac. IC	$4.16/SF	In Fairview Industrial Park adjacent to Sale 1 and near industrial uses. Parcel has level terrain, open interior, available utilities, irregular shape, and no offsites. Some unusable area due to shared access drive and landscaping along south boundary serving two other parcels.
7	**1319 W. Washington Stayton** 9S-1W-9DA: 1103 Doc. No.: n/a	$84,000 * Escrow (1/20)	0.51 Ac. IL	$3.78/SF	Located on arterial in mixed-use neighborhood across from cannery. Parcel has level terrain, at street grade, mostly open interior, good access & visibility, utilitarian shape, available utilities, partial offsites, and no unusable land. Being bought for assemblage with adjoining industrial property to the north. Despite rail frontage, no rail access available. * Stated price is listing price. Negotiated sale price cannot be disclosed until escrow closes in February 2020.

LAND SALES MAPS



The following paragraphs discuss each comparable and the factors warranting adjustment for comparison with the subject's assumed typical lot.

Sale 1 is a 2.14-acre IC-zoned parcel located along Fairview Industrial Drive in the Fairview Industrial Park just west of the airport. This parcel sold in September 2017 for $549,000 or $5.89/SF. By comparison with the subject's typical lot, Sale 1 is similar in property rights and utilities. No adjustments are needed for financing, conditions of sale, time of sale, terrain, locational attributes, or the parcel size differential. Upward adjustments are necessary for Sale 1's inferior shape and the presence of some undevelopable land utilized for shared access & landscaping. Conversely, downward adjustments are warranted for Sale 1's superior locational zoning and the presence of offsite improvements. After reviewing the adjustments, the downward adjustments outweigh the upward adjustments. As such, Sale 1 suggests that the land value of the subject's typical lot is less than $5.89/SF.



Sale 2 is a 2.71-acre IC-zoned parcel located on the east side of Highway 99E adjacent to the Hubbard Industrial Park in Hubbard. This parcel sold in February 2019 for $500,000 or $4.24/SF. By comparison with the subject's typical lot, Sale 2 is similar in property rights, utilities, and terrain. No adjustments are needed for financing, conditions of sale, time of sale, shape, or parcel size. Downward adjustments are warranted for Sale 2's superior zoning and the presence of offsite improvements. Conversely, an upward adjustment is warranted for Sale 2's inferior locational attributes. After review, Sale 2 suggests that the land value of the subject's typical lot is similar to slightly greater than $4.24/SF.

Sale 3 is a 5.03-acre IC-zoned parcel located along Fairview Industrial Drive in the Fairview Industrial Park. This parcel sold in October 2019 for $981,250 or $4.48/SF. By comparison with the subject's typical lot, Sale 3 is similar in property rights and utilities. No adjustments are needed for financing, conditions of sale, time of sale, shape, terrain, or locational attributes. An upward adjustment is warranted for the parcel size differential. Conversely, downward adjustments are necessary for Sale 3's superior zoning and offsite improvements. With the downward adjustments outweighing the upward adjustment, Sale 3 suggests that the land value of the subject's typical lot is less than $4.48/SF.

Sale 4 is a 1.26-acre IP-zoned parcel located along three road frontages in the Silverton Industrial Park. This parcel sold in October 2019 for $325,000 or $5.92/SF. By comparison with the subject's typical lot, Sale 4 is similar in property rights, utilities, and zoning. No adjustments are needed for financing, conditions of sale, time of sale, shape, terrain, locational attributes, or the parcel size differential. A downward adjustment is warranted for Sale 4's superior offsite improvements. No factors require upward adjustments. Overall, Sale 4 suggests that the land value of the subject's typical lot is less than $5.92/SF.

Sale 5 is a 10.18-acre IP-zoned parcel located at the corner of Kettle Court and Hawthorne Avenue in the Hawthorne Industrial Park just north of the airport. This parcel sold in October 2019 for $2,505,204 or $5.65/SF. By comparison with the subject's typical lot, Sale 5 is similar in property rights, utilities, and zoning. No adjustments are needed for financing, conditions of sale, time of sale, or terrain. Upward adjustments are necessary for Sale 5's inferior shape, the parcel size differential, and the presence of some undevelopable land. Conversely, downward adjustments are warranted for Sale 5's superior locational attributes and the presence of offsite improvements. The property was bought for commercial rather than industrial utilization. After reviewing the adjustments, Sale 5 suggests that the land value of the subject's typical lot is less than $5.65/SF.

