CBJ DOCKS AND HARBORS BOARD
SUB-COMMITTEE WORK SESSION AGENDA
For Thursday, September 20th, 2012

I. Call to Order (12:00 in CBJ Room 224).

II. Roll (Eric Kueffner, Tom Donek and Kevin Jardell).

III. Approval of Agenda

MOTION: TO APPROVE THE AGENDA AS PRESENTED.

IV. **Public Participation on Non-Agenda Items** (not to exceed 5 minutes per person, or twenty minutes total time).

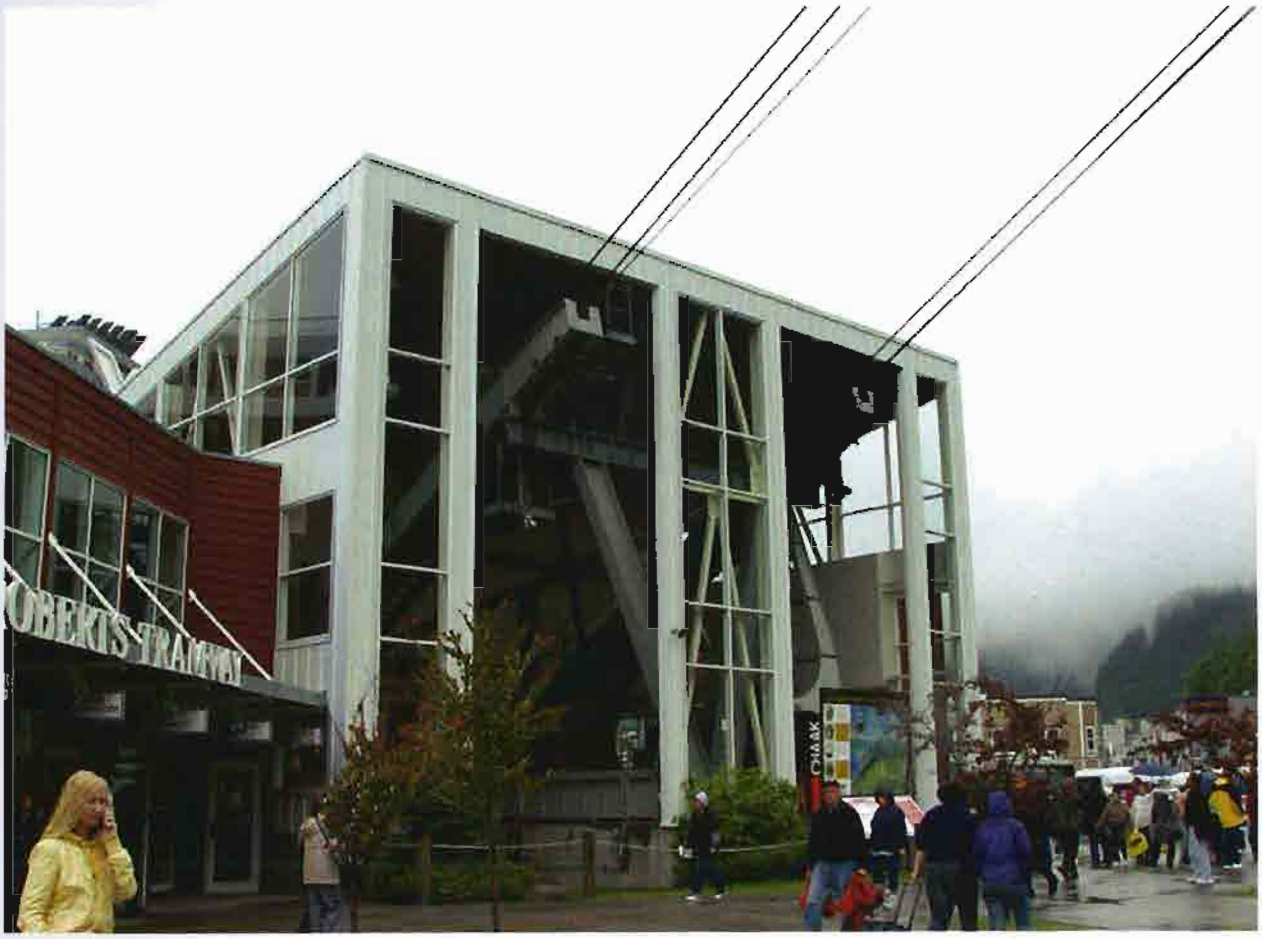
V. Work Session Item.

1. Discuss the Mt. Roberts Tram Review.

VI. Adjournment.

Reliant

Appraisal Assignment
Presented in a Summary Report



490 S. Franklin St. CBJ Ground Lease

490 South Franklin Street
Juneau, Alaska 99801

Latitude: 58°17'46.45'N, Longitude: 134°24'3.09'W

Client Reference Number: None
Reliant Reference Number: 12-0300

RELIANT LLC
ADVISORY SERVICES

as of July 1, 2012

800 East Dimond Boulevard, 3-310
Anchorage, Alaska 99515
Phone: (907) 929-2226
Fax: (907) 929-2260
Email: admin@reliantadvisory.com

Prepared For:
Mr. Derek Duncan
Goldbelt, Incorporated

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ADVISORY SERVICES
800 East Dimond Boulevard, 3-310
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Letter of Transmittal

July 10, 2012

Mr. Derek Duncan
V.P. of Operations
Goldbelt, Incorporated
3075 Vintage Blvd, Suite 200
Juneau, Alaska 99801

RE: **490 S. Franklin St. CBJ Ground Lease**
490 South Franklin Street
Juneau, Alaska 99801
Client Reference Number: None
Reliant Reference Number: 12-0300

Dear Mr. Duncan:

At your request, an appraisal of the above referenced property has been prepared. The appraisal is presented in a *summary* report. The purpose of the assignment is to estimate the market value of the *Fee Simple* interest in the above referenced real estate, subject to the terms of the January 1995 ground lease between the CBJ (lessor) and Goldbelt, Inc. (lessee), valuing the subject in accordance with the lease in its prospective *hypothetical as* vacant and unimproved condition at time of scheduled lease adjustment, which is understood to be July 1, 2012.

The report will be used by Goldbelt, Incorporated (the Client) for establishment of market value for ground lease rental adjustment between CBJ (lessor) and Goldbelt, Inc. (lessee) and may not be suitable for other uses. Although other parties may in some cases obtain a copy of this report, except in the course of discussions with the CBJ, it should not be relied upon by anyone outside of the intended user(s).

This assignment has been prepared and presented in conformance with the client's instructions, the current Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation, as well as the bylaws of the Appraisal Institute.

The subject is a 10,000 sq ft site located between the cruise ship berth and South Franklin Street. While the immediate neighborhood is predominantly improved with visitor dependant retail, the subject's conditional use permit and ground lease with the CBJ limit the site use to aerial tramway. The land residual technique indicates the subject is currently an uneconomic parcel with no functional utility. Due to current market conditions and high construction costs, aerial tramway development will continue to be financially unfeasible for the foreseeable future.

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RE: 490 S. Franklin St. CBJ Ground Lease

A complete neighborhood and site inspection of the subject has been made, and photographs taken. Market information and data regarding other similar real estate has been obtained. This data has been analyzed using appropriate techniques and methodologies necessary to develop a credible and reliable estimate of market value. As a result of research and analysis, the value estimate for the subject is as follows:

FINAL MARKET VALUE ESTIMATE	
490 S. Franklin St. CBJ Ground Lease	
Property Rights	**Fee Simple***
Condition	**Prospective As Vacant & Unimproved**
Effective Date of Appraisal	**July 1, 2012**
490 S. Franklin St. CBJ Ground Lease Market Value	**$0 (Uneconomic Parcel)**

****Fee simple interest subject to the terms of the January 1995 ground lease between the CBJ (lessor) and Goldbelt, Inc. (lessee) that limits the subject to aerial tramway use.***

In the case of an uneconomic parcel, demand does not exist and the estimate of exposure or marketing period is not applicable and has therefore not been made. The value opinion reported above is qualified by certain assumptions, limiting conditions, certifications and definitions, which are set forth in the body of the report. This letter is invalid as an opinion of value if detached from the report, which contains the text, exhibits and Addendum. Thank you for the opportunity to be of service. If you have any questions, please feel free to call.

Respectfully submitted,

Per E. Bjorn-Roli, MAI
Managing Member
Alaska State Certified General Real Estate Appraiser No. 302
Appraisal Institute Member No. 396734
per@reliantadvisory.com

Certification

The undersigned certify that, to the best of their knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and is their personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. They have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.
4. They have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. They have not provided a previous service regarding the subject within the three years prior to this assignment.
6. Engagement in this assignment was not contingent upon their developing or reporting predetermined results.
7. Compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
8. Opinions and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
9. A personal walk-through of the subject property has been made by Mr. Bjorn-Roli.
10. No one provided significant real property appraisal assistance to the persons signing this certification and they are competent and qualified to perform the appraisal assignment.
11. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.
12. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
13. As of the date of this report, Mr. Bjorn-Roli completed the requirements of the continuing education program of the Appraisal Institute and the State of Alaska.

Per Bjorn-Roli

Per E. Bjorn-Roli, MAI

Table of Contents

Assignment Overview

Identity of Property

Name	490 S. Franklin St. CBJ Ground Lease
Brief Description	The subject is a 10,000 sq ft site located between the cruise ship berth and South Franklin Street. While the immediate neighborhood is predominantly improved with visitor dependant retail, the subject's conditional use permit and ground lease with the CBJ limit the site use to aerial tramway. The land residual technique indicates the subject is currently an uneconomic parcel with no functional utility. Due to current market conditions and high construction costs, aerial tramway development will continue to be financially unfeasible for the foreseeable future.
Address	490 South Franklin Street Juneau, Alaska 99801
Geo Coordinates	Latitude: 58°17'46.45'N, Longitude: 134°24'3.09'W
Physical Location	60' north easterly of Gastineau Channel cruise ship dock, south westerly of South Franklin Street and northerly of Salmon Landing.
Assessor's Tax Parcel Number(s)[1]	1C100K830011
Abbreviated Legal Description[2]	The subject's ground lease identifies the surface estate as follows: *Portions of the following lots in an area not to exceed 10,000 Square Feet as shown on Exhibit A:* *Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska* *That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska* *That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska* *Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska* *Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91.71, Juneau Recording District, First Judicial District, State of Alaska* In addition, the subject's ground lease identifies air rights easements associated

[1] Per Tax Assessor Records.
[2] Per Department of Natural Resources Records.

with the tram as follows:

> *Lessor does hereby lease and Lessee does hereby take from Lessor an easement one hundred feet in width (fifty feet on each side of the tramway centerline) for the surveying, engineering, design, planning, development, construction, maintenance, and operation of a tramway, including without limitation, cables, tramway fixtures, cars, and appurtenant structures and equipment. The easement shall burden all lands owned by Lessor, or in which Lessor has an interest of any kind, where said lands are to be traversed by Lessee's tramway, including without limitation the premises described as follows and as generally shown in Exhibit B attached hereto and incorporated herein (hereinafter called" Air Rights Easement"), situated in the Juneau Recording District, State of Alaska:*
>
> *Portions of the following lots as shown on Exhibit B:*
>
> *Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska*
>
> *That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska*
>
> *That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska*
>
> *Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska*
>
> *Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska*
>
> *Lot 1, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska*
>
> *Lot 2, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska Roberts Street*

And as:

> *Lessor does not warrant that Lessor has any right, title or other interest in the following lands, but to the extent Lessor in fact has any such right, title or other interest, Lessor leases to Lessee the described Air Rights Easements where said lands are within 50 feet of the tramway centerline as generally shown in Exhibit B:*
>
> *South Franklin Street*

G Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska, excepting that portion of G Millsite heretofore conveyed to Alaska Tram Corporation by Warranty Deed recorded December 20, 1976, in Book 128, page 254, Juneau Recording District, First Judicial District, State of Alaska.

F Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

B Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

P Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

H Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

X Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

Bear No.7 in U.S. Mineral Survey 1027 A, Juneau Recording District, First Judicial District, State of Alaska

Scope of Assignment

Purpose

To estimate the market value of the real estate, as directed by the lease, in its prospective hypothetical as vacant and unimproved condition at time of scheduled lease adjustment, which is understood to be July 1, 2012.

Intended Use of Appraisal

The intended use of the appraisal is for establishment of market value for ground lease rental adjustment between CBJ (lessor) and Goldbelt, Inc. (lessee), and it may not be suitable for other uses.

Effective Date of Appraisal

The subject's ground lease began on January 31st 1995 and has scheduled incremental adjustments every three years until the lease was amended in April 2006 and the lease adjustment period was amended. According to Robert S. Spitzfaden, legal counsel for Goldbelt, Inc., the amendment changed the next readjustment date to July 1, 2009, indicating the next available date of adjustment to the lessor is July 1, 2012 and this is the effective date of appraisal used for analysis purposes. However, it is understood that an appraisal performed on behalf of the CBJ used an effective date of valuation of 2011 and the date of adjustment may be in dispute between the parties. As such, it should be noted, that the market value estimate of this report would not be impacted if the date of lease adjustment were found to be an earlier date. Nonetheless, it is an extraordinary assumption of this report that the effective date of valuation is July 1, 2012. It should be noted, however, that the market value estimate of this report would not be impacted if the date of lease adjustment were found to be an earlier date.

Intended User(s) of

Goldbelt, Incorporated (the Client)

Appraisal

Property Interest Appraised This is an appraisal of the real property. Any intangible and personal property is specifically excluded from this valuation.

Property Rights Appraised Fee Simple, subject to the terms of the January 1995 ground lease between the CBJ (lessor) and Goldbelt, Inc. (lessee).

Report Presentation Summary

Scope of Work

Overview Current USPAP requires the appraiser(s) to develop and report a scope of work that results in credible results that are appropriate for the appraisal problem, intended user and intended use.

Limitations to Scope of Work USPAP permits limitations to the scope of work consistent with the appraisal problem, intended user and intended use. The scope of work has been limited by the General Assumptions & Limiting Conditions, Extraordinary Assumptions, Extraordinary Limiting Conditions and Hypothetical Conditions discussed in the report and Addenda. The Scope of Work has also been limited based on the level of information / documentation available to the appraiser. There are no major limitations to the scope of work for this assignment.

Compliance The analysis and reporting of this assignment is compliant with the following:

- Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
- The bylaws of the Appraisal Institute.
- Client appraisal standards as set forth in the letter of engagement presented in the Addendum.

Assignment Presentation This is a Summary Report as defined by Uniform Standards of Professional Appraisal Practice under Standards Rule 2-2(b). This format provides a summary of the appraisal process, subject and market data, and valuation analyses. The depth of discussion contained in this report is specific to the client's intended use.

This is a two-sided document with new sections beginning on odd numbered pages. Note, where a section ends on an odd page Microsoft Word will automatically insert a blank, even numbered page at the end of a section.

Special Client Instructions None

Subject Walk Through The appraiser has extensive knowledge of the site and neighborhood. A complete neighborhood and site inspection of the subject has been made, and photographs taken. A complete formal inspection of the subject was performed on December 10th 2010 for prospective valuation and appeal purposes and the subject photographs presented in this report were taken at this time.

Information Provided Primary data was attained by the appraiser during the property walk-through.

to Appraiser for Consideration

Secondary sources of property data include client, borrower, and public records. The scope of work is specific to the information on the subject provided to the appraiser by the client or property contact. A partial list of items provided follows:

- Ten years of Mount Roberts Tramway historic operating data
- As built
- Plat map
- Copies of lease documents
- A Horan & Company appraisal of the subject issued on September 30th, 2011
- Robert S. Spitzfaden legal opinion on restricted use
- Conditional use application and permit

The following information was not available to the appraiser:

- Aerial photograph of subject at time of original lease
- Title report
- Preliminary commitment for title insurance
- Environmental study
- Engineering study

Market Analysis

Extensive research on macro and micro economic conditions within the subject's market has been conducted. Extensive research on current market conditions within the subject's sector of the real estate market has been conducted. The Appraisal Institute recognizes two categories of market analysis: inferred and fundamental. Inferred analyses (Level A and B) are basic methods by which future supply and demand conditions are inferred by current and general market conditions (secondary data). In fundamental analyses (Level C and D), general information is supplemented by detailed data in order to forecast supply and demand, as well as subject-specific absorption and capture (primary data). The market analysis performed in this assignment is based on inferred demand.

Valuation Methodology

An article in the Fall 2011 issue of the Appraisal Journal titled "Ground Leases: Rent Reset Valuation Issues" by Tony Sevelka, MAI is presented in the Addendum and is summarized in the highest and best use section of this report, which establishes that the lease language, in particular with respect to use restrictions, can have a significant impact on market value/rent.

A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. This legal opinion establishes that, due to the lease language and conditional use permit in place on the subject site, the only legally permissible use of the subject site is a tram site and that therefore the highest and best use of the site for establishing market value/rent is limited to tram use.

The Appraisal of Real Estate, Thirteenth Edition states the following:

> *"Special purpose properties generally have limited conversion potential and are constructed expressly for a particular user with a designated special use in mind. They are developed to fulfill a business need, not to*

attain a profit on the real estate and when profit is present it accrues to the business rather than the real estate."

The subject clearly meets the definition of a special purpose property and it is inappropriate to establish market value for aerial tramway use based on land sales that have completely dissimilar highest and best uses. The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following:

"Regardless of how physically similar the potential comparable site is to the subject site, the sale property is not truly comparable if it does not have a similar highest and best use as the subject and should be dismissed from further consideration in the analysis of the subject property."

Other than the subject lease, there are no known transactions involving tram sites within the Alaska market. Therefore, it is not possible to perform direct sale comparison to establish the market value of the subject site. The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following:

"The sales comparison approach is usually the preferred methodology for developing a site value conclusion. When this approach is used, most of the techniques described in Chapter 13, with respect to selecting comparable sales and the adjustment process, can be applied to site valuation. When sales of similar parcels are not plentiful enough for the application of sales comparison, alternative techniques such as market extraction, allocation, and various income capitalization techniques may be used. The income capitalization techniques can be divided into direct capitalization techniques (e.g., land residual and ground rent capitalization) and yield capitalization techniques (e.g., discounted cash flow analysis / subdivision development analysis)."

In the valuation of the subject direct capitalization via the land residual technique is most appropriate. The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following:

"The land residual technique is a method of estimating land value in which the net operating income attributable to the land is isolated and capitalized to produce an indication of the land's contribution to the total property.

Procedure
The net operating income attributable to the land is capitalized at a market-derived land capitalization rate to provide an estimate of value.

Applicability
This technique is most applicable in testing the feasibility of alternative uses of a particular site in highest and best use analysis or when land sales are not available."

Approaches to Value

LAND VALUATION This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client. As discussed previously, the land residual technique is the method of land valuation utilized.

COST APPROACH This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client. In the case of the subject, the cost approach is necessary in the performance of the land residual technique.

SALES COMPARISON APPROACH This approach was not developed because there is inadequate market data to develop a credible value estimate through this approach.

INCOME CAPITALIZATION APPROACH This approach was developed because it is necessary to develop a credible and reliable estimate of market value for this property type or it has been requested by the client. In the case of the subject, a partial income capitalization approach is necessary in the performance of the land residual technique.

Valuation Process The valuation process may include research and analysis performed as part of a prior assignment, as well as new research performed specifically for this assignment, and included but was not limited to the following:

1. The problem or nature of assignment was identified.
2. A scope of work was created that lead to credible results that are appropriate for the appraisal problem, intended user and intended use.
3. Information necessary to complete the assignment was requested and obtained from the client / property contact.
4. An area, city and neighborhood analysis has been performed.
5. An analysis of the subject's physical and economic characteristics has been performed.
6. Interviews have been performed with property representatives (owners, property managers or leasing agents), tenants, planners, assessors, brokers, investors, developers and other individuals with useful knowledge and insight on the subject.
7. Knowledgeable market participants have been interviewed on the market conditions for properties similar to the subject.
8. An examination of current zoning codes affecting the property has been performed.
9. The functional utility of the site and/or improvements has been determined.
10. A detailed examination of the subject's economic characteristics has been made to determine the property's risk profile and economic potential.

11. A highest and best use analysis for the property was performed.
12. An analysis of the subject's ground lease and zoning were performed and their impact on highest and best use was considered.
13. Extensive research to identify transactions involving similar properties was performed.
14. An analysis of the subject and available data was performed using commonly accepted valuation techniques and methodologies.
15. Direct sale comparison is not possible and was not performed.
16. Given the absence of sales, the land residual technique is the most applicable method of valuation.
17. The income approach was performed to indicate total property net operating income.
18. The cost approach was performed.
19. A market derived rate of return was applied to depreciated cost to indicate the net operating income attributable to the improvements.
20. The residual income attributable to the land is capitalized at a market-derived land capitalization rate to indicate land value.
21. The quantity and quality of available data was considered along with the applicability of the methodology used, and a reconciliation was performed to arrive at the final value estimate(s).

Ownership Information

Current Owner of Record

The subject site is owned by City and Borough of Juneau (CBJ)[3] and leased to Goldbelt, Inc. on a long-term basis.

Three Year Transaction History

Disclosure and analysis of the subject's transaction history within the prior three years is required by USPAP and, if applicable, is presented below.

NO RECENT ACTIVITY

No transactions involving the subject within the prior three years are known or have been disclosed. A search of State of Alaska Department of Natural Resource records indicates that the subject has not changed ownership within the last three years.

Extraordinary Assumptions, Limiting Conditions & Special Risk Factors

Extraordinary assumptions, extraordinary limiting conditions and special risk factors specific to this assignment follow. The value estimate(s) presented in this report may be amended in the event that the extraordinary assumptions or limiting conditions are found to be false.

[3] Per Department of Natural Resources Records.

1. The subject's ground lease began on January 31st 1995 and has scheduled incremental adjustments every three years until the lease was amended in April 2006 and the lease adjustment period was amended. According to Robert S. Spitzfaden, legal counsel for Goldbelt, Inc., the amendment changed the next readjustment date to July 1, 2009, indicating the next available date of adjustment to the lessor is July 1, 2012 and this is the effective date of appraisal used for analysis purposes. However, it is understood that an appraisal performed on behalf of the CBJ used an effective date of valuation of 2011 and the date of adjustment may be in dispute between the parties. As such, it should be noted, that the market value estimate of this report would not be impacted if the date of lease adjustment were found to be an earlier date. Nonetheless, it is an extraordinary assumption of this report that the effective date of valuation is July 1, 2012.

2. A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. This legal opinion establishes that, due to the lease language and conditional use permit in place on the subject site, the only legally permissible use of the subject site is a tram site and that therefore the highest and best use of the site for establishing market value/rent is limited to tram use. While this legal opinion appears reasonable and is consistent with the appraiser's judgment, the appraiser is not an attorney and is not qualified to make a definitive legal finding. Therefore, it is an extraordinary assumption of this report that the legal opinion set forth by Mr. Spitzfaden is correct and that, due to the conditional use permit and lease language, the legally permissible uses of the subject site are restricted to aerial tramway use, which essentially renders the site as an uneconomic parcel. While a formal value estimate has not been completed at this time, it is noted that in absence of the aerial tramway use restrictions, the subject's highest and best use would be cruise ship dependant retail, whose economics would justify a higher value of the site, assuming that is a legal use.

Hypothetical Conditions

Hypothetical conditions specific to this assignment are as follow. In the event that the appraisal was not predicated on the following hypothetical condition(s) the value estimate(s) and analysis presented in this report may be impacted.

1. The subject's ground lease calls for the subject to be valued as "unimproved" land and that the appraisal shall not consider any buildings or structural improvements above or below ground, landscaping or paving. The subject site is currently improved with an attached dock, retaining wall, fill, utilities, streets, landscaping, curbs, gutters and sidewalks. Therefore, the current valuation is based on the hypothetical condition that the subject is unimproved land.

Competency of Appraiser

The appraisers have previously performed similar assignments and meet the competency provision of USPAP. Please refer to the Experience Data presented in the Addendum for further information on the appraiser's background and experience.