Sale 6 is a 7.18-acre IC-zoned parcel located on Fairview Industrial Drive in the Fairview Industrial Park. The parcel is adjacent to Sale 1 and has a shared entry. The parcel sold in November 2019 for $1,300,000 or $4.16/SF. By comparison with the subject's typical lot, Sale 6 is similar in property rights, utilities, terrain, and the lack of offsite improvements. No adjustments are needed for financing, conditions of sale, time of sale, or locational attributes. While a downward adjustment is warranted for Sale 6's superior zoning, this

adjustment is outweighed by upward adjustments necessary for Sale 6's inferior shape, the parcel size differential, and the presence of some undevelopable land. As such, Sale 6 suggests that the land value of the subject's typical lot is greater than $4.16/SF.

Item 7 is the pending escrow of a 0.51-acre IL-zoned parcel located on the north side of West Washington Street in Stayton across from the cannery and in proximity to other industrial uses. The negotiated sale price cannot be disclosed until escrow closes; as such, the listing price is used for this analysis. The listing price is $84,000 or $3.78/SF. By comparison with the subject's typical lot, Item 7 is similar in property rights, utilities, and terrain. No adjustments are needed for financing, conditions of sale, zoning, shape, and the parcel size differential. An upward adjustment is warranted for Item 7's inferior locational attributes. Downward adjustments are necessary for the use of the listing price as well as Item 7's superior offsite improvements. After review, the upward adjustment outweighs the downward adjustments. As such, Item 7 suggests that the land value of the subject's typical lot is greater than $3.78/SF.

The land value of the typical lot within the Salem Airport is estimated after considering the market data assembled for this analysis and the characteristics of the subject's typical lot.

The market data indicates unadjusted prices between $3.78 and $5.92/SF. After considering differences between these comparables and the subject's typical lot, Sales 6 and 7 suggest a land value greater than $3.78 and $4.16/SF, Sale 2 suggests a land value similar to slightly greater than $4.24/SF, while the remaining four sales suggest a land value less than $4.48 to $5.92/SF.

Based on the preceding analysis, the attributes of the subject's typical lot, and current market conditions, the land value of the subject's typical lot is estimated to be $4.25/SF.

Please note that this value estimate is dependent upon the hypothetical condition previously stated in this appraisal report.

RENTAL RETURN RATE ANALYSIS

The rental rate structure identified in the ground leases at the Salem Airport require an annual rental return rate to be applied to the site's land value in order to derive the annual ground rental rate for sites. For this analysis, a search was conducted of ground rents within the area and the resulting annual rental return rate generated or anticipated from those ground rents. The analysis also considers annual rental return rates anticipated or generated by other airports surveyed for this appraisal assignment.

The appraiser's investigation revealed an array of annual return rates, particularly involving properties being marketed for ground lease. Brokers who have marketed land for ground lease opportunities cite a lack of direction from the market in order to establish a supportable ground rental rate. Some property owners are instructing brokers as to the specific ground lease rate to market their land, with the rate having no correlation to the property's land value. In some instances, owners are specifying an annual ground rental rate that exceeds 20 percent of the land's value. These rates are well-beyond market parameters and not considered reasonable given alternative investments.

Some owners have eventual plans to develop their land at a future date but are seeking a short-term cash flow to generate seasonal or short-term income for the land. In these cases, the land lease included the caveat that the user/tenant cannot erect a building on the site. Rather, the site can be utilized for open storage or a use requiring a temporary structure. Short-term users seeking such sites include contractors needing material storage yards, used car dealers, regional charter & school bus operators, additional parking for employees & customers, Christmas tree lots, and companies marketing landscaping materials such as nursery stock, bark, soil, and rock.

In the local market, ground lease activity involving long lease terms has been relatively low in recent years. While listings suggest rates of 9.5 percent and higher, negotiated leases primarily reveal lower rates. The data-set is not ideal for comparison purposes given varying lease durations, the presence of some useful site improvements, or the tenant being recognized as a national credit tenant who will erect a structure that can be sold as a NNN leased investment at a premium price. It is noted that national credit tenants look at locations with a focus on the business opportunities and client base. This tenancy is relatively insensitive to land purchase or land lease cost. While these variances are influential on commercial land leases, they are less influential when evaluating industrial land. In this market area, industrial ground lease activity is essentially nil. The primary exception involves ground lease activity at the Salem Airport.