Area Data

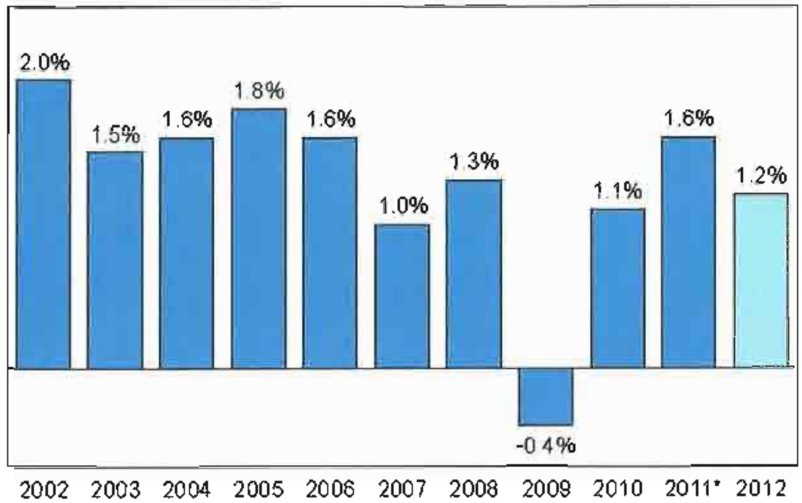
Regional Area Data

Whereas the nation lost 7.5 million wage and salary jobs from December 2007 to June 2009 (the official dates of the recession), the Alaskan economy made modest gains. State economists attribute this stark result to differences in the structure of the Alaskan economy. Chief among these differences is Alaska's large natural resource base, the lack of a significant manufacturing sector, strong federal spending, a growing health care industry, and a resilient tourism industry. In recent years, Alaska has benefited from the rapid growth in developing countries that has resulted in an undersupply of commodities, placing upward pressure on prices.

Alaska is highly dependent on the production and price of oil, and while production has steadily decreased from a high in the late 1980s, the price has been volatile. However, over the last year oil has shown stability above $85 per barrel and state economists predict the average price for 2012 to be $109.33/barrel. The preliminary forecast for 2013 is nearly the same at $109.47/barrel. Though the problem of low production is a concern, current oil prices have provided bountiful revenue to the state of Alaska at a time when many other states are struggling with crippling budget deficits. Looking to the future, the state awaits progress in the development of a proposed natural gas pipeline that would provide a significant boost to the economy. Beyond oil and gas, the state economy is currently benefitting from a confluence of strong production and high prices for other natural resources; particularly gold, silver, lead, zinc and fish.

Also buttressing the Alaskan economy is the level of federal spending in the state. In FY2010, the U.S. government sent a total of $15 billion to Alaska and its residents. This sum makes Alaska the highest recipient of per capita federal dollars for the year. While more recent information has yet to be released, state economists believe the level of federal spending will remain close to this level for the near future. In the longer term, the economy is expected to push the federal government to tighten its belt, which will almost surely impact Alaska to some degree. Meanwhile, job gains in the health care industry have been consistent and strong for most of the last decade. According to the Alaska Department of Labor, the health care industry added 1,300 jobs in 2011, and it is expected to add another 800 jobs in 2012. Lastly, after down years in 2009 and 2010, initial indications are that tourism experienced noticeable improvement in 2011. State economists expect that the combination of a strengthening national economy and the addition of several cruise ships to the Alaskan market will provide a boost to this important industry. Historic employment changes, as well as the forecast for 2012 are presented in the following chart:

1 Statewide Forecast for 2012
Employment growth, 2002 to 2012



*Preliminary
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

After the minor losses in 2009 ended 21 straight years of overall job growth, Alaska gained 1,900 jobs in 2010 and then 5,200 in 2011. Employment gains in 2011 were seen in the educational and health services industry, the service industry, and natural resource extraction, among others. Federal and state government were flat, while local government grew modestly. According to state economists, Alaska experienced only a mild recession and has significantly outperformed the nation's economy as a whole. The outlook for 2012 is continued job growth of 3,900 jobs (1.2%) with the education and health care industry leading the way in overall job gains and most other industries growing slightly or remaining flat. The only sector expected to shrink slightly is federal government employment, by 300 jobs. In summary, the Alaska economy is healthy and is anticipated to remain stable into the foreseeable future with modest growth anticipated in the short term.

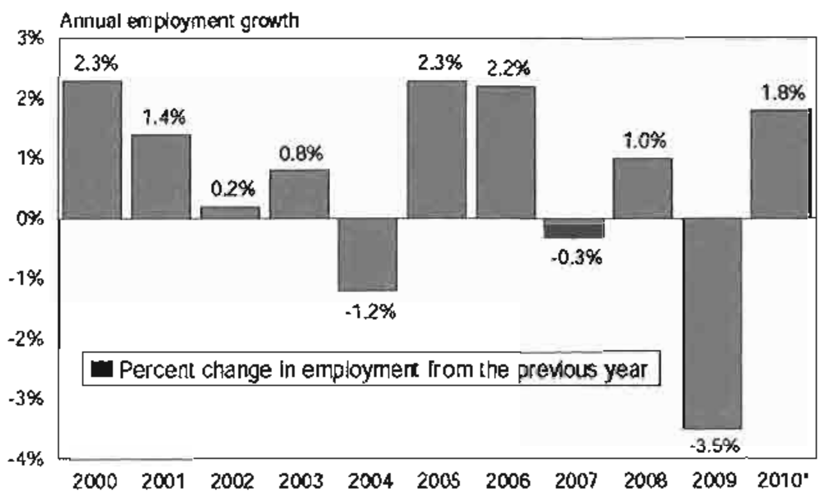
Local Area Data

Located on the mainland of Southeast Alaska, the capital city of Juneau is built at the heart of the Inside Passage along the Gastineau Channel. It lies 900 air miles northwest of Seattle, and 600 air miles southeast of Anchorage. Juneau itself can be divided into three districts. The first district is the Mendenhall Valley, the location of the Juneau International Airport as well as the retail center for local residents. The second district is Downtown, which is located approximately seven miles east of the Mendenhall Valley and is home to the State Capitol Building, State Courthouse, State Office Building, governor's house, and most state and federal offices. The third district is Douglas Island, which is located across Gastineau Channel to the south of Downtown. The island is a popular residential area and is developed with numerous small residential neighborhoods along its shores.

Approximately 40 percent of Juneau's jobs are provided by federal, state and local government. Tourism is a significant contributor to the private sector economy during the summer months. Support services for logging and fish processing contribute to the Juneau economy as well, and over 300 residents hold commercial fishing permits. The Kennecott Green's Creek Mine produces gold, silver, lead and zinc, and is the largest silver mine in North America. In 2010, the Kensington gold mine came on line, adding a number of jobs to the area. Health care is yet another significant - and growing - employment source for the area. Per capita income levels in Juneau are among the highest in the state, while unemployment is generally stable and lower overall thanks to the influence of the legislative session during the winter months.

Similar to the state of Alaska as a whole, 2010 marked a return to job growth. Among industries experiencing gains in 2010 were health care and mining, while most other sectors - including government - remained relatively steady. Data released by the Alaska Department of Labor for 2010 indicates that the average monthly unemployment rate in Juneau was 5.8 percent, which is healthy by historical standards and well below the national average. Historic employment changes are presented in the following chart:

4 Small and Sporadic Changes
Juneau wage and salary employment, 2000 to 2010



*preliminary estimate
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

As the Alaska state capital, Juneau will continue to be heavily dependent on government. The city's economy does continue to diversify gradually over time, and bright spots have included tourism and mining. Despite the sluggish forestry industry, Juneau has experienced slow, steady growth over the past ten years. Most analysts expect government spending to remain relatively stable overall. Fishing and mining should continue to provide stability for the area, and mining actually has the possibility of providing some growth in the private sector. The potential for a turnaround in the forestry sector is highly dependent on the Asian economies, as well as on federal forest management policy. Although most analysts do not expect to see significant growth in this industry, it appears it is currently operating at a stable level with no significant shrinkage projected over the near term. Tourism, on the other hand, is on track to improve in 2011 over 2010, but it will likely be held in check due to conditions in the national economy as well as low consumer confidence. Beyond this, several major cruise ship companies are planning realignments that will result in some additional visitor increases for the region in 2012. In conclusion, Juneau is relatively stable overall, but the ongoing national economic downturn and recent decreases in tourism continue to place some downward pressure on the local economy. The overall forecast at this time is for stability during 2011 and 2012. For comparison, detailed demographics for Alaska's major cities are presented on the Demographic Data Exhibit on the following page.

Demographic Data Exhibit

Summary	Ketchikan 2000	Ketchikan 2010	Ketchikan 2015	Juneau 2000	Juneau 2010	Juneau 2015	Matanuska-Susitna 2000	Matanuska-Susitna 2010	Matanuska-Susitna 2015	Fairbanks North Star 2000	Fairbanks North Star 2010	Fairbanks North Star 2015	Anchorage 2000	Anchorage 2010	Anchorage 2015	Alaska 2000	Alaska 2010	Alaska 2015	United States 2000	United States 2010	United States 2015
Population	14,070	13,100	12,632	30,711	30,761	30,628	59,322	88,380	100,973	82,840	95,574	103,150	260,283	287,705	296,853	626,932	695,751	724,892	281,421,906	311,212,863	323,209,391
Households	5,399	5,153	5,000	11,543	11,777	11,774	20,556	31,394	36,108	29,777	33,772	36,533	94,822	105,470	109,023	221,600	248,724	260,058	105,480,101	116,761,140	121,359,604
Families	3,634	3,364	3,219	7,638	7,555	7442,00	15,057	22,437	25,503	20,502	22,597	24,109	64,131	69,236	70,559	152,337	166,656	172,116	71,787,347	78,333,359	80,856,809
Average Household Size	2.56	2.50	2.48	2.60	2.56	2.55	2.84	2.78	2.77	2.68	2.69	2.70	2.67	2.65	2.65	2.74	2.71	2.71	2.59	2.59	2.60
Owner Occupied HUs	3,278	3,156	3,053	7,356	7,546	7,533	16,218	24,785	28,474	16,066	18,397	19,940	56,953	63,575	65,608	138,509	157,546	165,060	69,815,753	76,868,769	80,072,859
Renter Occupied HUs	2,121	1,997	1,947	4,187	4,231	4,241	4,338	6,609	7,634	13,711	15,375	16,593	37,869	41,895	43,415	83,091	91,178	94,998	35,664,348	39,892,371	41,286,745
Median Age	35.9	37.2	36.4	35.3	38	38	34.0	35.8	35.8	29.5	30.7	31.6	32.4	33.7	33.7	32.4	33.7	33.8	35.3	37.0	37.3

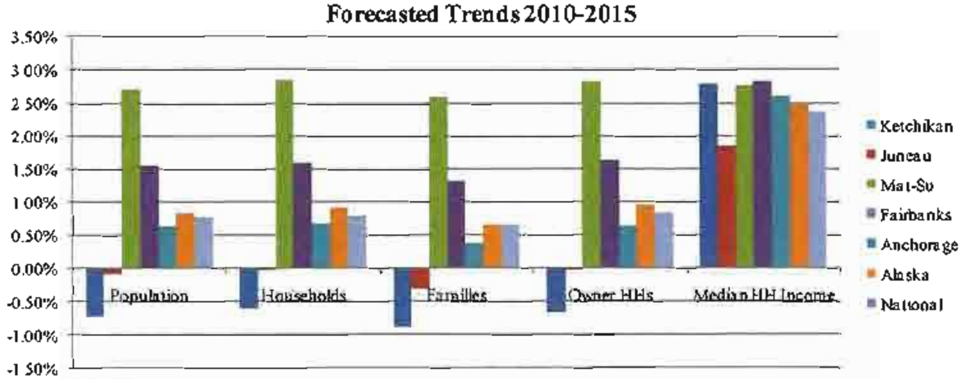
Trends: 2009-2014 Annual Rate	Ketchikan	Juneau	Matanuska-Susitna	Fairbanks North Star	Anchorage	Alaska	United States
Population	-0.72%	-0.09%	2.70%	1.54%	0.63%	0.82%	0.76%
Households	-0.60%	-0.01%	2.84%	1.58%	0.66%	0.90%	0.78%
Families	-0.88%	-0.30%	2.59%	1.30%	0.38%	0.65%	0.64%
Owner HHs	-0.66%	-0.03%	2.81%	1.62%	0.63%	0.94%	0.82%
Median Household Income	2.78%	1.84%	2.76%	2.81%	2.60%	2.49%	2.36%

Households by Income (2010)	Ketchikan Number	Ketchikan Percent	Juneau Number	Juneau Percent	Matanuska-Susitna Number	Matanuska-Susitna Percent	Fairbanks North Star Number	Fairbanks North Star Percent	Anchorage Number	Anchorage Percent	Alaska Number	Alaska Percent	United States Number	United States Percent
< $15,000	213	4.1%	380	3.2%	2,049	6.5%	1,771	5.2%	4,075	3.9%	13,405	5.4%	13,324,537	11.4%
$15,000 - $24,999	284	5.5%	573	4.9%	2,254	7.2%	2,153	6.4%	5,388	5.1%	15,588	6.3%	10,943,687	9.4%
$25,000 - $34,999	343	6.7%	530	4.5%	1,710	5.4%	1,987	5.9%	5,912	5.6%	15,283	6.1%	11,375,270	9.7%
$35,000 - $49,999	799	15.5%	959	8.1%	4,447	14.2%	4,614	13.7%	12,243	11.6%	35,392	14.2%	17,500,292	15.0%
$50,000 - $74,999	1,401	27.2%	3,336	28.3%	8,246	26.3%	9,637	28.5%	26,651	25.3%	63,312	25.5%	25,175,713	21.6%
$75,000 - $99,999	872	16.9%	2,197	18.7%	5,652	18.0%	5,833	17.3%	19,031	18.0%	41,657	16.7%	16,451,401	14.1%
$100,000 - $149,999	929	18.0%	2,660	22.6%	4,836	15.4%	4,977	14.7%	20,339	19.3%	41,951	16.9%	13,940,570	11.9%
$150,000 - $199,999	160	3.1%	680	5.8%	1,365	4.3%	1,900	5.6%	7,152	6.8%	13,710	5.5%	3,980,482	3.4%
$200,000+	152	2.9%	462	3.9%	835	2.7%	900	2.7%	4,679	4.4%	8,426	3.4%	4,068,037	3.5%

	Ketchikan 2000	Ketchikan 2010	Ketchikan 2015	Juneau 2000	Juneau 2010	Juneau 2015	Matanuska-Susitna 2000	Matanuska-Susitna 2010	Matanuska-Susitna 2015	Fairbanks North Star 2000	Fairbanks North Star 2010	Fairbanks North Star 2015	Anchorage 2000	Anchorage 2010	Anchorage 2015	Alaska 2000	Alaska 2010	Alaska 2015	United States 2000	United States 2010	United States 2015
Median Household Income	$51,088	$62,421	$71,592	$61,862	$75,885	$83,118	$51,062	$62,574	$71,701	$49,145	$62,484	$71,776	$55,401	$72,574	$82,497	$51,581	$65,007	$73,516	$42,164	$54,442	$61,189
Average Household Income	$61,519	$77,698	$89,717	$69,983	$89,158	$100,445	$59,782	$75,641	$87,998	$58,561	$77,678	$89,774	$67,906	$88,770	$102,884	$62,475	$80,618	$93,041	$56,644	$70,173	$79,340
Per Capita Income	$23,994	$30,963	$35,983	$26,719	$34,592	$39,135	$21,105	$27,129	$31,727	$21,553	$28,501	$32,905	$25,287	$33,150	$38,455	$22,660	$29,492	$34,112	$21,587	$26,739	$30,241

Source: STDB Online

Forecasted Trends 2010-2015



Source: STDB Online

Neighborhood Data

Name South Franklin Tourist District

Location & Access The neighborhood location and access / linkages are shown on the street and aerial photos that follow. Neighborhood access is considered typical of the market. The neighborhood is generally located between the AJ Rock Dump, to the south, and the Franklin Historic District, to the north. South Franklin Street Runs south from the CBD through the South Franklin Tourist District. To the southeast, Franklin Street turns into Thane Road. The arterials provide access to the cruise ship docks to the south of the CBD as well as to downtown Juneau. Franklin Street / Thane Road is a two-lane north south road that follows the waterfront north towards the CBD.

Character & Land Uses The neighborhood character is demonstrated by the neighborhood photos that follow. These photos were taken within close proximity to the subject and are representative of the character of the neighborhood. Due to the presence of the cruise ship berths, the subject neighborhood is dominated by cruise ship dependant retail uses. Retail uses line the arterial roads to satisfy high retail demand among Juneau's visitors. Valuations are driven by foot traffic, which is a function of location, whose primary characteristics include the linear amount of street frontage a site has and its exposure to visitors. Those buildings located between the 300 block and 400 block of South Franklin Street have the highest foot traffic and in turn have commanded the highest rents. Jewelry and furrier stores generally command the highest sales per square foot and can justify the highest rents in the prime locations. In most of the retail related improvements, street level space is used for retail, with upper floors used for storage or apartments by local shop owners. Several buildings have been constructed or renovated in recent years, however, the rate of new construction has subsided as the number of cruise ship visitors has fallen.

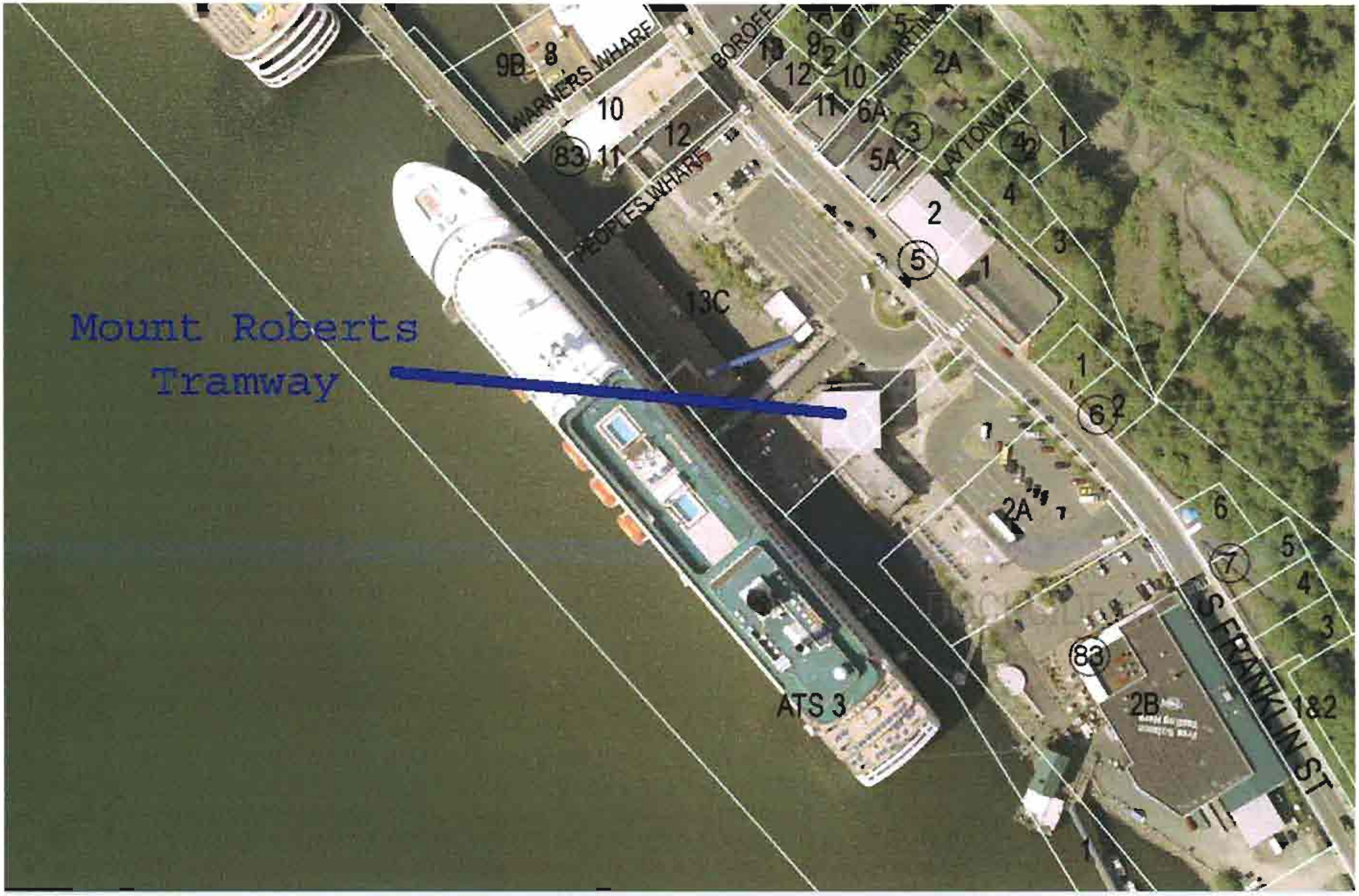
Percent Land Developed Roughly 90 Percent

Life Cycle Mature

Trends Neighborhood trends will correlate directly with cruise ship passenger volumes, which are anticipated to be stable over the short term and escalate gradually over time. Given the fixed supply of land, current percent of developed land and demand trends, neighborhood trends should be towards moderately escalating land values, rents and prices over time.

Neighborhood Aerial Photograph

Immediate Neighborhood Aerial Photograph



Immediate Neighborhood Photographs


Neighborhood view to north of Mount Roberts Tram


Neighborhood view to north of Mount Roberts Tram


Neighborhood view to north of Mount Roberts Tram


Neighborhood view to south of Mount Roberts Tram


View of retail developments on east side of S. Franklin Street (across the street from subject).


Facing northerly viewing street scene of S. Franklin Street.

Market Analysis

Introduction

As most of the resource-based industries declined or became stagnant during the 1990s, the tourism industry flourished and helped maintain Alaska's economy. The industry is important to the state's economy both in terms of how many jobs it creates, and in the money it brings in. According to Ron Peck of the Alaska Travel Industry Association, Alaska's visitor industry generates 40,000 full-time equivalent jobs, or roughly 14 percent of all employment, and infuses $1.15 billion in wages and benefits to Alaska workers. An estimated 1.557 million out-of-state visitors traveled to Alaska between May and September 2011, which represents a slight increase over 2010 levels. The Alaska Visitor Statistics Program VI: Summer 2011 prepared by McDowell Group on behalf of the State of Alaska states that:

> *"With four out of five Alaska visitors originating from within the US, nationwide economic conditions played a role in Alaska visitor volume over the past few years. The country slid into recession in 2008, with unemployment reaching its highest level in many years in 2009. The economy remained relatively weak and unemployment high through 2011. In reaction to the recession, US residents started saving more and cutting back on discretionary spending, especially on big-ticket items like Alaska vacations. Given the state of the nation's economy, it is somewhat surprising that visitor volume did not decline more than it did in 2008, 2009, and 2010."*

Summary of Alaska Visitor Statistics Program

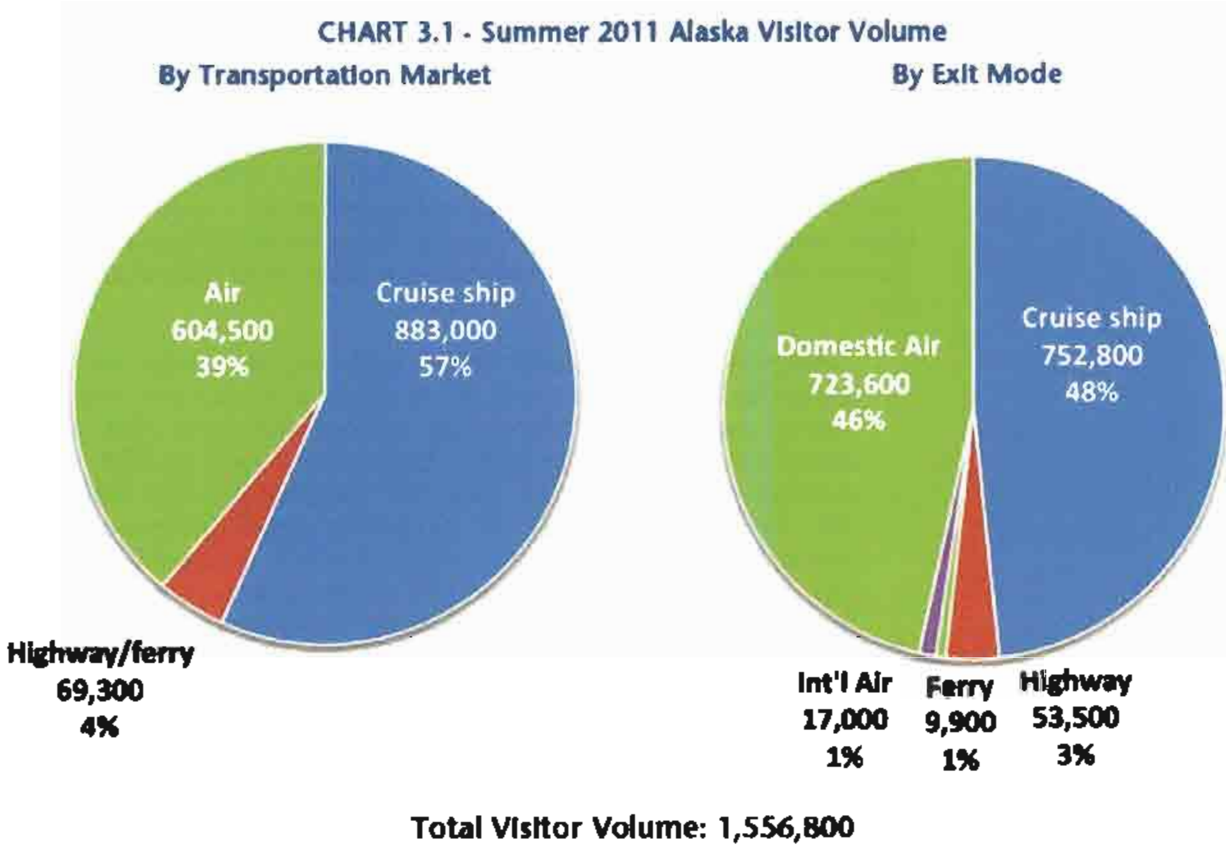
The Alaska Visitor Statistics Program (AVSP) has been periodically performed for the State of Alaska to estimate the number of out-of-state visitors over the study period and gather information regarding trip purpose, transportation modes used, length of stay, destinations, lodging, activities, expenditures, satisfaction, trip planning, and demographics. The McDowell Group released the most current study in March 2012. The study is comprehensive and has been heavily relied upon. The entire study is available for review at the following web site: http://www.commerce.state.ak.us/ded/dev/toubus/pub/2011AVSP-FullReport.pdf.