Historically, the benchmark annual return rate for ground leases was 10 percent, with a lower rate of 8 percent being offered for new construction involving national credit tenancy. In recent years, these rate expectations have declined. When brokers & property owners were interviewed, their expectations for rental return rates for longer lease terms whereby the tenant could erect a structure involved a higher rental return rate than achieved for these month-to-month or seasonal tenancies.

Market expectations for commercial or industrial land leased with the potential to erect a building suggest annual rental return rates between approximately 7.5 and 9 percent of the land value. For parcels in secondary locations that have witnessed minimal new construction in recent years, a lower annual rental return rate is anticipated due to soft demand for property in that vicinity. Highly desirable locations with a minimal inventory of competing land have revealed annual return rates at or near 10 percent, with some desirable commercial sites witnessing higher return rates.

Aside from negotiated or anticipated lease return rates, the appraiser is aware that some parties will evaluate alternative investments with similar perceived levels of risk as evident in a ground lease. Such an analysis would consider rates offered for Treasury bonds and Corporate bonds. Corporate bonds require a premium return over Treasury bonds due to the higher risk; however, the liquidity differences between these investments and ground leases result in a spread of return rates that do not aid this analysis.

The appraiser also surveyed numerous airports in this region as to their ground leasing activity and if annual return rates are utilized in their lease calculations or negotiations. Certain airports market leased space based on lease rates surveyed from other area airports. Conversely, other airports negotiate leases based on an annual return rate applied to the land value. Overall, the 10 percent rate is most prevalent, with some airports allowing for negotiation of a lower rate. The justification for the rate level less than 10 percent is attributed to their fee structure which allows the airport to charge certain additional fees to lessees.

Based on the data assembled for this analysis and considering the attributes of the typical lot within the Salem Airport, an annual rental return rate of 8.0 percent is estimated for this ground rent analysis.

Applying an 8.0 percent annual return rate to the $4.25/SF land value estimated for a typical lot within the Salem Airport results in a total annual ground rental rate of $0.34/SF NNN.

AIRPORT GROUND LEASE SURVEY ANALYSIS

An alternative method to deriving an annual ground rental rate applicable to land within the Salem Airport involves surveying other airports in the region and analyzing annual ground rental rates charged at these airports. For this survey, information was obtained from seven airports in the greater Portland Area and the Willamette Valley. Interviews were conducted with either airport managers or staff handling leasing duties for the respective airports. It is noted that some consistency is evident for all airport ground leases. All surveyed airports charge ground rents on a triple net (NNN) basis whereby the lessee is responsible for all ownership and operating expenses associated with the leased site. Certain airports require the lessee to pay property taxes despite the airport being under a tax-exempt ownership. Lease durations tend to be for 20 to 30 years with one or more lease renewal options. Two exceptions exist (Eugene Airport and McMinnville Airport). The Eugene Airport structures its ground leases on a 10-year duration with a 10-year renewal option. Longer leases can be negotiated but a large share of the land leases at the Eugene Airport are situated under relatively old hanger buildings; thus, the shorter lease duration is reasonable. For new construction subject to a ground lease, a longer duration can be negotiated at this airport. With regard to the McMinnville Airport, their new ground lease requires a 35-year term. An evaluation is conducted just prior to the lease termination. If the building situated on the leased land is at the end of its economic life, then the tenant is required to remove the structure. Conversely, if the building has remaining economic life, a lease renewal will be prepared.

Airports periodically obtain appraisals to establish annual ground rental rates on a 3 to 5 year basis, with annual rent adjustments in the interim commonly being via CPI.

With regard to the land area subject to the ground lease, most airports base the lease rate on a specific site area, with most airports willing to meet the lessee's site requirements for structures, vehicle parking, aircraft ramps, open storage, etc. Certain leases involving condominium hangers, t-hangers, or old structures may be based on a building footprint plus a surrounding setback from the building, but the majority of leases involve a leased site with sufficient area for site & building improvements as well as aircraft ramps.

Most of the airports surveyed for this assignment indicate that they have an available land inventory for new ground leases. The Aurora Airport is built out with no land available for new ground leases. The McMinnville Airport is reported to have in excess of 10 acres available for new ground lease; however, wetlands impacts and the nesting habitat for Larks have hindered new development within the fence-line. The other airports cite that a significant amount of land is available, with Hillsboro and Corvallis having over 100 acres available. All of this land inventory is within the airport fence-line and is accessible to aircraft. Some of the airports have additional land under their authority that is outside the fence-line and does not allow aircraft access; however, such land activity is not discussed for this assignment as the subject's typical lot being appraised is assumed to be within the fence-line. For information sake, this land outside the fence-line is typically designated for industrial or agricultural utilization.

Regarding current demand for the available land inventory, the airports surveyed for this assignment continue to witness demand for ground within the fence-line. Aurora witnesses significant interest, but cannot accommodate demand due to the lack of available land. The other airports continue to lease new sites as well as renew expired leases. Activity includes both general aviation and commercial users (all within the fence-line).

Airport personnel were also interviewed regarding the impact of specific site attributes and their influence on the asking or negotiated ground rents. Such factors that were discussed include variance in site size, the site's vehicular access being unrestricted or via a secured/gated access point, the level of utility services available to a site, differences in zoning designations & allowable uses, and any building height restrictions imposed by FAR Part 77 regulations that would impact the development potential or size of the building footprint within certain lots. All sites within the fence-line have aircraft access to taxiways & runways.

The following paragraphs discuss each of the surveyed airports. Additional airport information not relevant to this discussion & analysis are retained in the appraiser's work file.

The **Aurora State Airport (UAO)** is a Category 2 airport operated by the State of Oregon. This airport is situated north of Salem along the east side of the Interstate 5 corridor in north Marion County. This airport is a general aviation airport with no tower, multiple FBOs, and one 5,004-foot runway. John Wilson (State Airport Operations Specialist) indicates that the current ground lease rate for land at this airport is **$0.3087/SF NNN annually**. Despite state ownership, lessees pay property taxes on their leased site. Lease rates are based on appraisals conducted every 5 years, with interim rental rate adjusted each December based on the CPI. The leased site is determined based on the lessee's site requirements which may include a ramp. Certain users only require a hanger abutting a taxiway. In those circumstances, the leased site is calculated as the building footprint plus a surrounding 5-foot setback. However, most leases involve site areas. Leases are typically negotiated on a 25-year term plus a 5-year renewal option. According to Mr. Wilson, the airport has no more inventory of land available for new ground leases. However, he still receives interest by parties inquiring about development land within the fence-line. Given the lack of land for new ground leases, only lease renewals are occurring. All sites within the fence-line of this airport have similar aircraft & vehicle accessibility, available utilities, building height restrictions, and zoning designation. No adjustment to the rental rate is made for differences in site size. This airport has 418 resident aircraft and witnessed 260 daily flight operations during the most-recent reporting period (2018).

The **Corvallis Airport (CVO)** is a Category 2 airport operated by the City of Corvallis. This airport is situated just south of the Corvallis city limits near Highway 99. This airport is a general aviation airport with no tower, one FBO, and two runways (5,900 & 3,545 feet). Anthony Beach (Airport Manager) indicates that the airport manages land both within the fence-line and in an industrial park adjacent to the airport but lacking aircraft access. The current ground rental rate for land within the fence-line is **$0.306/SF NNN annually**, with the rent adjusting upward via CPI each December. New rates are established by appraisals every five years. The specified lease duration is 20 years with two 10-year renewal options. Mr. Beach indicates that they have a wait-list for T-hangers and continue to get inquires for both T-hangers and Box-hanger development. The Corvallis Airport has between 1,200 and 1,300 acres available within the fence-line for new development. All sites within the fence-line of this airport have similar aircraft & vehicle accessibility, available utilities, building height restrictions, and zoning designation. No adjustment to the rental rate is made for differences in site size. This airport has 133 resident aircraft and witnessed 143 daily flight operations during 2018.

The **McMinnville Airport (MMV)** is a category 2 airport located in south McMinnville near State Highway 18. This airport is operated by the City of McMinnville. This airport is a general aviation airport with no tower, one FBO, and two runways (5,420 & 4,676 feet). Mike Bisset (McMinnville Community Development Director) indicates that the current ground lease rate for land at this airport is **$0.288/SF NNN annually**. Lease rates are based on appraisals conducted at periodic intervals, with annual rental rate increases via a CPI adjustment. During the past few years, interest at this airport is primarily by corporate users. T-hanger demand is relatively low. As previously stated, this airport has a 35-year lease term for ground leases. All sites at the airport have similar attributes in terms of aircraft & vehicle accessibility, available utilities, building height restrictions, and zoning designation. No adjustment to the rental rate is made for differences in site size. The airport has in excess of 10 acres available for ground lease and new development; however, as previously stated, environmental issues & concerns may result in a smaller amount of developable area suitable for ground lease. This airport has 126 resident aircraft and witnessed 174 daily flight operations.