Cruise Ship vs. Non-Cruise Ship Visitors

The Alaska Visitor Statistics Program VI: March 2012 prepared by McDowell Group on behalf of the State of Alaska states the following"

> *"An estimated 1,556,800 out-of-state visitors came to Alaska between May and September 2011. In terms of transportation market (see pie chart, below left), 883,000 were cruise ship passengers, 604,500 were air visitors (entered and exited the state by air), and 69,300 were highway/ferry visitors (entered or exited the state by highway or ferry). Measuring traffic by transportation market is useful because many cruise ship passengers exit the state via air; in addition, the highway and ferry markets overlap, making it practical to group them together. Survey results are reported for the total visitor market as well as these*

three transportation markets in the following chapter. The chart at below right shows visitor volume measured by mode of exit – that is, the transportation method used to exit Alaska. Because of the approximately 130,000 cruise ship passengers who exit the state by air, the proportion of cruise ship visitors decreases and the proportion of air visitors increases compared to transportation market figures."



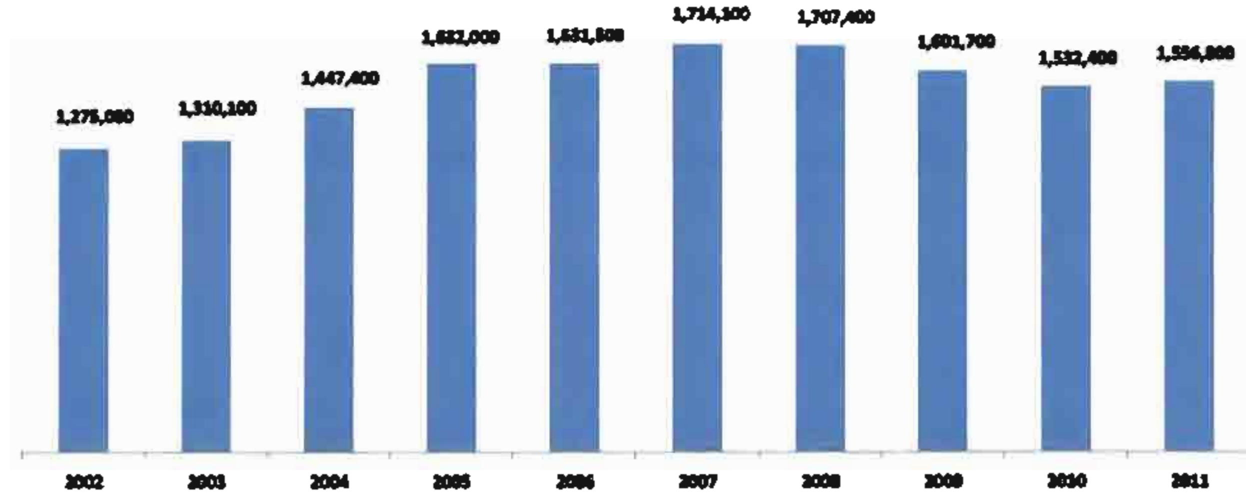
Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

Total Visitor Trends

The Alaska Visitor Statistics Program VI: March 2012 prepared by McDowell Group on behalf of the State of Alaska states the following"

"The summer 2011 visitor volume of 1,556,800 represents a 1.6 percent increase over summer 2010 – a slight rebound after significant declines in both 2009 and 2010 (-6.2 percent and -4.3 percent, respectively). The changes in visitor volume over the last several years are explored in greater detail in the following sections. From a long-term perspective, the 2011 volume is 22 percent higher than the volume of a decade earlier, in 2002. The peak years for Alaska tourism in the last decade were 2007 and 2008, when volume surpassed the 1.7 million mark."

CHART 3.2 - Alaska Visitor Volume, Summers 2002-2011



Sources: 2005-2011 data from AVSP V and VI (conducted by McDowell Group); 2002-2004 data from AVSP IV (conducted by Northern Economics, Inc.).

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

Method of Travel

The Alaska Visitor Statistics Program VI: March 2012 prepared by McDowell Group on behalf of the State of Alaska states the following"

> *"The following chart and table show how visitor volume to Alaska has fluctuated over the last six years (since the last AVSP was conducted in 2006) in terms of transportation market: air, cruise, and highway/ferry. The most significant change in the air market occurred in 2009, when it declined by 15 percent, largely attributable to the nationwide economic recession. This market has shown a strong recovery, however, with a 14 percent increase in 2010, followed by a 5 percent increase in 2011. The 2011 air volume of 604,500 surpassed the previous peak of 602,200, set in 2007. The cruise market has also fluctuated since 2006, with a 7 percent increase in 2007, and a 14 percent decrease in 2010. Cruise traffic has not shown the strong recovery of the air market; the 2011 total of 883,000, while 1 percent more than in 2010, is still 15 percent below the 2008 peak of 1,033,100. (A 6 percent growth in berth capacity is projected for 2012.) The cruise market is discussed in more detail in the following Visitor Industry Indicators chapter. The highway/ferry market has generally trended downwards over the last six years, showing an overall decline of 18 percent between 2006 and 2011. As discussed throughout this report, the composition of the highway/ferry market has likewise changed since 2006. Survey results show a shorter average length of stay, a higher proportion of Canadians (including a significant percentage from the Yukon), and lower likelihood of visiting Southcentral and Interior destinations. These changes correspond with highway traffic indicators. While border crossings (by private vehicle occupants) over the Alcan, Top of the World, and Haines Highways combined declined by 26 percent between 2006 and 2011, private vehicle traffic via the Klondike Highway increased by 17 percent Although residency by province was not collected in 2006, it appears*

that Yukon residents making short trips across the border have come to represent a larger share of the highway market. With increases in both the air and cruise markets, and an overall increase in visitor volume of 1.6 percent, the summer 2011 season potentially represents the start of a rebound towards previous Alaska visitor levels."

CHART 3.3 - Trends In Summer Visitor Volume, By Transportation Market, 2006-2011

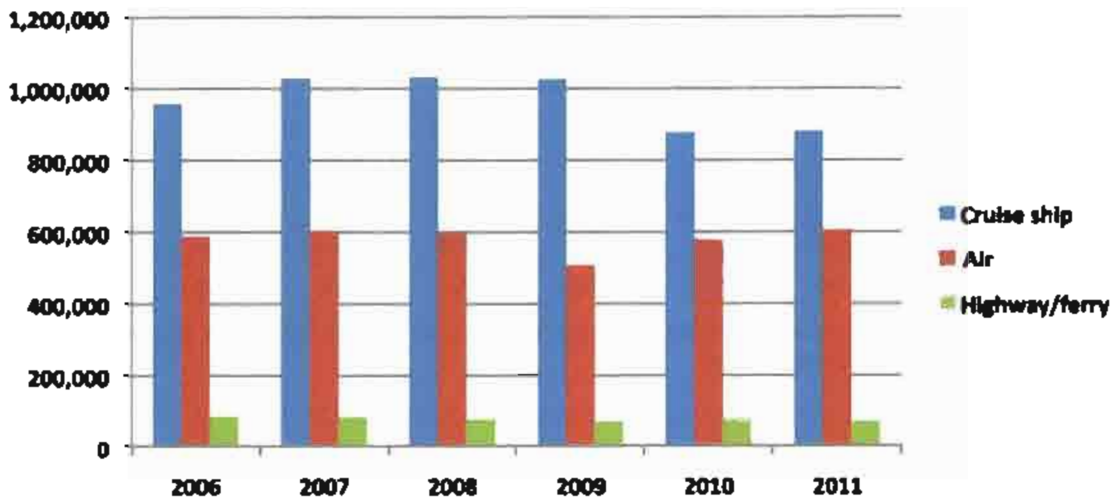


TABLE 3.2 - Trends In Summer Visitor Volume, By Transportation Market, 2006-2011

	2006	2007	2008	2009	2010	2011
Air	587,800	602,200	597,200	505,200	578,400	604,500
Cruise ship	958,900	1,029,800	1,033,100	1,026,600	878,000	883,000
Highway/ferry	84,800	82,100	77,100	69,900	76,000	69,300
Total	**1,631,500**	**1,714,100**	**1,707,400**	**1,601,700**	**1,532,400**	**1,556,800**
% change	**0.0%**	**+5.1%**	**-0.4%**	**-6.2%**	**-4.3%**	**+1.6%**

Sources: AVSP V and AVSP VI.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

Other Relevant Data

TABLE 3.7 – Highway Border Crossings by Personal Vehicle, 2006-2011

	2006	2007	2008	2009	2010	2011
All highways	**168,875**	**163,395**	**150,517**	**150,326**	**156,533**	**152,101**
% change		**-3.2%**	**-7.9%**	**-0.1%**	**+4.1%**	**-2.8%**
Alcan	**66,978**	**66,879**	**55,155**	**52,403**	**60,543**	**48,654**
% change		**-0.1%**	**-17.5%**	**-5.0%**	**+15.5%**	**-19.6%**
Top of the World	**12,195**	**13,880**	**12,603**	**9,960**	**8,378**	**10,881**
% change		**+13.8%**	**-9.2%**	**-21.0%**	**-15.9%**	**+29.9%**
Klondike	**61,432**	**56,652**	**60,647**	**63,972**	**67,310**	**72,137**
% change		**-7.8%**	**+7.1%**	**+5.5%**	**+5.2%**	**+7.2%**
Haines	**28,270**	**25,984**	**22,112**	**23,991**	**20,302**	**20,429**
% change		**-8.1%**	**-14.9%**	**+8.5%**	**-15.4%**	**+0.6%**

Source: Yukon Department of Tourism and Culture.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 3.8 - Alaska Marine Highway System, Non-Resident Ridership, May-September 2006-2011

	2006	2007	2008	2009	2010	2011
Non-resident passengers	85,438	88,490	92,874	77,530	85,306	88,375
% change		+3.6%	+5.0%	-16.5%	+10.0%	+3.6%
Non-resident passengers exiting Alaska	11,676	10,694	10,424	9,144	10,043	9,898
		-8.4%	-2.5%	-12.3%	9.8%	-1.4%

Source: AVSP V and VI, Alaska Marine Highway System.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 3.9 - 2nd and 3rd Quarter Bed Tax Revenue Trends, 2006-2011

	2006	2007	2008	2009	2010	2011
Anchorage	$115,108,885	$123,432,676	$132,873,921	$103,482,576	$112,909,476	$121,956,765
% change		+7%	+8%	-22%	+9%	+8%
Fairbanks (City)	$2,117,215	$2,164,649	$2,250,939	$1,838,652	$1,983,472	$1,906,361
% change		+2%	+4%	-18%	+8%	-4%
Fairbanks (Bor.)	$1,196,991	$1,336,276	$1,346,969	$1,085,851	$1,298,242	$1,224,402
% change		+12%	+1%	-19%	+20%	-6%
Denali	$2,518,755	$2,641,409	$1,372,902	$1,185,078	$1,329,372	$1,876,244
% change		+5%	-48%	-14%	+12%	+41%
Mat-Su	$293,101	$335,522	$356,123	$330,644	$280,722	$345,345
% change		+14%	+6%	-7%	-15%	+23%
Sitka	$361,925	$405,308	$331,230	$237,042	$260,660	$262,797
% change		+12%	-18%	-28%	+10%	+1%
Juneau	$775,472	$889,313	$897,324	$616,223	$738,118	$718,868
% change		+15%	+1%	-31%	+20%	-3%

Sources: Municipality of Anchorage, Fairbanks Convention and Visitors Bureau, Denali Borough, Matanuska-Susitna Borough, City and Borough of Sitka, City and Borough of Juneau.

Source. McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 3.10 - Non-Resident Fishing License Sales, 2006-2011

	2006	2007	2008	2009	2010	2011
Total annual non-resident fishing license sales	315,469	324,142	303,838	255,777	259,055	258,840
% change		+2.7%	-6.3%	-15.8%	+1.3%	-0.1%
Total annual non-resident king salmon stamp sales*	134,129	133,917	110,444	90,906	89,975	93,940
% change		+0.2%	-17.5%	-17.7%	-1.0%	+4.4%

Source: Alaska Department of Fish & Game.
*Combined annual and day stamps.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

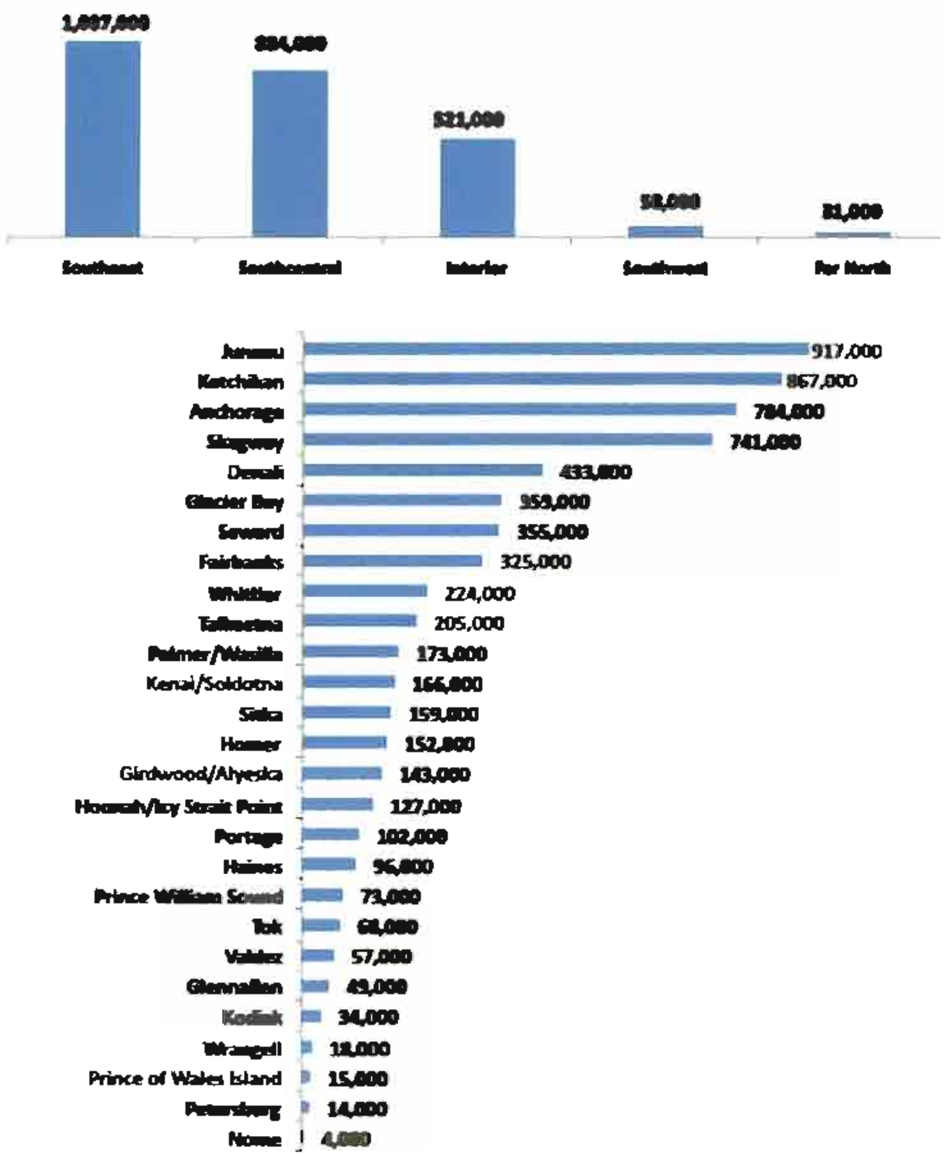
TABLE 3.11 - Anchorage RV and Car Rental Revenues, 2nd and 3rd Quarter, 2006-2011

	2006	2007	2008	2009	2010	2011
Vehicle rental revenue	$37,088,393	$40,294,675	$43,844,396	$34,203,944	$37,230,799	$39,602,111
% change		+8.6%	+8.8%	-22.0%	+8.8%	+6.4%
RV rental revenue	$11,518,384	$12,234,338	$12,891,514	$9,582,858	$10,491,516	$11,414,788
% change		+6.2%	+5.4%	-25.7%	+9.5%	+8.8%

Source: Municipality of Anchorage.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska

CHART 3.8 - Summer 2011 Alaska Visitor Volume, by Region and Community



Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

CHART 4.5 - Regions Visited (Day or Overnight), 2006 and 2011

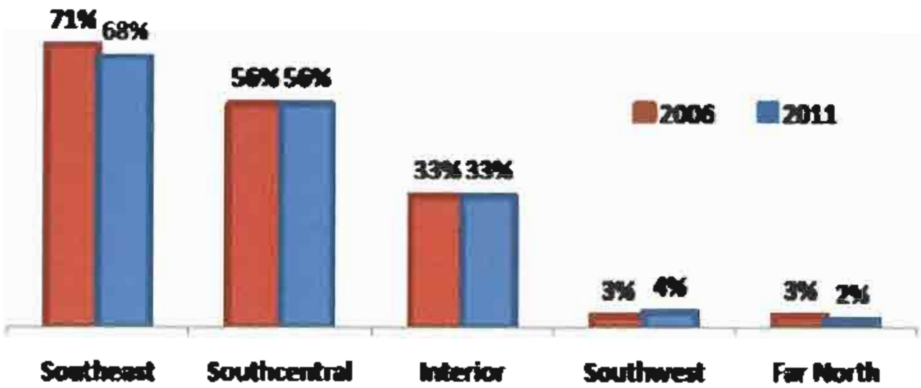
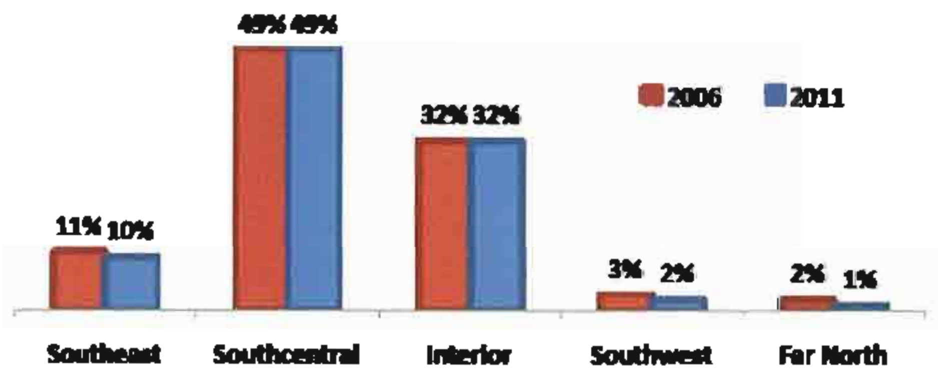
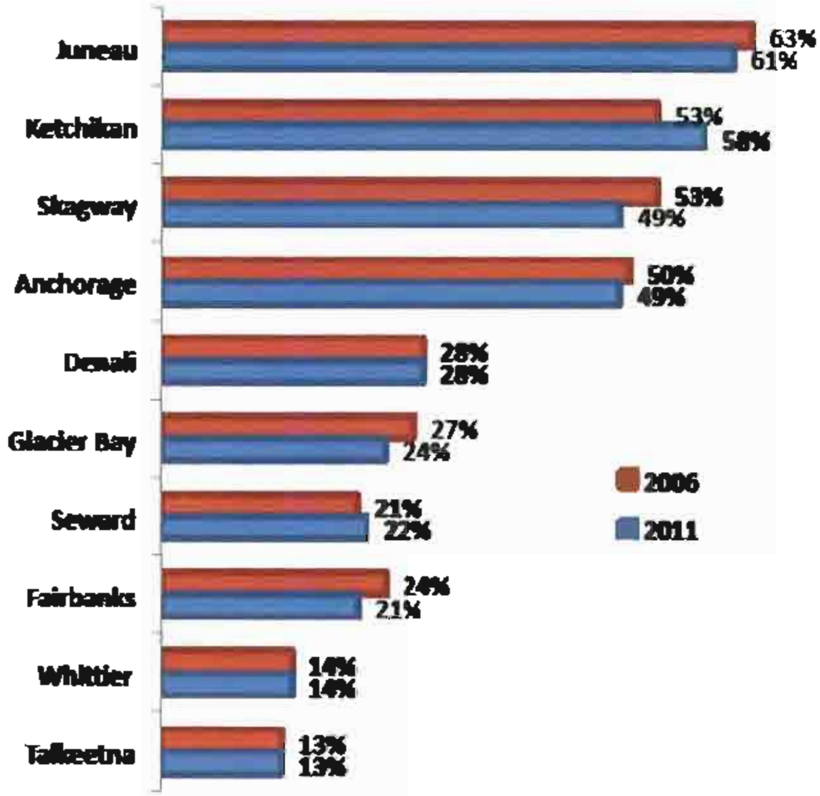


CHART 4.6 - Regions Visited Overnight, 2006 and 2011



Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

CHART 4.7 - Top Ten Alaska Destinations (Day or Overnight), 2006 and 2011



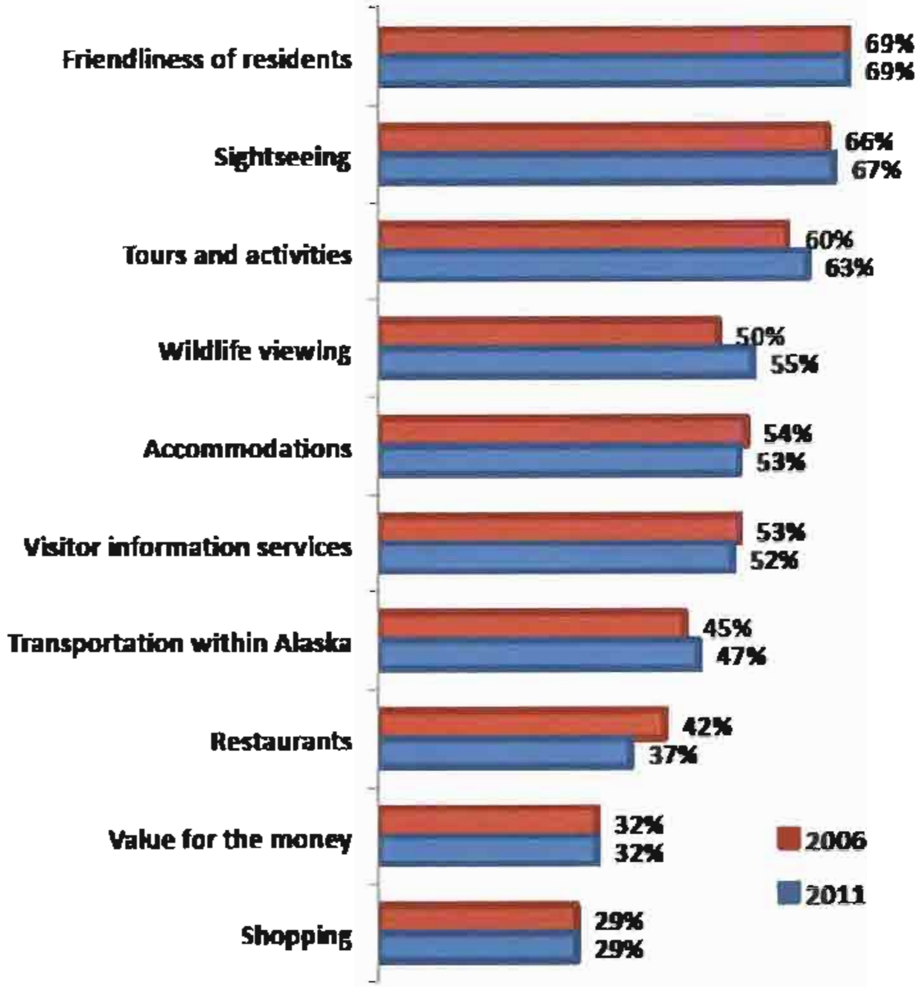
Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 4.20 - Satisfaction with Overall Alaska Experience By Transportation Market, 2006 and 2011 (%)

	All Visitors		Air		Cruise		Hwy/Ferry	
	2006	2011	2006	2011	2006	2011	2006	2011
5 - Very satisfied	70	**71**	68	**70**	72	**72**	64	**64**
4 - Satisfied	27	**27**	30	**28**	25	**25**	31	**34**
3 - Neither/neutral	2	**2**	2	**2**	1	**2**	4	**1**
2 - Dissatisfied	1	**<1**	1	**<1**	2	**1**	<1	**1**
1 - Very dissatisfied	<1	**<1**	<1	**<1**	<1	**-**	-	**-**
Average 1-5	4.7	**4.7**	4.6	**4.7**	4.7	**4.7**	4.6	**4.6**

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

CHART 4.10 - Satisfaction by Category, 2006 and 2011
Percent "Very Satisfied"



Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 4.23 - Likelihood of Recommending Alaska to Friends/Family
By Transportation Market, 2006 and 2011 (%)

	All Visitors		Air		Cruise		Hwy/Ferry	
	2006	2011	2006	2011	2006	2011	2006	2011
Very likely	79	**78**	77	**74**	80	**80**	77	**80**
Likely	18	**20**	20	**23**	17	**19**	20	**18**
Unlikely	1	**1**	1	**1**	1	**1**	1	**1**
Very unlikely	<1	**<1**	<1	**<1**	1	**<1**	<1	**1**
Don't know	1	**1**	2	**1**	1	**1**	3	**1**

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

TABLE 4.24 - Likelihood of Returning to Alaska in Next Five Years By Transportation Market, 2006 and 2011 (%)

	All Visitors		Air		Cruise		Hwy/Ferry	
	2006	2011	2006	2011	2006	2011	2006	2011
Very likely	40	38	66	62	26	21	46	50
Likely	22	23	18	21	25	25	23	22
Unlikely	19	19	8	8	25	26	13	12
Very unlikely	7	7	2	2	10	11	9	8
Don't know	11	13	6	6	14	17	9	7

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

CHART 4.18 - Average Per-Person Spending By Transportation Market, 2006 and 2011

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

CHART 4.20 - Total Visitor Expenditures in Alaska in Millions of Dollars By Transportation Market, 2006 and 2011

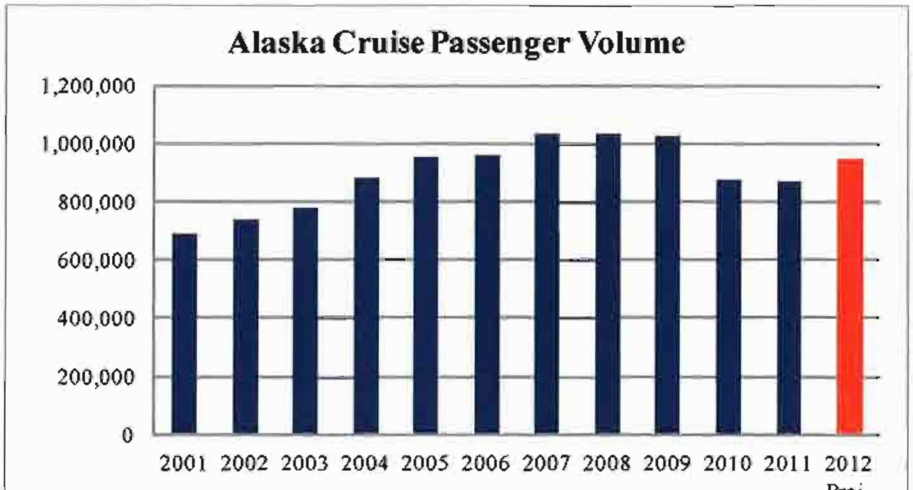
Note: Spending by cruise visitors excludes the price of their cruise or cruise/tour package. Spending on ferry tickets to enter and exit the state is excluded.

Source: McDowell Group, Alaska Visitor Statistics Program VI: March 2012 on behalf of State of Alaska.

Alaska Cruise Ship Market

Statewide Passenger Volumes

Alaska continues to be a popular cruise ship destination for travelers. According to the CLIA report Alaska's scheduled capacity in 2010 (as measured by bed-days) was 5.7% of the worldwide cruise ship market. Alaska's 2010 share of market capacity is a decline of roughly 2.1% from 2000. In fact, Alaska held 7.7% of the cruise ship market's capacity as recently as 2007. Much of this decline occurred in 2010 when scheduled capacity dropped more than 13% compared to 2009. 2010's decline was the result of the relocation of vessels from Alaskan waters to more profitable markets. Market observers and cruise ship companies generally cite the passenger tax passed by voters in 2006 for the relocation of the vessels. Historic Alaska cruise passenger volumes are summarized on the following table.



Source: Alaska Cruise Association

Year	Passenger Volume	% Change	Cumulative % Change	Total Visitors	Passengers % of Total
2001	690,600	-	-	1,202,800	57 4%
2002	739,800	7.1%	7 1%	1,275,000	58 0%
2003	777,000	5.0%	6 1%	1,310,100	59.3%
2004	884,400	13.8%	8.6%	1,447,400	61.1%
2005	953,400	7 8%	8 4%	1,632,000	58.4%
2006	958,900	0.6%	6.8%	1,631,500	58.8%
2007	1,029,800	7.4%	6.9%	1,714,100	60.1%
2008	1,033,100	0.3%	5.9%	1,707,400	60 5%
2009	1,026,600	-0 6%	5.1%	1,583,300	64.8%
2010	878,000	-14.5%	2.7%	NA	NA
2011	870,000	-0.9%	2.3%	NA	NA
2012 Proj	950,000	9.2%	2.9%	NA	NA

Reliant Job Number 11-1370

The Alaska cruise ship market has expanded significantly since 2001. Though a lack of adequate infrastructure in several of the main ports of call was cited as a hindrance to growth in some markets. In response, additional berth construction and the updating of existing facilities was prevalent through 2008. Passenger volume peaked in 2008 at 1.033 million and held steady in 2009. Most industry experts agree that the large decline seen in 2010 was the result of the national recession and increase in cruise ship taxes that resulted in several companies moving ships to other, more lucrative, markets. Through 2008, the industry grew at an average annual rate of nearly 7%. Due to a recovering national economy and lowering of taxes, 2012 is anticipated to increase by 80,000 visitors, which represents a growth rate of 9.2%. While still 80,000 passengers below 2008 peak levels, the increase represents a return to growth for the industry.

Cruise Ship Initiative

In 2006, Alaska voters approved a cruise ship initiative that called for a $50 per person head tax to be charged for each passenger visiting the state. The initiative was passed with the intention of unifying Alaskan ports. A common example is Whittier, Alaska. In 2003, Whittier was forced to repeal its $1 head tax after Princess Cruise Lines told the city it would no longer visit if it was forced to pay the tax. Under the initiative, the first $4 of the head tax pays for an Ocean Rangers environmental monitoring program. The remaining $45 is distributed with the first five ports visited with each receiving $5. The remaining funds are pooled in a general fund which is intended for cruise ship related improvements. The cruise lines spent over a million dollars in an effort to persuade residents not to approve the initiative. Voters passed the initiative and after some revisions the tax was set to $46 per passenger. In response to the legislation, cruise companies began withdrawing ships from the Alaskan market and relocating them to more profitable destinations. Cruise executives have stated that with the taxes and environmental regulations Alaska has the highest operating costs of all the world's cruise destinations. The industry also formed the Alaska Cruise Association (ACA) in 2007, an agency whose stated purpose it is to build partnerships with local businesses and civic leaders to expand economic benefits to communities. The ACA is also recognized for its role as a lobby to promote changes in the state's tax and regulatory climate. Further, the cruise association filed a lawsuit against the state on the grounds that the tax was onerous and unconstitutional. The significant withdrawal of cruise ships in 2010 and the anticipated loss in visitation/revenue to Alaska compelled Alaskans, the Legislature and the governor to revisit the tax in the early summer 2010. In June 2010 lawmakers passed a bill that cuts the head tax from $46/ person to $34.50/ person and allows for deeper offsets for ships that stop in at least one of two ports: Juneau or Ketchikan. In accordance with the reduction in the cruise tax, the cruise industry dropped the lawsuit it filed against the state. The state also increased the state's tourism marketing budget by 80 percent, which equates to an additional $16 million. The funds will come from the state's general fund. Because the schedules of cruise ships are determined two years out, the changes had limited impact on the 2011 season. The ACA anticipates, however, that the lower taxes should make Alaska more attractive to cruise ship companies and the 2012 season is projected represent an increase of 80,000 visitors or roughly 9%, which is the single largest percentage gain since 2004 and would represent the first year of growth since 2008.

Regulation

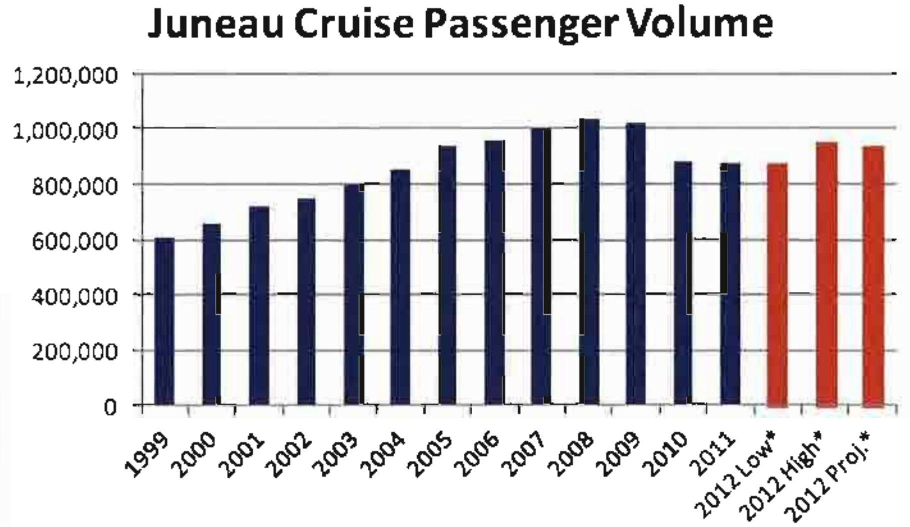
Cruise ship regulation has been a source of great debate within Alaska. The most recent example of this debate is the regulation and permitting of cruise line waste in state waters. In 2006, state regulators passed an initiative that established standards for cruise ships to dispose of waste in state waters. The standards require cruise ships to be held to stricter standards than cities and other industries of Alaska. While cruise ships have been working to develop new technologies to reach compliance with the initiative, some cruise companies have opted to discharge waste in federal waters. Without significant technological developments or compromises on the discharge initiative, the method of disposing waste in federal waters may become commonplace among cruise ships in Alaska. This possibility has aroused concerns among Alaskans and the cruise industry; detours out to federal waters will directly translate to less time in Alaskan ports of call. In order to address the concerns raised by the cruise industry and Alaskans, the governor of Alaska has appointed a science panel that will examine the regulations from a strictly scientific approach and make recommendations in 2013.

Ports

The most visited ports in Alaska are located in Southeast Alaska. The city of Juneau remains the most popular with Ketchikan and Skagway rounding out the top three. Additional popular ports of call include Glacier Bay, Seward, Sitka and Whittier. A new stop on several of the big ships itineraries is Icy Strait Point, an area between Juneau and Glacier Bay. The facilities are minimal and include a single dock at an old cannery. The advantage of the location is its access to some of Alaska's pristine wilderness including Glacier Bay National Park. The restored cannery contains museums and shops and the addition of a zip line ride to the multiple excursions have made the destination successful. The facility is owned and operated by the Tlingit natives and may start a trend for smaller specialty ports in the area much like the smaller company owned cruise ship ports in the Bahamas. With the diversity of opportunities in Alaska, and the varied interests of potential consumers, cruise ship companies continue to look at alternate options as the current ports struggle to meet demand.

Juneau Cruise Ship Market

Juneau is the top attraction for the Alaska cruise ship industry. Historically, Juneau passenger arrivals are 99% of the statewide total passenger volumes, indicating nearly every cruise makes a stop in Juneau. Juneau passenger volumes are summarized on the following table.



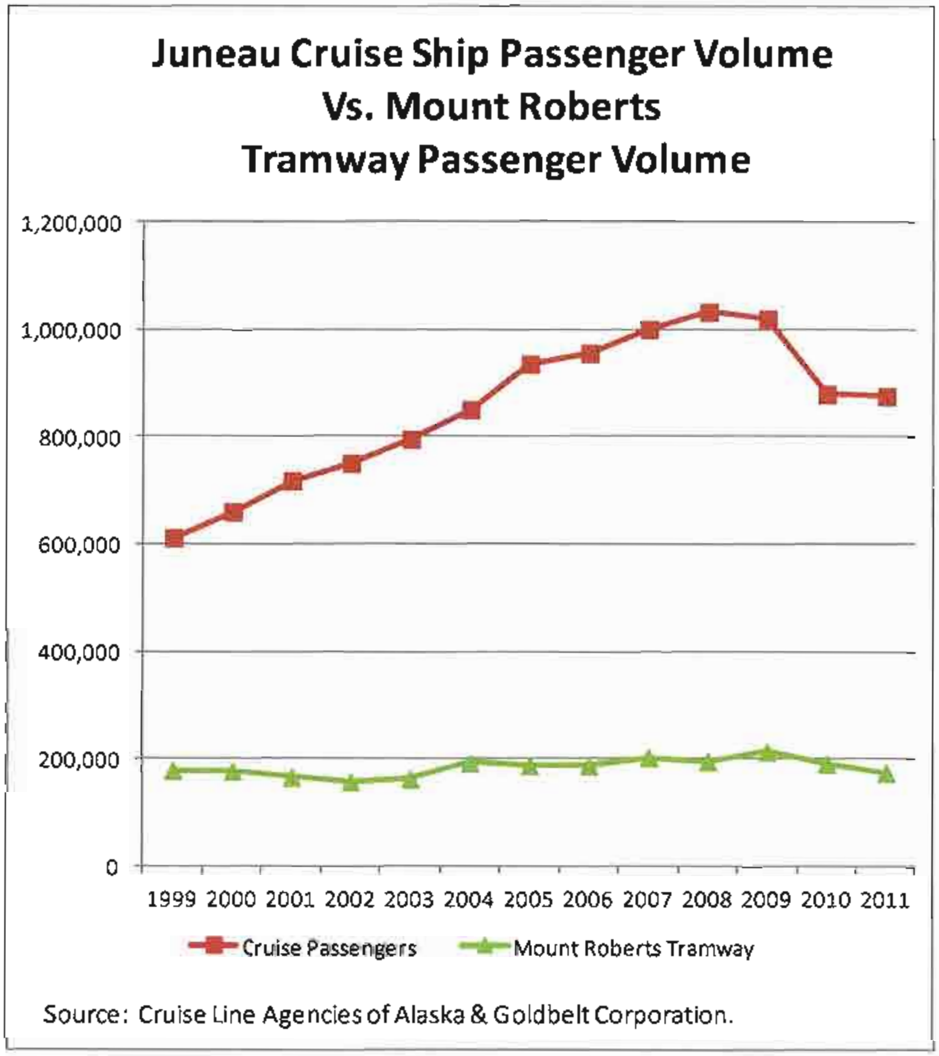
*Based on scheduled arivals multiplied by number of berths. 2012 Low is based on industry standard calculations. 2012 High represents best case scenario.

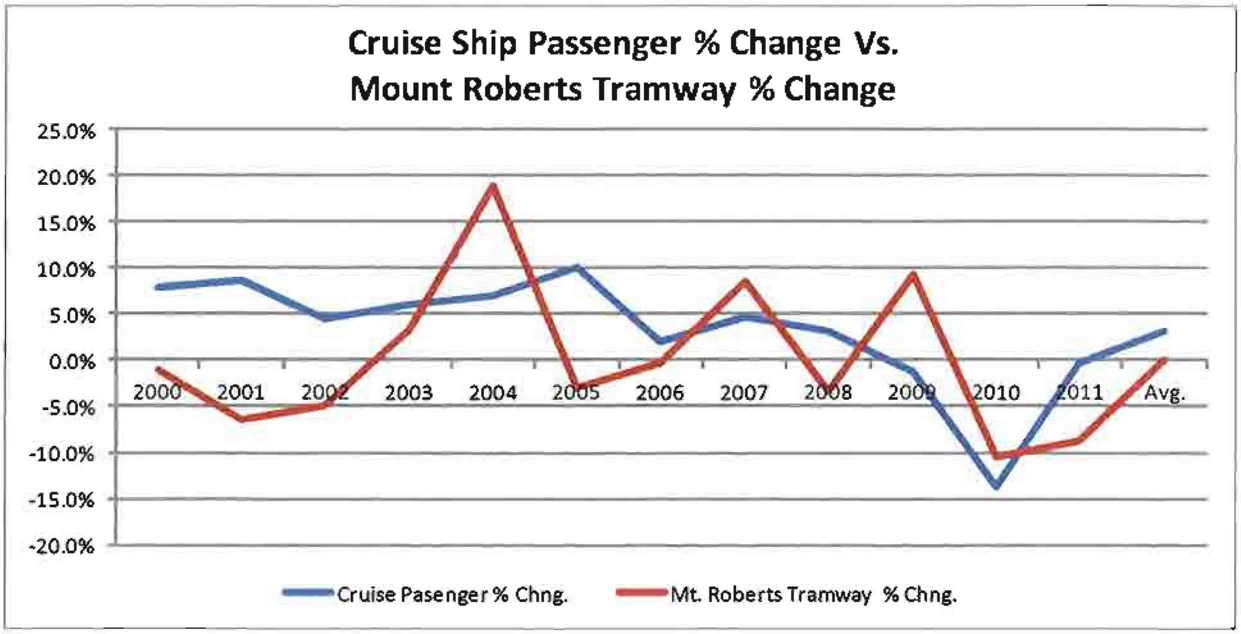
Source: Cruise Line Agencies of Alaska & Alaska Cruise Association, Reliant Reference Number 12-0300

Passenger volumes in Juneau have increased substantially over the last decade. From 1999 to the market peak of 2008, passenger volumes increased at an average annual rate of 6%. The peak year of growth was 2005 when passenger volumes increased by 10%. Similar to statewide trends, in 2009 passenger volumes were down 1.2%. In 2010, Juneau experienced a 13.8% decrease. 2011 experienced a slight decrease of 0.4%. Based on actual 2012 cruise ship visits multiplied by the industry standard number of persons per available berths, Cruise Line Agencies of Alaska reports 870,602 passengers are anticipated for 2012, which would represent an additional 0.6% decline over 2011 levels. Historically, the industry standard calculation has been somewhat conservative for Alaska and they report 927,191 potential visitors on the high side, which would represent a 5.9% increase. Based on the historic relationship between berths and passengers, Alaska Cruise Association projects 950,000 total visitors for 2012. Most analysts project an increase of 50,000 to 60,000 passengers in 2012. Factoring in statewide trends, Reliant forecasts 936,000 passengers in 2012, which is an increase of 6.9%.

Subject's Performance

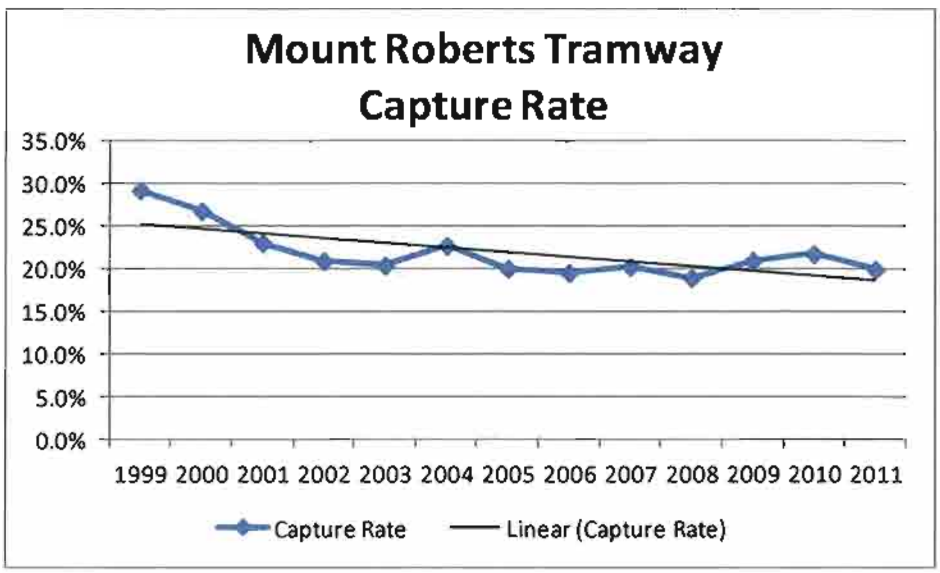
The subject site is an integral part of the Mount Roberts Tramway, which is directly dependent on trends within the cruise ship industry. The following exhibits present the subject's performance.

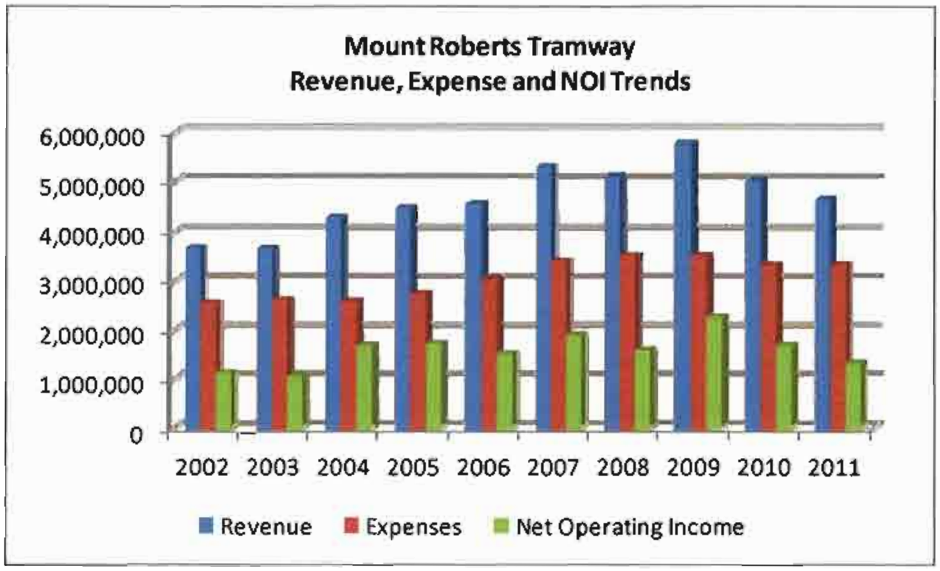

Juneau Cruise Ship Passenger Volume
Vs. Mount Roberts
Tramway Passenger Volume
1,200,000
1,000,000
800,000
600,000
400,000
200,000
0
1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Cruise Passengers
Mount Roberts Tramway
Source: Cruise Line Agencies of Alaska & Goldbelt Corporation.



Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Avg.
Cruise Pasenger % Chng.	*7 9%*	*8 8%*	*4.6%*	*6.0%*	*6.9%*	*10.0%*	*2.1%*	*4.7%*	*3.2%*	*-1 2%*	*-13 8%*	*-0.4%*	*3.2%*
Mt. Roberts Tramway % Chng.	*-1 1%*	*-6 5%*	*-5.0%*	*3.3%*	*18.9%*	*-2.9%*	*-0.4%*	*8.5%*	*-3.4%*	*9.3%*	*-10.5%*	*-8.7%*	*0.1%*

Source: Cruise Line Agencies of Alaska & Goldbelt Corporation.





The subject's operations peaked in 2009. Since that time, passenger counts and revenue have declined every year. Expenses in turn have been relatively stable, resulting in a significant decline in going concern net operating income. In fact, 2011 performance was in line with 2003 and 2004 levels. The data indicates that the subject is highly dependent on cruise ship passenger visitor volumes and their onshore purchasing power. Based on the available data, it is clear that market conditions within the aerial tramway segment of the visitor industry are soft, with the bulk of the gains earned over the last decade having been eroded. Overall, current market conditions have a negative influence on the market value of the subject.

Description of Site

Mount Roberts Tramway Site

Name	Franklin Street Juneau Terminal (CBJ Parcel)
Address	490 South Franklin Street Juneau, Alaska 99801
Geo Coordinates	Latitude: 58°17'46.45'N, Longitude: 134°24'3.09'W
Physical Location	60' north easterly of Gastineau Channel cruise ship dock, south westerly of South Franklin Street and northerly of Salmon Landing.
Assessor's Tax Parcel Number(s)[4]	1C100K830011
Abbreviated Legal Description[5]	The subject's ground lease identifies the surface estate as follows:

Portions of the following lots in an area not to exceed 10,000 Square Feet as shown on Exhibit A:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91.71, Juneau Recording District, First Judicial District, State of Alaska

In addition, the subject's ground lease identifies air rights easements associated with the tram as follows:

Lessor does hereby lease and Lessee does hereby take from Lessor an easement one hundred feet in width (fifty feet on each side of the tramway centerline) for the surveying, engineering, design, planning, development, construction, maintenance, and operation of a tramway, including without limitation, cables, tramway fixtures, cars, and

[4] Per Tax Assessor Records.
[5] Per Department of Natural Resources Records.

appurtenant structures and equipment. The easement shall burden all lands owned by Lessor, or in which Lessor has an interest of any kind, where said lands are to be traversed by Lessee's tramway, including without limitation the premises described as follows and as generally shown in Exhibit B attached hereto and incorporated herein (hereinafter called" Air Rights Easement"), situated in the Juneau Recording District, State of Alaska:

Portions of the following lots as shown on Exhibit B:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska

Lot 1, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska

Lot 2, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska Roberts Street

And as:

Lessor does not warrant that Lessor has any right, title or other interest in the following lands, but to the extent Lessor in fact has any such right, title or other interest, Lessor leases to Lessee the described Air Rights Easements where said lands are within 50 feet of the tramway centerline as generally shown in Exhibit B:

South Franklin Street

G Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska, excepting that portion of G Millsite heretofore conveyed to Alaska Tram Corporation by Warranty Deed recorded December 20, 1976, in Book 128, page 254, Juneau Recording District, First Judicial District, State of Alaska.

F Millsite, according to U.S. Mineral Survey 982B, Juneau Recording

District, First Judicial District, State of Alaska

B Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

P Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

H Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

X Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

Bear No.7 in U.S. Mineral Survey 1027 A, Juneau Recording District, First Judicial District, State of Alaska

Condition of Site at Time of Lease

A description of the subject is found in a Jensen/Douglas Architects, Inc. project narrative prepared in December of 1994 and provides the best indication of site conditions at time of lease and has therefore been extensively relied upon. In addition, CBJ documents relating to the subject's conditional use permit have also been relied on. Aerial photography of the site taken prior to lease (1995) provided by Aerometric is presented later in this section and was also relied upon as it provides an excellent indication on the sites original condition.

Lease Instructions on Valuation Methodology

Irrespective of the sites actual condition at time of lease, the subject's ground lease calls for the subject to be valued as "unimproved" land and that the appraisal shall not consider any buildings or structural improvements above or below ground, landscaping or paving. Regardless of original site condition, per the terms of the ground lease, this appraisal is predicated on the extraordinary assumption that the subject is unimproved land and does not consider any buildings or structural improvements above or below ground.

Gross Site Area[6]	Square Feet:	10,000
	Acres:	0.23
Usable Site Area	Square Feet:	10,000
	Acres:	0.23

A survey of the site indicating useable area was not provided to the appraiser. It is possible that the absence of the retaining wall (discussed later in this section) would result in a sloping site and reduce useable area on an as is basis. This could be cured by placing a retaining wall (or dock) on the site. The market value of this report assumes that all of the site's gross land area is useable. In the event that a portion of the site were found to be un-useable, the market value of the subject could be less than the current estimate.

[6] Per lease documents and Tax Assessor Records. A site drawing prepared by Jensen/Douglas Architects Inc. in December 1994 indicates a slightly smaller area of 9,980 sq ft, however, it is understood that the site area was subsequently modified.

Shape

Resulting from the ground lease footprint being adjusted to accommodate the shape of the improvements, the subject site is highly irregular in shape. The irregular shape is ideally suited for aerial tramway use but is not an efficient layout for retail use. The irregular shape of the subject would increase construction costs of a structure. While possible, it is unlikely that a single tenant would be identified and dividing the property into a northern and southern suite is considered more probable. Assuming full build out of the site footprint, the northern suite would have significant store frontage but is not oriented directly towards Franklin Street. Furthermore, this suite would have an irregular five sided layout that would result in some inefficient use of the space. The southern suite would be oriented directly towards Franklin Street but lacks the 40' to 60' depth that is typically required by most retailers. The shape reduces the economic potential of the property and the market rents that a retail use could attain. The lower rents and higher construction costs have a material impact on the market value of the underlying land based on retail use.

Street Frontage

The subject has no direct street frontage on South Franklin Street as it is set back from the street.

Street Access

Vehicle access is currently available via an interior "half circle" drive way that begins to the east of the subject and terminates at South Franklin Street in front of Taku Smokeries. The Jensen/Douglas Architects, Inc. project narrative prepared in December of 1994 states the following:

> *"The Lower Terminal of the tramway will be accessible from South Franklin Street just south of downtown Juneau."*

The Planning Commission Notice of Decision prepared on March 1, 1995 granting a conditional use permit addressed to Mt. Roberts Development Corporation states the following:

> *"The design of the Columbia Lot improvements shall incorporate the DOT/PF design for Thane Road. The applicant will be expected to include the curb and sidewalk envisioned in the state plan for the water side edge of Thane Road along the frontage of the Columbia Lot."*

While the "as proposed" site drawing prepared by Jensen/Douglas presented later in this report shows interior parking lots and streets as planned, based on the above language and the 1995 aerial photograph, existing access did not fully meet CBJ code requirements and was clearly not fully in place at time of lease.

Whether access was provided at the cost of the CBJ another third party or the developers of the subject is unknown at this time. However, it is likely that these were offsite development costs that were paid for, at least in part, by the developers of the subject. While the available access does not have a material impact on the current valuation, it would have a major impact on the value of the subject as a cruise ship dependant retail site. It is recommended that ownership perform additional research to identify who paid for offsite costs, including streets, gutters, sidewalks and parking lots.

Street Exposure

There are no improvements located between the subject site and South Franklin Street and the site has good exposure to north bound and south bound foot and vehicle traffic on South Franklin Street.

Access & Exposure to Cruise Ship Retail Foot Traffic

The subject site is located approximately 60' to the east of the Douglas cruise ship berth passenger ramp and benefits from visitor foot traffic embarking and disembarking from this location. Furthermore, while at the southern boundary of the cruise ship retail district, it is noted that the subject is surrounded by three different cruise ship berths and that there is substantial foot traffic in the immediate vicinity.

Topography, Dock Improvements & Retaining Wall

The subject has level topography, and is at grade with surrounding properties. However, the Planning Commission Notice of Decision prepared on March 1, 1995 granting a conditional use permit addressed to Mt. Roberts Development Corporation states the following:

> *"The general area of the Columbia Lot shall be filled to match the grades established by Taku Smokeries on the South and the Ferry Terminal parking/staging area on the north. Some provision for raising the elevation of the top edge of the seawall and re-setting the handrails shall be made."*

This suggests that in order to attain the current level topography (and a fully useable site) at some point in time, either before or after lease, the subject was filled and the retaining wall was put into place. Furthermore, at some point, either before or after lease, the area to the west of the subject was built out with a dock, which attaches directly to the subject site. A May 6, 1996 CBJ Memorandum to the Planning Commission references the subject site as an existing "parking lot" and later refers to the site as "CBJ owned dock space". The 1995 aerial photograph indicates the site is paved parking lot and generally filled and held in place by a retaining wall, although it appears that at time of lease the retaining wall was extended towards the cruise ship berth.

Regardless of when the improvements were made, language contained in the ground lease clearly indicates that for the purposes of appraisal the existing dock and retaining wall are to be ignored. Therefore, for the purposes of establishing the market value of the subject site per the ground lease either the subject's useable area should be reduced to incorporate the slope or the entire site should be valued as level/useable with the cost to build the dock and retaining wall deducted as a cost to cure. While this issue does not have a material impact on the current valuation, it would have a major impact on the value of the subject as a cruise ship dependant retail site and should be carefully considered by an appraiser performing this type of valuation.

Soil Conditions

Soils conditions in the subject's market are not uniform and can vary widely from one site to another. No soils report was provided, however, Jensen/Douglas Architects, Inc. project narrative prepared in December of 1994 states the following:

> *"A geotechnical investigation for the Lower Terminal site was performed by R&M Engineering, Inc., Juneau, Alaska. The following soil conditions has been excerpted from their report dated November 18, 1994. "The lower terminal is located on a fill overlying shoreline,*

> *slide/avalanche debris and glacial marine sedimentary soils all of which are underlain by sound gray schist bedrock. The fill extends to a maximum tested depth of 22' and consists primarily of AJ mine ,waste rock. The colluvial (avalanche, slide and soil creep) debris extends to a maximum tested depth of 39'. Boulders up to 30" thick were drilled through in penetrating this soil' unit. The glacial marine sediment soil is 8' to 12' in thickness underlying the colluvial soils and overlying bedrock. The consistency is "dense to very dense"."*

This language indicates the subject consisted of generally good quality upland soils that would require minimal work to bring to a build ready condition. Nonetheless, it is an ordinary assumption of this report that the soil conditions are sufficient quality to support the existing improvements including parking lot areas.

Utilities

The Jensen/Douglas Architects, Inc. project narrative prepared in December of 1994 states the following:

> *"The Lower Terminal will be served by municipal water and sewer service provided by CBJ. Electricity is available to the site and provided by Alaska Electric Light and Power Company (AELP). Heat for the Lower Terminal will either be electric or FHW (forced hot water) baseboard heated by an oil furnace."*

The above language indicates that at the time of lease the subject was not served by municipal water and sewer. Costs to bring water and sewer to a site are normally the responsibility of the developer. The exact location of sewer and water prior to development are unknown, however, a May 6, 1996 CBJ Memorandum to the Planning Commission references sewer and water as being located on the original un-subdivided 81,905 sq ft lot, of which the subject was a portion. Costs to bring these utilities to the site are also unknown. While this issue does not have a material impact on the current valuation, it would have a major impact on the value of the subject as a cruise ship dependant retail site and should be carefully considered by an appraiser performing this type of valuation.

Flood Zone

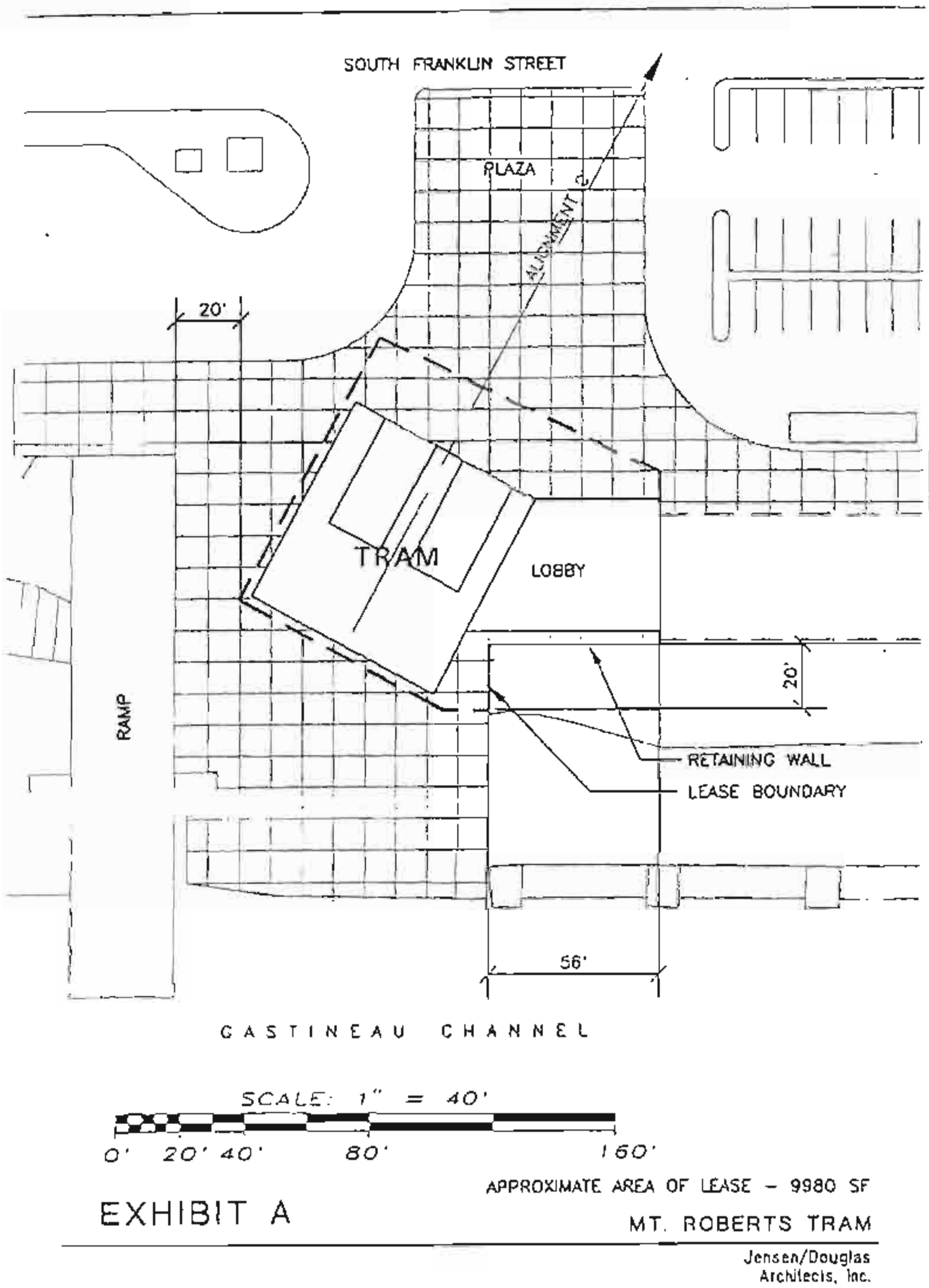
The Jensen/Douglas Architects, Inc. project narrative prepared in December of 1994 states the following:

> *"The water level at the Lower Terminal is governed by the level of the tide. The surface elevation is 26 MLLW. The highest tide of record is 23.5 MLLW. Mean higher high water for the Gastineau Channel is 16.40. The Appraiser reviewed the Federal Emergency Management Agency (FEMA) flood insurance rate map for the area encompassing the Lower Terminal site. The review indicated that the subject site lies in Zone C - adjacent to Zone V5 (Gastineau Channel) - areas of 100 year coastal floods with velocity hazard (wave action). The site is found on Community Panel No. 020009 0725B, Panel 725 of 1,050. The map was effective February 4, 1981."*

The subject is within Zone C, designated as "area of minimal flooding." However, it is noted that it is adjacent to a Zone V5, which is defined as "Coastal areas with a 1% or greater chance of flooding and an additional hazard associated with storm waves. These areas have a 26% chance of flooding over the life of a

30-year mortgage." Overall, this risk is typical of waterfront properties in Juneau and it is not expected to adversely affect the market value of the subject.

As Proposed Exhibit

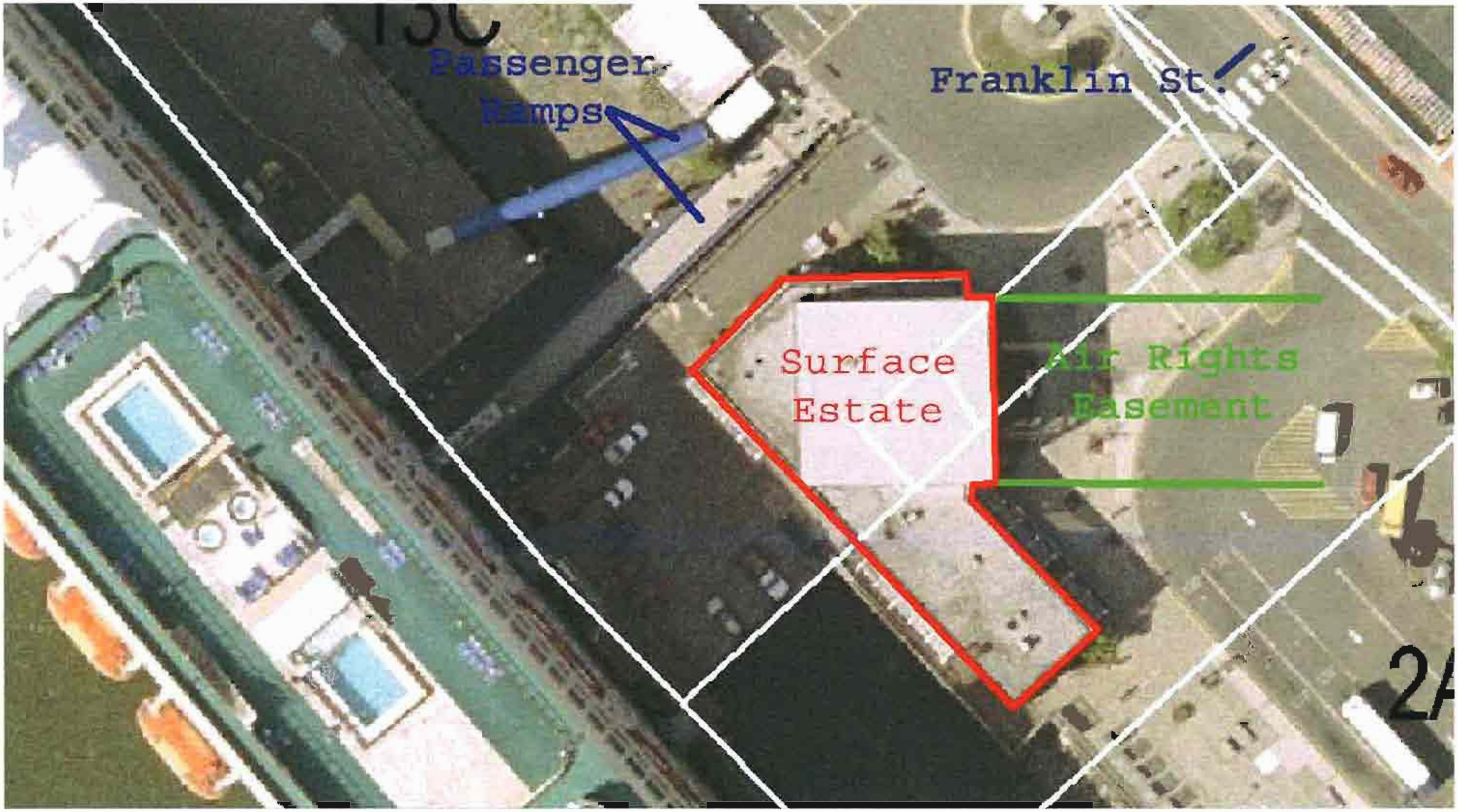


43

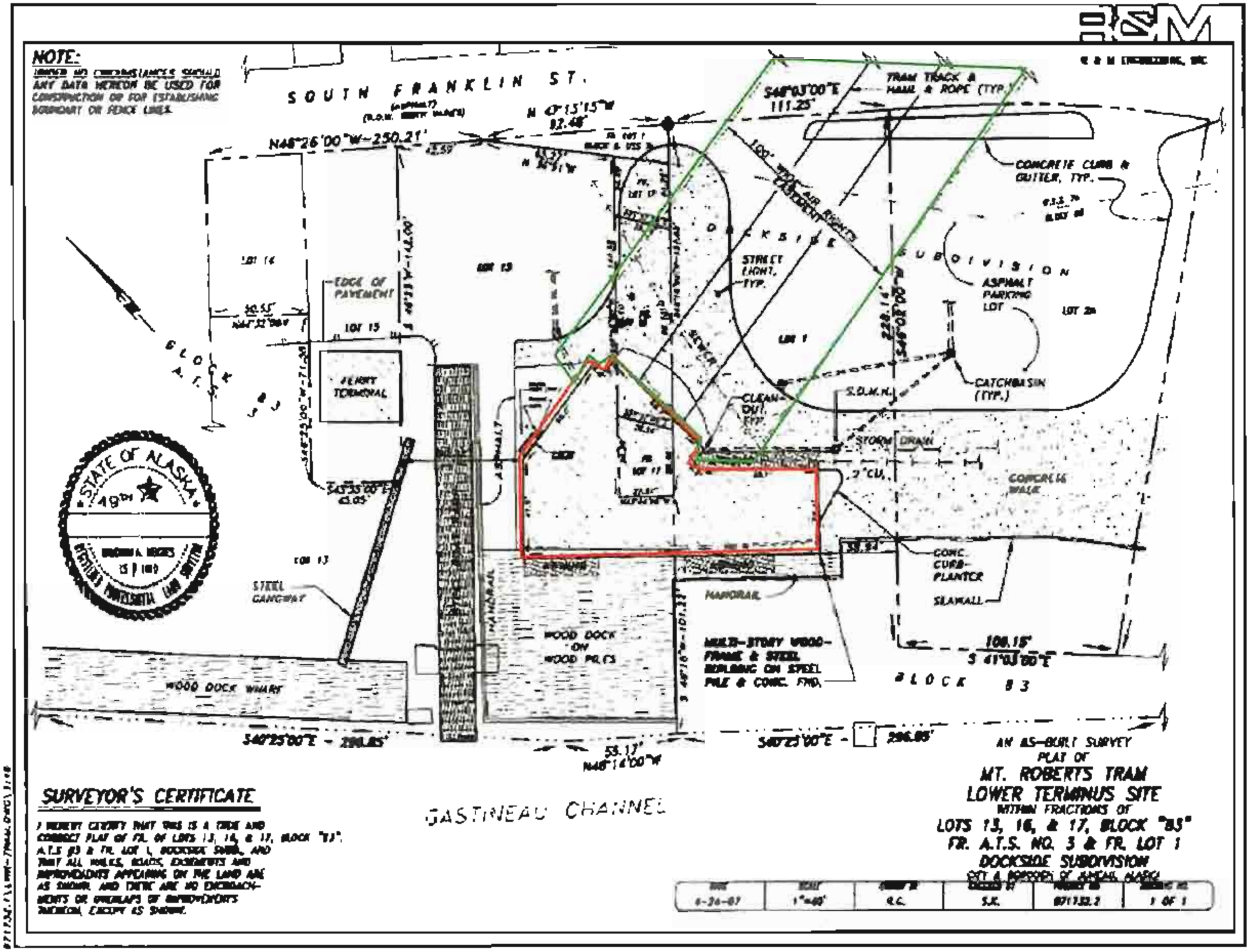
Note: Not accurate with respect to size or shape, which was subsequently modified.