The Port of Portland (POP) manages both the Hillsboro Airport and the Troutdale Airport.

The **Hillsboro Airport (HIO)** is a category 2 airport located in Portland's Sunset Corridor. This airport is a general aviation airport with significant corporate aircraft activity. This airport has a tower, multiple FBOs, and two runways (6,600 & 4,049 feet). The airport contains land within the airport's fence-line as well as land abutting the airport but suitable for general industrial or commercial use. Some of the airport land is currently occupied by a shopping center. The Airport Authority (Port of Portland) increased the land within the fence-line in 2014 and has over 150 acres within the fence-line suitable for ground lease. Steve Perkins (POP Property Manager) indicates that the current ground lease rate for land within the airport's fence-line is **$0.41/SF NNN annually**. It is noted that lessees also pay property taxes on their leased site. Lease rates are based on appraisals performed every 3 years, with annual rental rate increases via a CPI adjustment. Demand for ground lease sites within this airport has declined in recent years; however, inquiries continue to occur. Leases are typically negotiated on a 20 to 30-year term, but some leases have been structured on a 40-year term. All sites at the airport have similar attributes in terms of available utilities and zoning designation. No adjustment to the rental rate is made for differences in site size. Some sites have secured vehicular access while other sites allow unrestricted access via public roadways. Also, some sites have low allowable building heights due to FAR Part 77 restrictions. However, the airport charges a similar ground rental rate despite these differences in access or allowable building height. This airport has 296 resident aircraft and witnessed 695 daily flight operations.

The **Troutdale Airport (TTD)** is a category 2 airport located in Troutdale east of Portland. This airport also lies on the approach of the Portland International Airport (PDX) and its location has hindered some air traffic & development activity. Demand for ground-lease sites continues, but at a slower pace than five years ago. The FAA has indicated to POP that it would like to lessen the activity at this airport due to its proximity to PDX. This airport no longer caters to many commercial tenants, but remains popular for recreational pilots. This airport is a general aviation airport with a tower, one FBO, and one 5,400-foot runway. The airport contains land within the airport's fence-line as well as commercial land abutting the airport and in proximity to highway service and truck-stop uses. Nicole Miranda (POP Property Manager) indicates that the current ground lease rate for land within the airport's fence-line is **$0.29/SF NNN annually**. Lessees also pay property taxes on their leased site. Lease rates are based on appraisals performed every 3 years, with annual rental rate increases via a CPI adjustment. Sites are leased at this airport based on a specified site area needed by the lessee. Leases are typically negotiated on a 20 to 30-year term. The airport currently has approximately 60 acres available for lease within the fence-line. All sites at the airport have similar attributes in terms of available utilities and zoning designation. No adjustment to the rental rate is made for differences in site size. Some sites have secured vehicular access while other sites allow unrestricted access via public roadways. Also, some sites have low allowable building heights due to FAR Part 77 restrictions. However, the airport charges a similar ground rental rate despite these differences in access or allowable building height. This airport has 37 resident aircraft and witnessed 288 daily flight operations.

Eugene's Mahlon Sweet Airport (EUG) is a category 1 airport located northwest of the Eugene city limits. This airport offers regularly-scheduled commercial service by multiple regional & national airlines. This airport is tower-controlled, has multiple FBOs, and two runways (8,009 & 6,000 feet). The airport contains land within the airport's fence-line suitable for general aviation as well as commercial-carrier use. Patricia Haley (Airport Administration) indicates that the current ground lease rate for land within the airport's fence-line is **$0.33/SF NNN annually** for general aviation use and $0.36/SF NNN annually for commercial-carrier use. Lease rates are based on appraisals performed every 3 years, with the appraisals also specifying step-up rates to be used for annual rent adjustments. The airport contains a significant amount of land within the fence-line suitable for new construction; however, the exact acreage was not provided. The majority of existing ground lease tenancy have sites developed with old hangers. As such, the airport calculates the leased site area using the building footprint plus setback method; however, they implement a site area methodology for new development on bare land.