1995 (Pre Lease) Aerial Photograph Exhibit

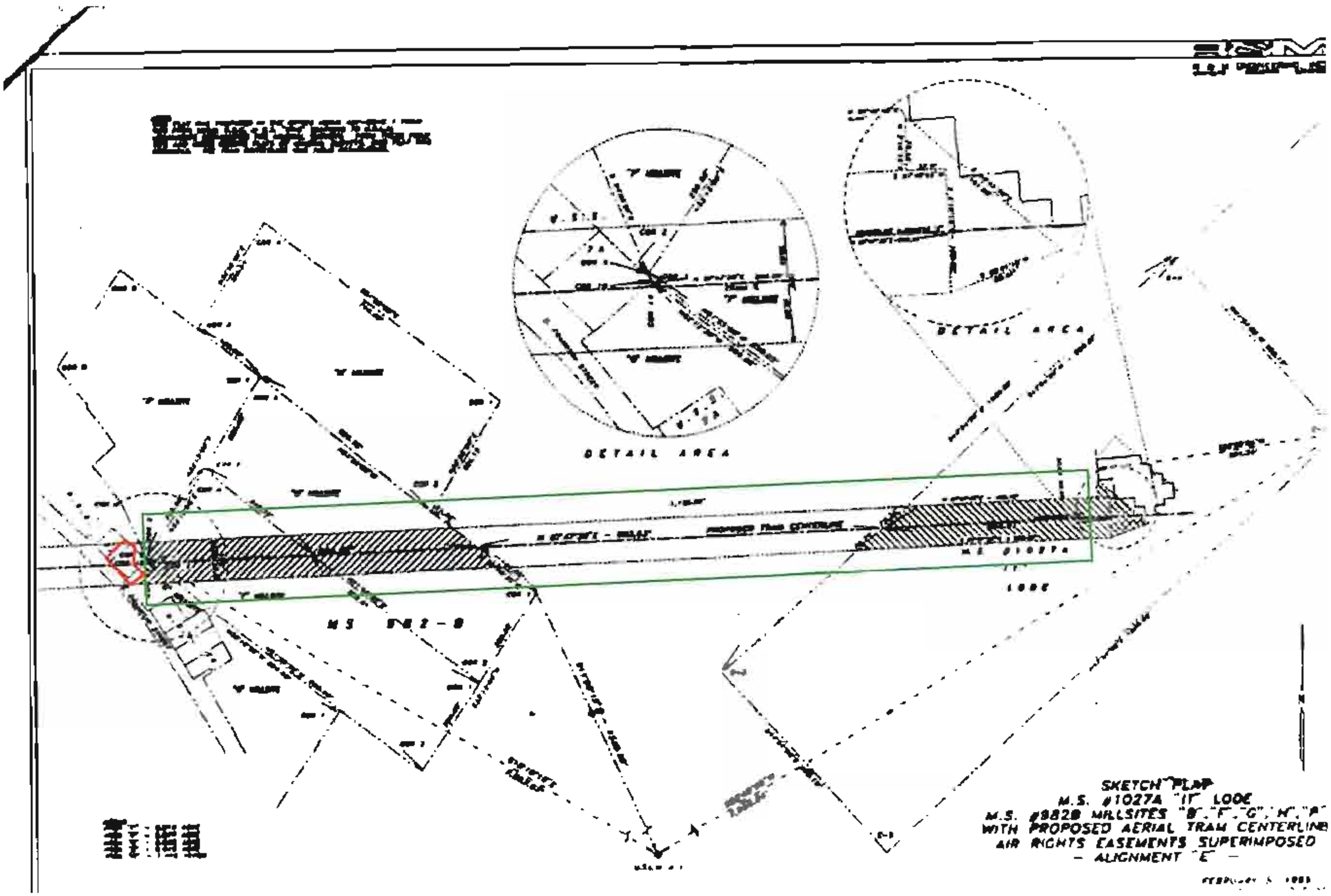
Current (Post Tram Development) Aerial Photograph Exhibit



As Built Exhibit (Surface Estate & Air Rights)



Plat Map Exhibit (Surface Estate & Air Rights)



Zoning

WATERFRONT COMMERCIAL (WC) The subject is located on the boundary of the Waterfront Commercial and Waterfront Industrial zone but appears to fall on the Waterfront Commercial boundary side. Permitted uses include single family residential, child care home, day single family residential, marine merchandise and equipment sales, parks and open space, boat sales, rentals, repairs, and maintenance, marine fuel, water sanitation, moorage, aquaculture and transit stations, as well as sales and rental of miscellaneous goods, merchandise or equipment. Many of the uses require a conditional use permit, and must be water-dependent, water-related, or water-oriented (as defined by the Code). Aerial tramway use, for example required a conditional use permit. Whether or not this covers cruise ship dependant (tourist related) retail is somewhat subjective. The subject is also part of a Special Waterfront Area per CBJ Code section 49.70.960, which further restricts what would otherwise be permissible uses in the WC zone, requiring that uses within the zone have water relevancy, as set out in the Code. Gift ships, entertainment facilities, ticketing agencies, and other visitor industry services, as well as offices which are related to and a necessary part of permissible uses, along with retail services directly linked to a maritime clientele, such as gear and supply stores, boats sales, and laundries, are deemed by Code to be water relevant. A review of recent development indicates that approximately eight out of twelve recently built cruise ship dependant retail properties required a conditional use permit. Therefore, technically, the code does not appear to guarantee the outright use of cruise ship dependant retail without a conditional use permit. In practice, however, cruise ship dependant retail is the most common use in the immediate neighborhood of the subject.

Easements, Covenants, Encroachments & Restrictions Although requested, a title report was not provided to the appraiser. There are several access easements that existed under prior use and ownership that no longer appear to impact the property. Significant issues that were identified by the appraiser are discussed in further detail below.

CBJ GROUND LEASE A copy of the subject's ground lease and amendments is presented in the Addendum. The subject's ground lease is summarized on the following table:

Name		490 S. Franklin St. CBJ Ground Lease		
Lessor		CBJ		
Lessee		Goldbelt, Inc.		
Premises (Sq Ft)		10,000 +100' Air Rights Easement		
Start Date		1/31/1995		
Term (Years)		35		
Approximate Remaining Term (Years)		18		
Options		35 Years		
Adjustments		Every 3 Years		
Next Adjustment		7/1/2012		
Original Lease Terms				
	Base Rent	10% of market value or 10% of $30/sq ft, whichever is greater		
	Royalty Rent	1.00%	up to	$3,000,000
		3.00%	up to	$5,000,000
		4.00%	up to	$8,000,000
		5.00%	above	$8,000,001
Modified Lease Terms				
		On March 3rd 2006 contract rents were set at $104,000 per year with the landlord agreeing to reduce the rate of return applied to the land from 10% to 8% and agreeing to forgoe all royalty rent. The parties also changed the rent adjustment date to every 3 years starting July 1, 2009, so the next appraisal date is July 1, 2012. These terms continue to be in place, although in late 2011 the CBJ notified the lessee of their intent to seek a rental adjustment.		

Section three of the subject's ground lease states the following:

3. Use of Premises: (a) The Lessee agrees to use the Leased Premises for the following purposes:

The surveying, engineering, design, planning, development, construction, operation and maintenance of an aerial tramway base terminal and associated structures and uses . As used herein, "associated structures and uses" means:

1. **a waiting room**
2. **a ticket office**
3. **public restrooms; Lessee shall provide public restrooms as specified by the Planning Commission**
4. **an area for the exhibition of tram models, photographs, and similar historical and explanatory materials**
5. **administrative space**

The Leased Premises shall be used only for purposes within the scope of the application and the terms of the Lease, and in conformity with the provisions of the City and Borough Code, and applicable state and federal laws and regulations. Use or development for other than the allowed uses shall constitute a violation of the Lease and subject the Lease to cancellation at any time.

Other important provisions include that the lease provides for readjustment of base rent every three years, which may require an appraisal. A readjustment was due July 1, 2009, but the CBJ did not seek an adjustment. The next opportunity for an adjustment is July 1, 2012. The basis of the appraisal is "the fair market value of the unimproved land of the Leased Premises including the Air Rights Easements, at its highest and best use." The appraisal is not to consider "any buildings or structural improvements above or below ground, landscaping or paving, with the leased premises to be considered unimproved land.

AIR RIGHTS EASEMENT

A 100' wide air rights easement extends easterly from the subject site over South Franklin Street onto Mount Roberts. The exact area of the air rights easement is unknown.

CONDITIONAL USE PERMIT

Mount Roberts applied for and secured the necessary conditional use permit in order "to construct an aerial tramway" on the Leased Premises. Planning Commission Notice of Decision March 1, 1995, CU-04-95 provided a conditional use permit to the subject based on the following use:

> *"[A] base terminal site located at the cruise ship terminal and an upper terminal site located at the 1760 foot election of Mt. Roberts. The base facility will have a footprint of approximately 10,000 square feet and will include the tram drive equipment, ticketing and other similar activities."*

IMPACT OF USE LIMITATIONS

A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. This legal opinion establishes that, due to the lease language and conditional use permit in place on the subject site, the only legally permissible use of the subject site is a tram site and that therefore the highest and best use of the site for establishing market value/rent is limited to tram use. While this legal opinion appears reasonable and is consistent with the appraiser's judgment, the appraiser is not an attorney and is not qualified to make a definitive legal finding. Therefore, it is an extraordinary assumption of this report that the legal opinion set forth by Mr. Spitzfaden is correct and that, due to the conditional use permit and lease language, the legally permissible uses of the subject site are restricted to aerial tramway use, which essentially renders the site as an uneconomic parcel. While a formal value estimate has not been completed at this time, it is noted that in absence of the aerial tramway use restrictions, the subject would provide good functional utility for cruise ship dependant retail use whose economics would justify a higher value of the site.

Functional Utility

The subject site is located approximately 60' to the east of the Douglas cruise ship berth passenger ramp and benefits from visitor foot traffic embarking and disembarking from this location. Furthermore, while at the southern boundary of the cruise ship retail district, it is noted that the subject is surrounded by three different cruise ship berths and that there is substantial foot traffic in the immediate vicinity. In terms of location, the subject is well placed for cruise ship dependant retail.

Per the terms of the ground lease, the subject is to be appraised as unimproved land. Thus, functional issues that will require curing prior to development include the sloping land caused by the lack of a retaining wall, lack of connectivity to the existing Douglas Dock and absence of sewer and water to the site. In addition, it is probable (although unknown at this time), that the buyer of the subject would be responsible for offsite expenditures for interior streets, parking lots, curbs, gutters and sidewalks. While the shape of the site is ideal for tram use, it results in lower economic rent and higher construction costs for retail use. These issues have a material impact on the as is value of the subject under cruise ship dependant retail use.

The conditional use permit and ground lease restrict the subject to aerial tramway use. From a physical perspective, the subject is well suited for this use. However, aerial tramway use is not financially feasible at this time, resulting in an essentially uneconomic parcel of land with limited functional utility.

Property Assessment & Taxes

Summary of Property Assessment & Taxes

Properties located within the subject's market are assessed by the assessor every year. By statute, each property must be assessed at 100 percent of market value. The millage rate (on which property taxes are based) is determined annually based on spending and assessment levels. Millage rates vary constantly and are influenced by state law and services provided in each individual district. The assessed value of all properties located within a district is divided by a particular year's budget requirements to arrive at a millage rate. Thus, actual spending determines the amount of tax, and assessment allocates the tax among property owners. Therefore, an increase or decrease in total assessment will not, by itself, result in a change in the total property tax collected.

While mass appraisal is useful for the allocation of the total tax liability among property owners, it is not always a reliable indicator of the market value of a specific property. As such, market participants do not generally use assessed value to determine market value. Market participants do carefully analyze the impact of current and projected real estate taxes on cash flow and market value. While Alaska is a non-disclosure state and the assessor does not have access to sale information, they do have confirmation from the recorder's office of a sale occurring. Often times the assessment the year following a sale increases dramatically with the burden of disproving the assessment falling on the property owner. This in turn often requires disclosure of any subject sale. Because of these factors, irrespective of actual historic assessment, most market participants input real estate taxes on a stabilized basis, where projected assessment correlates with the estimated market value and is reflective of assessment in a post sale environment.

In recent years, the assessment-to-value ratio has been increasing within the subject's market. Most similar properties in the subject's market have been historically assessed at between 80 percent and 90 percent of their actual market values. This is in part because Alaska is a non-disclosure state and in part that values have been increasing and it often takes several years for this to be reflected in the assessment. Due in large part to changes in market conditions, certain segments of the market are now assessed at 90 to 110 percent of market value.

While not a regular occurrence, on occasion the assessment on a property will be above market value. In these cases an MAI appraisal is usually sufficient documentation for the assessor to make an adjustment to the assessed valuation. In the event that the assessor is unwilling to change the assessment an appeal may be filed. If the appeal is not granted by the assessor the tax payer has the right to be heard in front of the Board of Equalization. Of note, the taxpayer also has the right to appeal assessed value based on equity (the relative assessment of the subject compared to similar properties).

The stabilized assessed value for the subject has been correlated based on typical post-sale assessment-to-value ratios and the market value estimate of this report. The projected mill rate is input from the most recent year available and used to calculate the projected stabilized taxes.

The subject's current assessed valuation was developed based on its fee simple market value with a leasehold credit based on cruise ship dependant retail as the highest and best use. A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. This legal opinion establishes that, due to the conditional use permit in place on the subject site, the only legally permissible use of the subject site is a tram site and that therefore the highest and best use of the site for establishing assessed value is limited to tram use. Based on this legal opinion, the subject site is currently over assessed.

Historic assessment and taxes, an analysis of historic versus projected taxes and projected stabilized property assessment and taxes are shown on the table that follows.

Property Assessment & Tax Summary Exhibit

MOST RECENT PROPERTY ASSESSMENT & TAXES

	Assessment				
Tax Parcel Number	**Land**	**Improvements**	**Total**	**Mill Rate**	**Taxes**
Year					**2011**
1C100K830011	$2,509,500	$1,533,000	$4,042,500	$10.51	$42,487
Type / Source	*Actual*	*Actual*	*Actual*	*Calculated*	*Actual*

Taxation Trends	**Over Assessed (Candidate for Tax Appeal)**

PROJECTED STABILIZED PROPERTY ASSESSMENT & TAXES - AS IS

Stabilized Value Estimate (Subject to Aerial Tramway Use Limitations)		$0
Projected Stabilized Assessed Value		$0
Projected Stabilized Mill Rate (Per $1,000 AV)	X	$10.51
Projected Stabilized Taxes	=	**$0**
Taxes Paid By		Tenant

Subject Photographs

Facing northerly viewing south eastern property boundary.

Facing westerly viewing property boundary and Douglas cruise ship berth in background.

Facing south easterly from dock viewing property boundary.

Facing westerly viewing property boundary with Franklin Street shown in foreground.

Facing westerly viewing Douglas cruise ship berth and associated dock.

Facing westerly viewing location of air rights.

Highest & Best Use

Definition & Methodology

"Highest & Best Use" is defined as:

"The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity."[7]

Scope of Highest & Best Use

A specific determination of highest and best use would require specific cost estimates, which were not available to the appraiser, and is beyond the scope of this assignment. A feasibility analysis based on aerial tramway use has been performed. Unless otherwise indicated, the highest and best use as vacant analysis should not be construed as a feasibility study of other potential uses, which is beyond the scope of the current assignment. Rather, the alternative use analysis is meant to provide a general indication of highest and best use based on a qualitative review of the available evidence.

As Vacant

Legally Permissible

Private restrictions, zoning, building codes, historic district controls and environmental regulations determine those uses legally permissible on a site. The subject is zoned waterfront commercial. Permitted uses include single family residential, child care home, day single family residential, marine merchandise and equipment sales, parks and open space, boat sales, rentals, repairs, and maintenance, marine fuel, water sanitation, moorage, aquaculture and transit stations. Retail sales directly related to or dependant on a retail environment are permitted and cruise ship dependant retail is the most common use in the immediate neighborhood of the subject.

A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. The opinion provides that the reasonable probable legal use of the subject, for purposes of highest and best use analysis, is the existing use as an aerial tramway base terminal and associated structures and uses as set out in paragraph 3 of the Lease. Accordingly, highest and best use of the site for establishing market value of the subject is limited to tram use.

An article in the Fall 2011 issue of the Appraisal Journal titled "Ground Leases: Rent Reset Valuation Issues" by Tony Sevelka, MAI is presented in the Addendum, which discusses in detail the impact of use restrictions contained in a ground lease on the valuation process. The most relevant highlights from this article are presented below.

"A rent reset clause may instruct an appraiser to ignore both the

[7] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

improvements and the lease itself, valuing the land in fee simple and as if unencumbered and available for ground-up development in perpetuity.

This type of rent reset clause facilitates an unrestricted highest and best use analysis, which may or may not result in the highest or most probable ground rent at the time the rent is to be reset. A restricted highest and best use analysis flowing from the provisions of a lease that dictate a specific or limited number of uses (which may or may not be legally permissible under the land use controls prevailing at the date of the rent review) can result in rental payments that are either lower or higher than those achievable based on an unrestricted highest and best use analysis. Similarly, where a lease dictates scale of development either less than or greater than permitted under the provisions of the prevailing land use controls, it too leads to a restricted highest and best use analysis, and can result in rental payments that are lower or higher than those achievable based on an unrestricted highest and best use analysis.

In defining a ground lease valuation problem in the context of highest and best use, the most critical and interrelated issues confronting the appraiser are as follows:

• The identification of what is to be appraised (i.e., land only or land and improvements), based on a thorough reading of the lease or as instructed by legal counsel.

• The constraints of the lease, if any, imposed on highest and best use analysis, to determine whether the valuation is of the fee simple interest or of the estate for years, reflecting the period remaining on the lease at the time of the rent review.

• The legally permissible use(s) governed by the prevailing land use controls or the use(s) dictated by the language of the lease.

• The scale of development legally permissible pursuant to the provisions of the prevailing land use controls or the scale of development dictated by the language of the lease.

• The physical constraints of the land, if any, imposed on the scale of development either legally permissible or dictated by the language of the lease.

• The marketability and financial feasibility of the legally permissible use(s) or the use(s) dictated by the language of the lease, and achievable in the context of the remaining term of the lease, including any renewal options available to the lessee."

The article affirms that use restrictions contained within a ground lease must be considered by the appraiser in developing an opinion of market value.

Physically Possible

Size, shape, area, terrain, accessibility and availability of utilities affect the uses under which a property can be developed.

After curing of the functional issues discussed in the description of site section, the only major limitation to the site from a physical perspective is due to its size and highly irregular shape. However, the subject site is located approximately 60' to the east of the Douglas cruise ship berth passenger ramp and benefits from visitor foot traffic embarking and disembarking from this location. Furthermore, while at the southern boundary of the cruise ship retail district, it is noted that the subject is surrounded by three different cruise ship berths and that there is substantial foot traffic in the immediate vicinity. In terms of location, the subject is well placed for cruise ship dependant retail.

Financially Feasible

Feasibility is indicated by construction trends in the vicinity and current market conditions. All uses that are expected to produce a positive return are regarded as financially feasible.

A review of rents, construction costs, capitalization rates, and recent developments indicates that cruise ship dependant retail use is financially feasible at this time.

The Mount Roberts aerial tramway is currently in good condition and does not demonstrate substantial physical depreciation. Current financial performance is limited by market conditions rather than the physical condition of the tram and would not likely be substantially different if the subject were new construction. Below is an analysis of the subject's feasibility based on the relationship between actual net operating income and feasibility net operating income.

AERIAL TRAMWAY FEASIBILITY ANALYSIS

Period	Year	Going Concern NOI*	Going Concern Replacement Cost	Overall Annual Rate	Feasibility NOI	NOI Shortfall	Financial Feasibility?
1	2012	1,597,972	35,609,800	9.0%	3,204,882	-1,606,910	No
2	2013	1,676,768	36,500,045	9.0%	3,285,004	-1,608,236	No
3	2014	1,760,020	37,412,547	9.0%	3,367,129	-1,607,109	No
4	2015	1,847,510	38,347,860	9.0%	3,451,307	-1,603,798	No
5	2016	1,939,456	39,306,557	9.0%	3,537,590	-1,598,134	No
6	2017	2,036,091	40,289,221	9.0%	3,626,030	-1,589,939	No
7	2018	2,137,659	41,296,451	9.0%	3,716,681	-1,579,021	No
8	2019	2,244,417	42,328,862	9.0%	3,809,598	-1,565,181	No
9	2020	2,356,635	43,387,084	9.0%	3,904,838	-1,548,202	No
10	2021	2,474,600	44,471,761	9.0%	4,002,458	-1,527,859	No
11	2022	2,598,611	45,583,555	9.0%	4,102,520	-1,503,909	No
12	2023	2,663,576	46,723,144	9.0%	4,205,083	-1,541,507	No
13	2024	2,756,801	47,891,223	9.0%	4,310,210	-1,553,409	No
14	2025	2,853,289	49,088,503	9.0%	4,417,965	-1,564,676	No
15	2026	2,953,154	50,315,716	9.0%	4,528,414	-1,575,260	No
16	2027	3,056,515	51,573,609	9.0%	4,641,625	-1,585,110	No
17	2028	3,163,493	52,862,949	9.0%	4,757,665	-1,594,173	No
18	2029	3,274,215	54,184,523	9.0%	4,876,607	-1,602,392	No
19	2030	3,388,812	55,539,136	9.0%	4,998,522	-1,609,710	No
20	2031	3,507,421	56,927,614	9.0%	5,123,485	-1,616,064	No
21	2032	3,630,180	58,350,804	9.0%	5,251,572	-1,621,392	No
22	2033	3,757,237	59,809,574	9.0%	5,382,862	-1,625,625	No
23	2034	3,888,740	61,304,814	9.0%	5,517,433	-1,628,693	No
24	2035	4,024,846	62,837,434	9.0%	5,655,369	-1,630,523	No
25	2036	4,165,716	64,408,370	9.0%	5,796,753	-1,631,038	No
26	2037	4,311,516	66,018,579	9.0%	5,941,672	-1,630,156	No
27	2038	4,462,419	67,669,044	9.0%	6,090,214	-1,627,795	No
28	2039	4,618,603	69,360,770	9.0%	6,242,469	-1,623,866	No
29	2040	4,780,254	71,094,789	9.0%	6,398,531	-1,618,277	No
30	2041	4,947,563	72,872,159	9.0%	6,558,494	-1,610,931	No

Year 12+ Change in NOI 3.5%

Construction Cost Escalation Factor 2.5%

**Actual forecast going concern NOI for years 1 through 11. Year 12+ is escallated at the above rate.*

Even based on the assumption that NOI growth will exceed construction cost growth by 100 basis points, feasibility net operating income exceeds forecast actual net operating income throughout the analysis period indicating a lack of financial feasibility. Simply put, based on the information available today, the Mount Roberts tramway would not have been built.

Maximally Productive When development options are available, a determination must be made as to which feasible use is the maximally profitable use.

Within this market, the presence of developer's margin is highly specific to the individual project. Nonetheless, it is noted that developers margins have been attained within the subject's geographic area for a wide variety of property types. The majority of new construction, however, has been by owner users whose needs were not met by the existing inventory and there has been less speculative development. Based on a review of the subject's zoning, land use trends, neighborhood characteristics and trends, shape, size, functional utility as well as market vacancy rates, rental rates and other factors, the subject's highest and best use as vacant may include cruise ship dependant retail, including storefront retail with second floor storage, or other unidentified use that provides the highest return to the underlying land. Likely tenants/users include gift and curio shops, jewelry stores and other storefront small shop retailers that cater to cruise ship passengers. However, due to the use restrictions from the conditional use permit and the ground lease, the only legally permissible use for the subject site is as a aerial tramway. In the analysis that follows, the market value of the subject site was estimated using the land residual technique. Based on trends within the Alaska cruise ship industry, construction costs and investment conditions, financial feasibility is not anticipated to occur anytime within the near future, suggesting that the external obsolescence is permanent. This indicates that based on aerial tramway use the subject site is an uneconomic parcel that is not financially feasible to develop. Therefore, the highest and best use of the subject would normally be to seek a zoning change that would allow retail use. However, for the purposes of establishing market value/rent under the terms of the ground lease, the subject's highest and best use is to hold on a long-term basis for future long term speculative tram development.

Probable Buyer

Given economic potential, the probable buyer of the subject is a local, regional or national investor that has market experience with both the Alaska tourism market and the cruise ship industry. As an uneconomic parcel, the subject has no identifiable source of demand or probable buyer.

Land Residual Technique

Introduction

Selection of Land Valuation Technique

A legal opinion relating to the subject's highest and best use prepared by Robert S. Spitzfaden on behalf of Goldbelt, Inc. is presented in the Addendum. This legal opinion establishes that, due to the lease language and conditional use permit in place on the subject site, the only legally permissible use of the subject site is a tram site and that therefore the highest and best use of the site for establishing market value/rent is limited to tram use.

The Appraisal of Real Estate, Thirteenth Edition states the following:

> *"Special purpose properties generally have limited conversion potential and are constructed expressly for a particular user with a designated special use in mind. They are developed to fulfill a business need, not to attain a profit on the real estate and when profit is present it accrues to the business rather than the real estate."*

The subject clearly meets the definition of a special purpose property and it is inappropriate to establish market value for aerial tramway use based on land sales that had completely dissimilar highest and best uses. The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following:

> *"Regardless of how physically similar the potential comparable site is to the subject site, the sale property is not truly comparable if it does not have a similar highest and best use as the subject and should be dismissed from further consideration in the analysis of the subject property."*

Other than the subject lease, there are no known transactions involving tram sites within the Alaska market. Therefore it is not possible to perform direct sale comparison to establish the market value of the subject site. The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following:

> *"The sales comparison approach is usually the preferred methodology for developing a site value conclusion. When this approach is used, most of the techniques described in Chapter 13, with respect to selecting comparable sales and the adjustment process, can be applied to site valuation. <u>When sales of similar parcels are not plentiful enough for the application of sales comparison, alternative techniques such as market extraction, allocation, and various income capitalization techniques may be used.</u> The income capitalization techniques can be divided into direct capitalization techniques (e.g., land residual and ground rent capitalization) and yield capitalization techniques (e.g, discounted cash flow analysis / subdivision development analysis)."*

In the valuation of the subject direct capitalization via the land residual technique is most appropriate.

Land Residual Technique Methodology

The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute Chapter 16 Land and Site Valuation states the following with respect to the land residual technique:

> *"The land residual technique is a method of estimating land value in which the net operating income attributable to the land is isolated and capitalized to produce an indication of the land's contribution to the total property.*
>
> *Procedure*
> *The net operating income attributable to the land is capitalized at a market-derived land capitalization rate to provide an estimate of value.*
>
> *Applicability*
> *This technique is most applicable in testing the feasibility of alternative uses of a particular site in highest and best use analysis* ***or when land sales are not available.***
>
> *Historically, the land residual technique was used to estimate land value when sales data on similar parcels of vacant land was not available. Techniques like extraction and allocation have superseded the land residual technique in land valuation because these other techniques rely on fewer variables subject to an appraiser's judgment and expertise and thus are more persuasive. In current practice, the land residual technique is used almost exclusively in highest and best use analysis to test the productivity of alternate uses of the site as though vacant.*
>
> *The land residual technique requires that the following conditions be met:*
>
> *1. Net operating income to the property is known or can be estimated.*
>
> *2. Building (improved) value is known or can be accurately estimated.*
>
> *3. Both building and land capitalization rates can be extracted from the market.*
>
> *Small variations in any of these variables can result in a dramatic change in the land value estimate. To apply the land residual technique, an appraiser first determines what actual or hypothetical improvements represent the highest and best use of the site as though vacant. Then the net operating income (NOI) of the property is estimated from market rents and operating expenses as of the date of the appraisal. Next, the appraiser calculates how much of the income is attributable to the building and subtracts this amount from the net operating income. The remainder is the residual income attributable to the land, which is capitalized at a market-derived land capitalization rate to provide an estimate of site value."*

Property Going Concern Net Operating Income

Historic passenger counts and financial data for the Mount Roberts Tramway are presented on the following pages. This information is used to project going concern net operating income for the property.

Mount Roberts Tramway Historic & Projected Revenue Exhibit

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	All Yrs.	3 Yrs.	2 Yrs.	Appraiser FY 2012
Juneau Cruise Ship Passengers	750,000	795,000	850,000	935,355	955,000	1,000,000	1,032,274	1,019,507	879,310	875,933	1.7%	-5.3%	-7.3%	936,000
% Change	-	*6.0%*	*6.9%*	*10.0%*	*2.1%*	*4.7%*	*3.2%*	*-1.2%*	*-13.8%*	*-0.4%*	*2.0%*	*-5.1%*	*-7.1%*	*6.9%*
Tram Passengers	156,500	161,600	192,200	186,600	185,900	201,700	194,744	212,809	190,388	173,884	1.2%	-3.7%	-9.6%	191,880
% Change	-	*3.3%*	*18.9%*	*-2.9%*	*-0.4%*	*8.5%*	*-3.4%*	*9.3%*	*-10.5%*	*-8.7%*	*1.6%*	*-3.3%*	*-9.6%*	*10.3%*
Tram Capture Rate	20.9%	20.3%	22.6%	19.9%	19.5%	20.2%	18.9%	20.9%	21.7%	19.9%	20.5%	20.8%	20.8%	20.5%
REVENUE														
Ticketing	2,605,671	2,759,083	3,294,119	3,448,842	3,363,917	3,861,584	3,716,850	4,361,635	3,697,082	3,334,702	2.78%	-3.55%	-12.6%	3,738,702
$/Passenger	*$16.65*	*$17.07*	*$17.14*	*$18.48*	*$18.10*	*$19.15*	*$19.09*	*$20.50*	*$19.42*	*$19.18*	*1.58%*	*0.16%*	-3.3%	*$19.48*
% of Revenue	*71.2%*	*75.5%*	*77.4%*	*77.5%*	*74.1%*	*73.0%*	*72.9%*	*75.6%*	*73.9%*	*72.0%*	*74.3%*	*73.9%*	*73.0%*	*71.8%*
Food	271,159	272,010	328,754	330,867	352,776	421,248	390,415	383,155	360,629	352,691	2.96%	-3.33%	-4.1%	396,976
$/Passenger	*$1.73*	*$1.68*	*$1.71*	*$1.77*	*$1.90*	*$2.09*	*$2.00*	*$1.80*	*$1.89*	*$2.03*	*1.77%*	*0.39%*	6.1%	*$2.07*
% of Revenue	*7.4%*	*7.4%*	*7.7%*	*7.4%*	*7.8%*	*8.0%*	*7.7%*	*6.6%*	*7.2%*	*7.6%*	*7.5%*	*7.2%*	*7.4%*	*7.6%*
Beverage	60,168	71,813	83,197	73,189	69,661	86,919	83,368	88,196	84,018	75,565	2.56%	-3.22%	-7.4%	85,053
$/Passenger	*$0.38*	*$0.44*	*$0.43*	*$0.39*	*$0.37*	*$0.43*	*$0.43*	*$0.41*	*$0.44*	*$0.43*	*1.37%*	*0.50%*	2.4%	*$0.44*
% of Revenue	*1.6%*	*2.0%*	*2.0%*	*1.6%*	*1.5%*	*1.6%*	*1.6%*	*1.5%*	*1.7%*	*1.6%*	*1.7%*	*1.6%*	*1.7%*	*1.6%*
Retail	705,751	535,236	513,497	540,569	706,931	829,087	835,321	875,577	796,426	811,803	1.57%	-0.95%	-3.7%	922,694
$/Passenger	*$4.51*	*$3.31*	*$2.67*	*$2.90*	*$3.80*	*$4.11*	*$4.29*	*$4.11*	*$4.18*	*$4.67*	*0.39%*	*2.86%*	6.5%	*$4.81*
% of Revenue	*19.3%*	*14.6%*	*12.1%*	*12.2%*	*15.6%*	*15.7%*	*16.4%*	*15.2%*	*15.9%*	*17.5%*	*15.4%*	*16.2%*	*16.7%*	*17.7%*
Other	19,153	18,248	34,507	55,608	44,038	90,405	70,626	60,354	61,353	56,690	12.81%	-7.06%	-3.1%	65,685
$/Passenger	*$0.12*	*$0.11*	*$0.18*	*$0.30*	*$0.24*	*$0.45*	*$0.36*	*$0.28*	*$0.32*	*$0.33*	*11.50%*	*-3.49%*	7.2%	*$0.34*
% of Revenue	*0.5%*	*0.5%*	*0.8%*	*1.2%*	*1.0%*	*1.7%*	*1.4%*	*1.0%*	*1.2%*	*1.2%*	*1.1%*	*1.2%*	*1.2%*	*1.3%*
Total Revenue	3,661,902	3,656,390	4,254,075	4,449,074	4,537,323	5,289,243	5,096,581	5,768,917	4,999,507	4,631,451	2.64%	-3.14%	-10.4%	5,209,111
% Change	-	*-0.2%*	*16.3%*	*4.6%*	*2.0%*	*16.6%*	*-3.6%*	*13.2%*	*-13.3%*	*-7.4%*	*3.1%*	*-2.5%*	*-10.3%*	*12.5%*
$/Passenger	*$23.40*	*$22.63*	*$22.13*	*$23.84*	*$24.41*	*$26.22*	*$26.17*	*$27.11*	*$26.26*	*$26.64*	*1.45%*	*0.59%*	-0.9%	*$27.15*
% Change	-	*-3.3%*	*-2.2%*	*7.7%*	*2.4%*	*7.4%*	*-0.2%*	*3.6%*	*-3.1%*	*1.4%*	*1.5%*	*0.6%*	*-0.9%*	*1.9%*

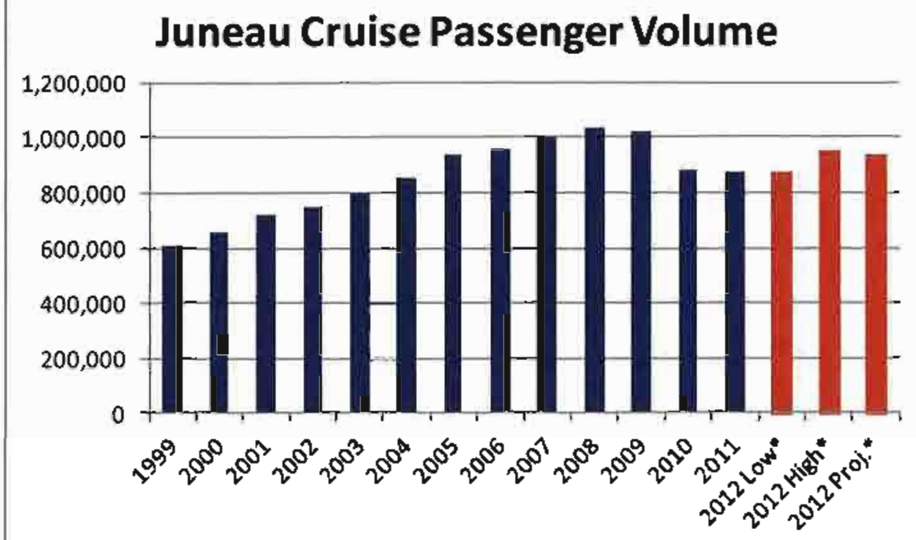
Mount Roberts Tramway Historic & Projected Expense & Net Operating Income Exhibit

EXPENSES	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	All Yrs.	3 Yrs.	2 Yrs.	Appraiser FY 2012
Ticketing	101,557	98,304	55,459	98,164	101,924	107,680	108,873	134,243	80,106	71,371	-3.84%	-13.13%	-27.1%	101,825
% of Revenue	2.8%	2.7%	1.3%	2.2%	2.2%	2.0%	2.1%	2.3%	1.6%	1.5%	2.1%	1.8%	1.6%	2.0%
Food	95,279	116,255	130,873	152,709	114,289	170,935	177,576	138,091	138,214	198,871	8.52%	3.85%	20.0%	162,744
% of Revenue	2.6%	3.2%	3.1%	3.4%	2.5%	3.2%	3.5%	2.4%	2.8%	4.3%	3.1%	3.2%	3.5%	3.1%
Beverage	17,824	11,637	31,340	23,420	23,711	30,467	24,638	25,528	26,190	20,970	1.82%	-5.23%	-9.4%	25,524
% of Revenue	0.5%	0.3%	0.7%	0.5%	0.5%	0.6%	0.5%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Retail	458,105	296,790	315,510	332,339	406,321	435,940	449,309	475,830	481,635	462,583	0.11%	0.98%	-1.4%	474,798
% of Revenue	12.5%	8.1%	7.4%	7.5%	9.0%	8.2%	8.8%	8.2%	9.6%	10.0%	8.9%	9.3%	9.8%	9.1%
Total Costs of Sales	672,765	522,987	533,183	606,631	646,245	745,022	760,396	773,693	726,144	753,795	1.27%	-0.29%	-1.3%	764,891
% of Revenue	18.4%	14.3%	12.5%	13.6%	14.2%	14.1%	14.9%	13.4%	14.5%	16.3%	14.6%	14.7%	15.4%	14.7%
Guest Services	129,301	148,175	160,635	174,015	193,827	227,728	239,440	250,739	239,075	229,101	6.56%	-1.46%	-4.4%	233,206
% of Revenue	3.5%	4.1%	3.8%	3.9%	4.3%	4.3%	4.7%	4.3%	4.8%	4.9%	4.3%	4.7%	4.9%	4.5%
Food & Beverage	214,792	237,241	201,956	256,312	267,851	265,870	324,498	268,132	251,341	281,889	3.07%	-4.58%	2.5%	282,489
% of Revenue	5.9%	6.5%	4.7%	5.8%	5.9%	5.0%	6.4%	4.6%	5.0%	6.1%	5.6%	5.3%	5.6%	5.4%
Retail	123,057	104,924	110,204	100,571	144,051	164,456	197,632	207,464	207,096	193,206	5.14%	-0.75%	-3.5%	189,751
% of Revenue	3.4%	2.9%	2.6%	2.3%	3.2%	3.1%	3.9%	3.6%	4.1%	4.2%	3.3%	4.0%	4.2%	3.6%
Tramway Operations	323,246	300,104	320,879	351,016	383,730	449,671	470,122	493,648	460,713	409,143	2.65%	-4.53%	-9.0%	453,047
% of Revenue	8.8%	8.2%	7.5%	7.9%	8.5%	8.5%	9.2%	8.6%	9.2%	8.8%	8.5%	8.9%	9.0%	8.7%
Total Operating Expenses	790,395	790,443	793,674	881,913	989,458	1,107,725	1,231,692	1,219,984	1,158,226	1,113,339	3.88%	-3.31%	-4.5%	1,158,494
% of Revenue	21.6%	21.6%	18.7%	19.8%	21.8%	20.9%	24.2%	21.1%	23.2%	24.0%	21.7%	22.8%	23.6%	22.2%
Administrative	440,023	523,248	471,558	460,442	461,707	488,971	401,759	419,735	406,205	423,761	-0.42%	1.79%	0.5%	518,903
% of Revenue	12.0%	14.3%	11.1%	10.3%	10.2%	9.2%	7.9%	7.3%	8.1%	9.1%	10.0%	8.2%	8.6%	10.0%
Real Estate Taxes	135,172	144,188	124,413	96,969	100,200	132,143	132,117	137,324	114,480	102,077	-3.07%	-8.24%	-13.8%	129,775
% of Revenue	3.7%	3.9%	2.9%	2.2%	2.2%	2.5%	2.6%	2.4%	2.3%	2.2%	2.7%	2.3%	2.2%	2.5%
Insurance	111,772	131,105	154,096	152,523	179,671	192,000	200,519	178,636	148,539	170,500	4.80%	-5.26%	-2.3%	175,699
% of Revenue	3.1%	3.6%	3.6%	3.4%	4.0%	3.6%	3.9%	3.1%	3.0%	3.7%	3.5%	3.2%	3.3%	3.4%
Ground Lease Payments														
AJT Lease	13,375	53,882	55,722	57,649	61,130	70,187	68,139	78,101	67,814	64,157	19.03%	-1.99%	-9.4%	63,189
AK DNR Air Space	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	8,000	0.00%	0.00%	0.0%	8,000
CBJ Ground Lease Rent	94,955	91,866	91,500	83,625	100,350	109,200	109,200	109,200	109,200	109,200	1.57%	0.00%	0.0%	*Excluded*
Professional Fees	7,386	19,606	26,364	37,241	51,875	62,130	43,936	44,837	42,344	16,142	9.08%	-28.38%	-40.0%	34,254
% of Revenue	0.2%	0.5%	0.6%	0.8%	1.1%	1.2%	0.9%	0.8%	0.8%	0.3%	0.7%	0.7%	0.6%	0.7%
Marketing / Public Relations	88,346	83,598	88,533	102,375	143,400	137,571	155,639	175,503	171,093	181,679	8.34%	5.29%	1.7%	180,359
% of Revenue	2.4%	2.3%	2.1%	2.3%	3.2%	2.6%	3.1%	3.0%	3.4%	3.9%	2.8%	3.5%	3.7%	3.5%
Building Maintenance	187,970	241,118	233,813	251,040	291,641	347,679	410,151	366,061	373,836	377,020	8.04%	-2.77%	1.5%	343,166
% of Revenue	5.1%	6.6%	5.5%	5.6%	6.4%	6.6%	8.0%	6.3%	7.5%	8.1%	6.6%	7.3%	7.8%	6.6%
Reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	234,410
Total Indirect Expenses	1,086,999	1,296,612	1,253,999	1,249,864	1,397,974	1,547,882	1,529,460	1,517,397	1,441,511	1,452,536	3.27%	-1.71%	-2.2%	1,687,754
% of Revenue	29.7%	35.5%	29.5%	28.1%	30.8%	29.3%	30.0%	26.3%	28.8%	31.4%	29.9%	28.8%	30.1%	32.4%
Total Expenses	2,550,160	2,610,041	2,580,856	2,738,408	3,033,677	3,400,629	3,521,548	3,511,074	3,325,880	3,319,670	2.97%	-1.95%	-0.19%	3,611,139
% of Revenue	69.6%	71.4%	60.7%	61.6%	66.9%	64.3%	69.1%	60.9%	66.5%	71.7%	66.3%	66.4%	71.7%	69.3%
% Change	-	2.3%	-1.1%	6.1%	10.8%	12.1%	3.6%	-0.3%	-5.3%	-0.2%	3.1%	-1.9%	-0.2%	8.8%
GOING CONCERN NOI	1,111,742	1,046,349	1,673,218	1,710,666	1,503,646	1,888,614	1,575,033	2,257,843	1,673,626	1,311,781	11.18%	5.07%	25.60%	1,597,972
% of Revenue	30.4%	28.6%	39.3%	38.4%	33.1%	35.7%	30.9%	39.1%	33.5%	28.3%	33.7%	33.6%	28.3%	30.7%
% Change	-	-5.9%	59.9%	2.2%	-12.1%	25.6%	-16.6%	43.4%	-25.9%	-21.6%	5.4%	-1.4%	-21.6%	21.8%

Tram Passenger Projections

Cruise Ship Passenger Arrivals

Historic and projected Juneau cruise ship passenger volumes are shown on the following table:

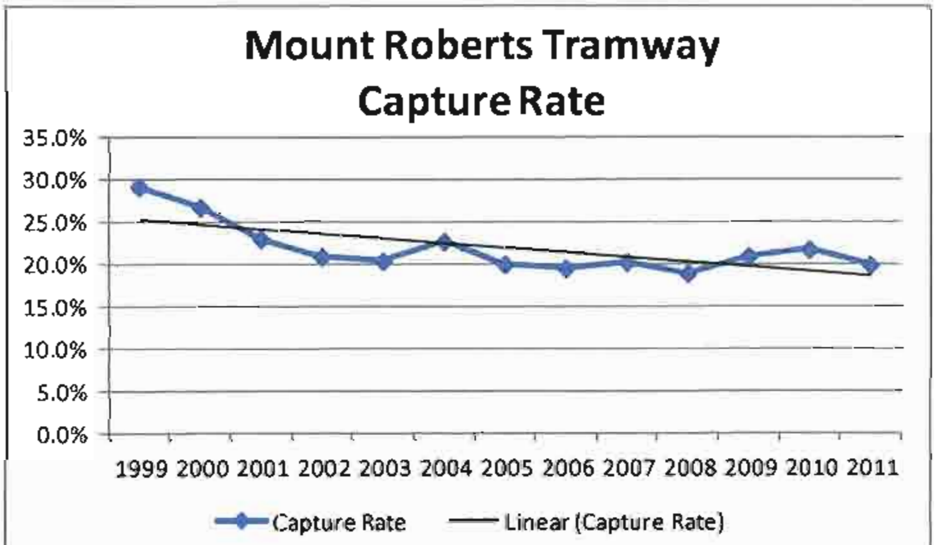


**Based on scheduled arivals multiplied by number of berths. 2012 Low is based on industry standard calculations. 2012 High represents best case scenario.*

Source: Cruise Line Agencies of Alaska & Alaska Cruise Association, Reliant Reference Number 12-0300

Mount Roberts Tramway Capture Rate

The Mount Roberts Tramway capture rates over time are shown on the following table.



Projected Tram Passenger Volume

936,000 total passengers are projected for fiscal year 2012, which represents a 6.9% increase over 2011 arrivals. Capture rates are influenced by passenger onshore expenditures, the availability of direct and indirect competition and weather patterns, where more rainfall reduces the capture rate and less rainfall increases the capture rate. As shown above, the subject's capture rate has trended downward in recent years. Causes include reduced onshore passenger expenditures due to the national recession and above average rainfall in 2011. A stabilized capture rate towards the average of 20.5% is projected.

Revenue

Revenue is projected on a dollar per passenger basis. In projecting fiscal year 2012 revenues, primary weight has been placed on the average historic rate of growth attained over the last decade with trends over the last year and three years given secondary consideration. Projected growth rates applied to 2011 dollar per passenger revenues are shown below.

PROJECTED REVENUE

	% Chng.	$/Passenger
Ticketing Revenue Growth	1.6%	$19.48
Food Revenue Growth	2.0%	$2.07
Beverage Revenue Growth	2.0%	$0.44
Retail Revenue Growth Rate	3.0%	$4.81
Other Revenue Growth	5.0%	$0.34

Expenses

Overview

Most expenses are forecast as a percentage of effective gross income (EGI or total revenue). In selecting the percentage of EGI, primary weight was given to the average EGI over the last decade and over the last three years. Less weight was given to the percentage of EGI in 2011 as this represents a single year of performance. Where appropriate additional comments are presented below.

Management Fee

Whether an owner occupied property or leased asset, it is appropriate to incorporate a management fee in order to reflect the characteristics of a passive investment. There are certain market segments where management is often performed by ownership. In this case, property management is often not specifically recognized as an expense but is nonetheless incurred. Commonly accepted valuation methodology incorporates a professional management fee and this is consistent with the perspective of the majority of market participants. Most often, management is charged as a percentage of effective gross income. The fee varies widely depending on the intensity of duties, property type, revenues, number of tenants, expense structure, lease rollover schedule and leasing agreements in place. Properties with significant revenue will fall towards the low end of the range while properties with limited revenue will fall towards the high end of the range. A single tenant building on a triple net lease structure will fall towards the low end of the range while a multi-tenant building on a full service expense structure with pass throughs will fall towards the high end of the range. The subject is owned by Goldbelt Incorporated, a Juneau based native corporation. Goldbelt Incorporated has not historically charged a professional management fee.

However, given that this is the valuation of the subject's going concern interest, a professional management fee has not been applied.