Leases within the Eugene Airport are negotiated on a 10-year term plus a 10-year renewal option. According to Ms. Haley, demand for leased sites within the airport's fence-line has improved during the past few years, with two corporate hangers currently under construction. Aside from new leases, a number of lease renewals have occurred. All sites within the airport's fence-line have similar attributes in terms of building height restrictions and zoning designation. No adjustment to the rental rate is made for differences in site size, gated versus unrestricted site access, or the level of available utilities. This airport has 119 resident aircraft and witnessed 176 daily flight operations.

The **Albany Airport (S12)** is included in this analysis due to its proximity to the Salem Airport; however, this airport is a category 4 airport with only 92 resident aircraft and 64 daily flight operations. The Albany Airport is located directly east of Interstate 5 and operated by the City of Albany. This airport is a local aviation airport with no tower, one FBO, and one 3,004-foot runway. Jon Goldman (Airport Manager) indicates that the current ground lease rate at the airport is **$0.254/SF NNN annually**. Lease rates are based on periodic appraisals, with annual rent increases based on the CPI. Mr. Goldman indicates that he receives some inquiries for new hanger development; yet, no new construction has occurred in recent years. Over 20 acres of land is available within the fence-line for new ground lease and development.

Overall, airports within this region charge annual ground rental rates between $0.254 and $0.41/SF NNN. Tenancy at the Aurora, Troutdale, and Hillsboro Airports pay property taxes on their leased site, while lessees at the other municipal airports (including the Salem Airport) do not pay property taxes. Locational factors, airport features, level of services, and the number of resident aircraft appear to influence the rental rates charged at these various airports. Arraying the number of daily aircraft operations at each airport reveals no correlation between airport activity and rental rates; however, it is noted that Hillsboro's daily aircraft operations (695) significantly exceeds the other airports surveyed and has the highest annual ground rent ($0.41/SF NNN).

The Salem Airport has a reported count of 212 resident aircraft. Corvallis (133), McMinnville (126), and Eugene (119) have the next lower counts and their annual ground rents are $0.306/SF (Corvallis), $0.288 (McMinnville), and $0.33/SF (Eugene). Two airports that are bracketed higher than the Salem Airport are Hillsboro (296) and Aurora (418) with these two airports generating annual ground rents of $0.41/SF (Hillsboro) and $0.3087/SF (Aurora). It is noted that resident aircraft counts is not a primary factor for consideration in this analysis; yet it reflects some level of local demand attributes. It is further recognized that the high and low counts are represented by the Troutdale Airport (37) and the Aurora Airport (418), with their respective annual ground rental rates being $0.29 and $0.3087/SF.

With regard to control tower presence, the three airports lacking a control tower (Albany, Corvallis, & McMinnville) generate annual ground rents in the lower end of the range (between $0.254 and $0.306/SF NNN). Conversely, the four airports with an active control tower (Aurora, Hillsboro, Troutdale, & Eugene) generate generally higher annual ground rents between $0.29 and $0.41/SF NNN.

Regarding locational and other factors, the annual rental rates at the Albany, Aurora, Corvallis, McMinnville, and Troutdale Airports require upward adjustment suggesting that the subject's annual ground rental rate is greater than $0.254 to $0.3087/SF NNN. Despite the Eugene Airport offering commercial air service as well as general aviation service, the $0.33/SF NNN annual rental rate being charged at this airport requires a slight upward adjustment for comparison with the Salem Airport. Conversely, the Hillsboro Airport has superior attributes to the Salem Airport and a downward adjustment to the $0.41/SF NNN annual ground rental rate is appropriate. .

Overall, the survey of other area airports suggests that the annual ground rental rate for a typical lot at the Salem Airport is slightly greater than $0.33/SF NNN and less than $0.41/SF NNN. This range supports the $0.35/SF NNN annual ground rental rate using the land value x annual ground rental return rate method previously estimated for this assignment.

ANNUAL GROUND RENTAL RATE CONCLUSION

After reviewing the subject's attributes, the market data obtained for this assignment, and the two analyses used to estimate the subject's ground rental rate, the annual ground rental rate for a typical lot within the Salem Airport as of the January 23, 2020 valuation date is estimated to be:

$0.35/SF Annually on a Triple Net (NNN) Expense Basis

Please note that the Rental Rate Return Analysis estimated a return rate of 8.0 percent. The concluded $0.35/SF annual ground rental rate is equivalent to applying an 8.25 percent rental return rate to the $4.25/SF land value. This 8.25 percent return rate is recognized as not being out of line with market parameters and further supports the concluded annual ground rental rate.

The preceding ground rental rate is dependent upon the hypothetical condition cited earlier in this appraisal report.