Real Estate Taxes

Real estate taxes are projected for the Mount Roberts Tramway land and improvements, based on historic levels. This approach modestly understates NOI, since the implication of this report is that the land assessment on the 490 S. Franklin Street CBJ ground lease parcel is above market. Nonetheless, for the purposes of the current valuation, given the large negative land residual NOI that exists, this methodology is reasonable.

Ground Rent

As discussed previously, the subject is situated on a leased site. Accordingly, ground rent is projected as an expense based on the current contract level. Ground lease payments are incorporated for the AJT Lease and State of Alaska DNR Air Rights lease. Rents are projected per contract terms to reflect the leasehold interest in these sites. The 490 S. Franklin St. CBJ ground lease payments are excluded to reflect the fee simple interest in the site.

Reserves

Reserves are an annual expense that is set aside for the periodic replacement of short-lived capital items such as parking lot, roof, carpet and paint, and certain mechanical components such as boilers, HVAC units and elevators. They are theoretical in nature, since the actual annual expenditure on capital improvements may vary widely. Therefore, the reserve estimate is intended to reflect an annual average over time. Within the subject's market, most market participants incorporate reserves as an above the line expense. In order to reflect the significant amount of furniture, fixtures and equipment required in the operation of an aerial tramway, reserves are projected at 4.5% of EGI, which is similar to typical reserve allowances applied to a hotel property.

Summary of Expense Projections

The subject's individual expense projections are well supported by historic data. Overall, the projected expenses are reasonable and well supported.

Property Going Concern Net Operating Income

Expenses are subtracted from revenue to arrive at going concern net operating income, which is shown at the bottom of the Mount Roberts Tramway Historic & Projected Expense & Net Operating Income Exhibit presented previously. The net operating income shown is for the going concern and includes real, personal and intangible property components.

Improved Going Concern Net Operating Income

Methodology

The Cost Approach is an appraisal method of arriving at a value indication for the subject by estimating the cost to replace the improvements with current materials and labor, less accrued depreciation from all causes. The estimated land value, as detailed in the previous section, is normally added to the depreciated value of the improvements to reflect a total value by the cost approach. In this analysis, land value is not added and the cost approach provides a going concern value indication for the subject's improvements only. This approach is based on the assumption that replacement costs provide a reasonable estimate of value, providing the improvements represent the highest and best use of the land, and depreciation from all causes is appropriately accounted for. Valuing the improvements separately from the land thus serves to satisfy the principle of substitution; that is, a buyer will tend to not pay more for the property than it would cost to replace.

Improved net operating income is estimated by performing the cost approach and multiplying the resulting improved going concern value by an appropriate improved OAR. Note, because original construction costs used to estimate replacement cost include both real and personal property, the value indication by the cost approach is reflective of the going concern value. Similarly, applying an improved OAR to going concern value results in improved going concern net operating income, which includes real, personal and intangible property components.

Escalated Original Cost

Original construction costs are excellent indicators of a building's reproduction cost provided they are current. Original construction costs reflect the subject's specific design, construction materials and quality. The major limitation is that they often do not reflect current construction costs and provide an indication of reproduction cost (what was actually built) rather than replacement cost (what should have been built). When original building costs are not current they can be adjusted by current cost multipliers provided by Marshall Valuation Service. The subject's escalated original cost is presented on the Cost Approach Summary Exhibit later in this section.

Goldbelt, Inc. was not the original developer of the subject and was unable to provide the appraiser with a breakdown of actual original construction costs. A prior appraisal provided to the appraiser states that the construction of the subject "was completed in 1996 at a reported cost of approximately $17.5 million (turnkey)." It is understood that this includes all building improvements, mechanical systems, and personal property supporting the intended use of the subject.

These costs would be significantly higher today and the application of a cost escalator is required. A cost escalator is applied in order to reflect increases in construction costs over time. MVS tracks historic cost escalations and states that an appropriate cost escalator for the subject is 1.7 (current year cost index of 2803 divided by base year cost index of 1653). This is supported by the Consumer Price Indexes, which indicates a similar cost escalator. After careful consideration, a 1.7 cost escalator is applied to the original construction costs of $17.5 million, indicating current construction costs would be approximately $29.675 million.

Developers Margin

Market Properties

For properties with numerous potential users developer's margin can be obtained through either speculative or build-to-suit construction. For investors a developer's margin must be achievable for construction to be financially feasible. While developer's margin is often attained by users, its presence is not necessary for construction to occur since even though it is not financially feasible form a real estate perspective it may be financially feasible from a business perspective. The presence of developers margin is highly specific to an individual property. For market properties similar to the subject developers margins currently range from a low of 5% up to a high of 25%.

Limited Market or Special Purpose Properties[8]

Special purpose properties generally have limited conversion potential and are constructed expressly for a particular user with a designated special use in mind. Unless an income earning asset, they are developed to fulfill a business need, not to attain a profit on the real estate and when profit is present it accrues to the business rather than the real estate. If an income earning asset, a developers profit can be attained.

Conclusion

A tramway facility, such as the subject, is a highly speculative project and exhibits substantial risks associated with development. Political risks are inherent although difficult to quantify. Other risks include economic risks related to the cruise ship industry, social risk associated with local residents, increasing construction costs, legal issues, and environmental issues. Furthermore, an ambitious project, such as the Mount Roberts Tramway, can also be expected to take a longer period to bring to completion due to legal issues, negotiations and permitting.

There were no sales of recently built aerial tramways from which to extract a developers margin. However, it is noted that there have been a number of cruise ship berths constructed in recent years by private developers. While cruise ship berths are have obvious physical differences they have a number of notable economic similarities, including the following:

- They have a longer development timelines (24 to 36 months).
- They typically require the assemblage of multiple property components (tidelands, uplands, multiple property owners, etc.).
- They require specialized expertise and market knowledge. There are a limited number of market participants capable of development at any given time.
- They are directly dependant on the performance of the cruise ship industry within a localized Alaskan market.
- They often require specialized financing, including public-private partnerships and bond offerings.
- They have high reserve allowances and shortened economic lives relative to traditional real estate.

Proprietary market data retained within the appraiser's work file indicates developers margins of 20% to 30% for privately developed cruise ship berths within the Alaska market. After careful consideration, a developer's margin of 20.0% has been incorporated.

Depreciation

Introduction

Depreciation is a loss in value from the reproduction (or replacement) cost of improvements due to any cause as of the date of appraisal. The value difference may emanate from physical deterioration, functional depreciation, external depreciation, or any combination of these sources. A description of the various

[8] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.

sources of depreciation follows.

PHYSICAL DEPRECIATION Physical deterioration is evidenced by wear and tear, decay, cracks, incrustations, or structural defects. Physical deterioration can be either curable or incurable. Incurable physical deterioration applies to both short-lived items (roof, plumbing, HVAC, etc.) and long-lived items (structural).

FUNCTIONAL DEPRECIATION Functional depreciation can be either curable or incurable and is caused by a flaw in or a deficiency or super-adequacy in the structure, material or design.

EXTERNAL DEPRECIATION External depreciation is incurable and caused by negative influences in property values outside of the owners control such as market conditions, property uses, zoning, financing, or legal influences.

Effective Age

Effective age is estimated by the appraiser by weighing the actual age of a property against its current condition. In certain cases, the effective age is equal to the actual age, while in other cases it may be more or less than the actual age. The concept of effective age acknowledges that properties rarely depreciate on a linear basis. Construction type and quality play important roles, as does ongoing maintenance and capital infusion. Based on the appraiser's walk-through of the subject, construction type, quality, current condition and economic performance, the effective age of the subject is estimated at approximately 16 years or equivalent to its actual age.

Economic Life

As discussed in the Description of Improvements chapter, economic life is estimated using MVS information based on actual economic lives for properties of similar construction type, occupancy and quality. Marshall Valuation Service indicates properties similar to the subject's construction type and quality have economic lives between 45 and 50 years. In practice, with ongoing capital expenditures and reinvestment the economic life of a building can be extended well beyond the indicated range. Within the Alaska market, the economic lives of improvements have typically been between 50 and 100 years. After careful consideration, an economic life of 40 years has been estimated.

Effective Age / Economic Life Method

The effective age and economic life expectancy of a structure are the primary concepts used by an appraiser in measuring depreciation with age-life relationships. Under this method, total depreciation is estimated by calculating the ratio of the effective age of a property to its economic life expectancy and applying this ratio to the property's total cost new. Note that this method does not typically reflect abnormal, property specific depreciation or external depreciation.

Property Specific Depreciation

The analysis presented above assumes that the subject exhibits normal depreciation typical of similar properties in the market. Any property specific depreciation not typical of the market must be separately considered. The subject is of modern design, has a functional layout, and was recently built. No property specific depreciation is noted at this time.

External Depreciation

The preceding methods do not account for external depreciation. The lack of financial feasibility demonstrated in the highest and best use section indicates the presence of external depreciation. The land residual technique results in negative net operating income to the land, further implying the presence of external depreciation. While land does not depreciate and therefore does not suffer from external depreciation it is noted that, based on various legal and economic factors, it can be rendered valueless (uneconomic). If a property is not developed to its highest and best use, external depreciation accrues to the improvements as the land could always be sold under a different use. If however, no alternative use exists for the land other than the current use (due to zoning or use restrictions, for example), then there is a loss in site value that, while not considered external depreciation, has certain economic similarities. For the purposes of performing the land residual technique, no external depreciation has been applied. However, land cannot have negative net operating income and therefore any shortfall in net operating income concluded by the land residual technique is due to external depreciation, which accrues to the improvements. Therefore, the negative net operating income to the land of $566,408 can be capitalized based on the estimated improved going concern OAR of 10.0%, indicating total external depreciation of $5,664,085 or 15.9%, which when applied to the cost approach would result in a residual net operating income to the land of $0.

Current Investment Parameters

Sale Comparisons

There are no comparable sales of aerial tramways. Building and overall rates of returns indicated by recent Alaskan investment sales are presented in the following table:

ALASKA INVESTMENT SALE RETURN REQUIREMENTS

Comp	Name	Property Type	Year Built / Renovated	Date	Buyer Type	Income Growth	Risk Profile	Bld. OAR	OAR
I-1	64th Street Warehouse - 1592	Industrial	2004 / 2004	Jan-12	Investor	Stable	Average Risk	11.8%	9.6%
I-2	West Coast Paper Whse - 1667	Industrial	1978-94 / 1978-	Apr-12	Investor	Flat	Lower Risk	8.7%	8.5%
I-3	2216 Post Rd - 1126	Industrial	1967 / 1974	May-11	Investor	Stable	Average Risk	9.1%	8.5%
I-4	Lake Otis Medical & Professional Bldg - 1131	Office	1971 / 1971	May-11	Investor	Stable	Average Risk	10.3%	8.5%
I-5	4111 Minnesota Dr. - 1201	Office	1974 / 1990	Mar-11	Investor	Stable	Average Risk	9.3%	8.7%
I-6	Trans America Glass - 1436	Industrial	1988 / 2011	Nov-11	Investor	Flat	Average Risk	9.0%	8.7%
I-7	AK Court Building - 1479	Office	1984 / 1984	Oct-11	Investor	Stable	Average Risk	11.4%	10.7%
I-8	12212 Old Glenn Hwy - 1510	Retail	1974 / 2007	Jul-11	Investor	Stable	Average Risk	11.3%	9.5%
I-9	Eagle River Commercial Buildings - 1516	Retail/Offic	1975/83/85	Dec-11	Investor	Stable	Average Risk	10.3%	9.4%
I-10	2320 Post Rd - 1559	Industrial	1960s / 2008	Dec-11	Investor	Stable	Higher Risk	8.9%	8.6%
						Low		8.7%	8.5%
						High		11.8%	10.7%
						Average		10.0%	9.1%

This analysis indicates the spread between building OARs and blended OARs is approximately 100 basis points. Thus, to convert the OAR indications that follow into building OARs, an upward adjustment of 100 basis points is appropriate.

RERC & PwC (formerly Korpacz) Real Estate Investor Surveys

These are detailed reports that are published four times a year. They are designed to provide accurate information in regard to current investment parameters for a variety of property types and markets. These reports are derived from a survey of highly knowledgeable market participants. Regional investment survey participants are leaders in their respective real estate market, comprising local or regional brokers, developers, managers, appraisers, consultants, owners, buyers, lenders, financial institutions, private firms, local jurisdictions, and planners. These key real estate professionals have first-hand knowledge of local investment conditions in major metropolitan markets. Each quarter, survey participants report on which local and regional markets are affected by national trends reported by institutional investors and lenders. They also report on city specific IRR and on cap rates by property type and tier. In addition, each market survey contains information per property type on anticipated rent and value growth, buy-sell-hold recommendations, investment conditions, risk of overbuilding, overall performance, and investor's insights in each of their respective markets. These reports are two of the pre-eminent studies of the investment climate within the real estate industry.

Current Investment Parameters – RERC Investment Survey

RERC Required Return Expectations[1] by Property Type - 3Q 2011

	Office		Industrial			Retail			Apartment	Hotel	Average All Types	RERC Portfolio Index
	CBD	Suburban	Ware-house	R&D	Flex	Regional Mall	Power Center	Neigh/ Comm				
Pre-tax Yield (IRR) (%)												
Range	7.0 - 10.0	7.5 - 11.0	7.0 - 11.0	8.0 - 11.5	8.0 - 12.0	6.5 - 11.5	6.0 - 11.0	7.0 - 12.0	6.0 - 11.0	8.0 - 15.0	6.0 - 15.0	6.0 - 15.0
Average[2]	8.1	9.1	8.6	9.1	9.5	8.1	8.7	8.6	7.9	10.4	8.8	8.5
Weighted Average[3]	8.7		8.7			8.4						
BPS Change[4]	20	0	10	0	10	10	-10	-30	10	-30	0	10
	10		0			0						
Going-In Cap Rate (%)												
Range	5.0 - 8.5	6.3 - 9.5	6.0 - 8.0	7.0 - 9.0	7.0 - 9.0	5.0 - 8.0	6.5 - 8.0	6.0 - 9.0	5.0 - 8.0	6.0 - 10.0	5.0 - 10.0	5.0 - 10.0
Average[2]	6.4	7.4	7.1	7.7	7.9	6.4	7.4	7.1	5.9	8.3	7.2	6.7
Weighted Average[3]	6.9		7.2			6.8						
BPS Change[4]	0	-10	10	0	10	-20	-10	0	-10	-50	0	-10
	-10		10			-10						
Terminal Cap Rate (%)												
Range	6.0 - 8.5	6.8 - 9.5	6.5 - 8.5	7.5 - 9.0	7.0 - 10.0	6.0 - 8.5	7.0 - 9.8	6.3 - 10.5	5.5 - 8.5	8.0 - 11.0	5.5 - 11.0	5.5 - 11.0
Average[2]	7.0	8.0	7.6	8.2	8.4	7.0	7.8	7.8	6.5	8.9	7.7	7.3
Weighted Average[3]	7.5		7.7			7.4						
BPS Change[4]	0	-10	0	0	0	0	-30	0	-10	-40	-10	-10
	-20		0			-10						
Rental Growth (%)												
Range	0.0 - 5.0	0.0 - 3.0	0.0 - 4.0	0.0 - 4.0	0.0 - 4.0	-1.0 - 4.0	-1.0 - 3.5	-1.0 - 3.6	1.0 - 4.0	1.0 - 4.5	-1.0 - 5.0	-1.0 - 5.0
Average[2]	2.8	2.0	2.5	2.4	2.3	2.3	2.2	2.2	3.2	3.2	2.5	2.6
BPS Change[4]	0	0	40	40	40	-10	10	-10	-40	-40	0	-10
Expense Growth (%)												
Range	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	2.0 - 3.0	1.0 - 3.0	1.0 - 3.0	1.0 - 3.0	2.0 - 3.5	2.0 - 4.0	1.0 - 4.0	1.0 - 4.0
Average[2]	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.9	3.0	2.8	2.8
BPS Change[4]	-10	-10	0	0	0	0	-10	-10	-10	0	-10	-10

[1] This survey was conducted in July, August, and September 2011 and reflects expected returns for Third Quarter 2011 investments
[2] Ranges and other data reflect the central tendencies of respondents unusually high and low responses have been eliminated
[3] Weighting based upon 3Q11 NCREIF Portfolio market values
[4] Change (+/-) in basis points (BPS) from quarter immediately preceding current rate
Source: RERC Investment Survey

Current Investment Parameters – PwC Investment Survey

Exhibit 1

OVERALL CAPITALIZATION RATES

Fourth Quarter 2011

National Markets	Average	Quarterly Change*
Apartment	5.80%	– 18
CBD Office	6.84%	– 7
Strip Shopping Center	7.16%	– 4
Regional Mall	7.23%	– 27
Power Center	7.35%	– 15
Suburban Office	7.43%	– 4
Warehouse	7.48%	+ 3
Net Lease	7.59%	– 54
MOB**	7.92%	– 18
Flex/R&D	8.71%	+ 4
Apartment Markets		
Pacific Region	5.21%	– 21
Mid-Atlantic Region	5.79%	– 19
Southeast Region	5.83%	– 9

Band of Investment

A band of investment analysis is performed based on current equity dividend rates required by investors and available terms of market financing. This method responds very quickly to changes in interest rates and can be a leading indicator of the direction OARs are heading. Current equity dividends or "cash-on-cash" returns vary widely depending on the specific characteristics of the property. The band of investment analysis is presented below.

BAND OF INVESTMENT ANALYSIS					
Current Typical Investment and Finance Parameters					
10-Year US Treasury Rate					1.98%
Spread (1)					4.10%
Interest Rate					6.08%
Origination Fee / Closing Costs (1)					1.10%
Effective Interest Rate					6.21%
Loan Ammortization (1)					22
Loan to Value Ratio (1)					75%
Equity Cap Rate (2)	10.0%		to		15.0%

Ro Based on Equity Dividend of:	**10.0%**				
Return on Mortgage (Rm)	75%	X	0.0835	=	0.0626
Return on Equity (Re)	25%	X	0.1000	=	0.0250
Indicated Overall Annual Rate (OAR)					**8.8%**

Ro Based on Equity Dividend of:	**15.0%**				
Return on Mortgage (Rm)	75%	X	0.0835	=	0.0626
Return on Equity (Re)	25%	X	0.1500	=	0.0375
Indicated Overall Annual Rate (OAR)					**10.0%**

(1) Based on market survey of local mortgage brokers & lenders.

(2) Based on market survey of investors & market participants.

Property Specific Influences on Risk & Rate

Upward Influences

- Mount Roberts Tramway income is heavily dependent on only one industry.
- The property is unique to the region.
- There is significant indirect competition for cruise ship passenger activities and tours while visiting in Juneau.
- Political policies and decisions, such as cruise ship regulation, have the potential to greatly influence Tramway visitors.
- Similar to a hotel, operation of the Tramway requires significant management and employee involvement.
- The property components include significant amounts of furniture, fixtures and equipment and personal property that have shorter economic lives than traditional real estate.

Downward Influences

- Value of the subject is significantly below replacement costs.
- High barriers to entry, and limited risk of new competition.
- The Tramway is good quality.
- The Tramway has no direct competition.

Selection of Improved Rate

Improved Overall Annual Rate

Primary emphasis is given to the sale comparisons as these reflect actual returns on the building. The building OARs range from 8.7% up to 11.8% and average 10%. Hotels are economically similar to the subject in that they are management

(Improved OAR) intensive, include significant amounts of furniture, fixtures and equipment and are generally viewed as having a higher risk profile than traditional real estate. The investment surveys report OARs for hotels from 6% up to 10%. The subject's improved OAR would be expected to fall towards the upper end of this range. The band of investment analysis suggests an OAR near 9%. Adjusting this upward by 100 basis points to reflect the premium in return for recapture of the improvements indicates on improved OAR near 10%. After careful consideration, the subject's improved going concern OAR is estimated at 10.0%.

Calculation of Building NOI Exhibit

Valuation Component		Franklin Street Juneau Terminal (CBJ Parcel) Aerial Tramway
Gross Building Area		**29,505**
REPLACEMENT COST		
Escalated Original Cost		
Original Cost (Real & Personal Property)		$17,500,000
MVS Current Cost Multiplier		1.70
Total Replacement Cost		$29,674,834
Reconciled Replacement Cost Excluding Profit		**$29,674,834**
Plus: Developers Margin	20.0%	$5,934,967
Replacement Cost Including Profit		**$35,609,800**
Per Sq Ft		$1206.91 /SF
LESS: DEPRECIATION		
Effective Age / Economic Life Method		
Year Built		1996
Actual Age		16 Yrs.
Effective Age / Actual Rage Ratio		100.0%
Effective Age		16 Yrs.
Economic Life		40 Yrs.
Percent Depreciated (Eff. Age / Actual Age)		40.0%
MVS Depreciation Tables		-
Reconciled Physical & Functional Depreciation		**40.0%**
Property Specific Depreciation		**0.0%**
External Depreciation		**0.0%**
Total Percent Depreciation		**40.0%**
Total Depreciation		**($14,243,920)**
DEPRECIATED IMPROVED GOING CONCERN VALUE		**$21,365,880**
IMPROVED GOING CONCERN OVERALL ANNUAL RATE		**10.0%**
IMPROVED GOING CONCERN NET OPERATING INCOME		**$2,136,588**

Residual Income Attributable to the Land

Following is the calculation of the residual income attributable to the land.

SUMMARY OF LAND RESIDUAL TECHNIQUE

Type of Net Operating Income	Property Rights	Technique to Estimate NOI	Net Operating Income
Property Going Concern	Fee Simple/Leasehold*	Income Approach	$1,570,180
Improved Going Concern	Fee Simple	Depreciated Cost Approach X Improved OAR	-$2,136,588
Residual Income Attributable to the Land	Fee Simple	Land Residual Technique	-$566,408

**Income excludes ground lease payments on 490 S. Franklin St. Mt. Roberts Tramway Terminal lease (subject) and therefore reflects fee simple interest in this site, subject to the terms of the January 1995 ground lease between the CBJ (lessor) and Goldbelt, Inc. (lessee), but includes ground lease payments for AJT & DNR leases and therefore reflects leasehold interest in these sites.*

Income Capitalization of Net Operating Income to the Land

The final step in the land residual technique is capitalization of the residual income attributable to the land. Land capitalization rates are readily available within the Alaska market and this step in the land residual technique can be performed with a high degree of reliability. In the case of the subject, however, net operating income to the land is negative. Given that land value cannot be negative, it is therefore indicated that the improvements suffer from external depreciation. Based on the lack of aerial tramway financial feasibility demonstrated in the highest and best use analysis, the negative residual income attributable to the land will not change over time. Therefore, it is implied that the 490 South Franklin Street CBJ Ground Lease parcel is an uneconomic parcel that will provide limited, if any, functional utility under the use restrictions presented in the current ground lease.

Final Market Value Estimate

FINAL MARKET VALUE ESTIMATE

490 S. Franklin St. CBJ Ground Lease	
Property Rights	**Fee Simple***
Condition	**Prospective As Vacant & Unimproved**
Effective Date of Appraisal	**July 1, 2012**
490 S. Franklin St. CBJ Ground Lease Market Value	**$0 (Uneconomic Parcel)**

**Fee simple interest subject to the terms of the January 1995 ground lease between the CBJ (lessor) and Goldbelt, Inc. (lessee) that limits the subject to aerial tramway use.*

Exposure Period & Marketing Time

Investor surveys indicate exposure periods for properties within the subject's market classification ranging from 3 to 12 months and averaging 7.2 months. Sales comparable data indicated exposure periods ranging from 3 to 12 months. In the case of an uneconomic parcel, demand does not exist and the estimate of exposure or marketing period is not applicable and has therefore not been made.

General Assumptions & Limiting Conditions

1. **Applicable to All Assignments:** Unless explicitly stated to the contrary, the following General Assumptions & Limiting Conditions apply to all assignments.

2. **Acceptance of Report/Limit of Liability:** The client's acceptance and/or use of this report also establishes the complete acceptance of all contingencies, assumptions, limiting conditions, etc., as stated within the report. The client is responsible to become familiar with these assumptions and limiting conditions. If placed in the possession of anyone other than the client, the client shall make such party aware of these assumptions and limiting conditions. The appraiser(s) assume no liability for the client or third party's lack of familiarization and comprehension of the same. The appraiser(s) has no responsibility or liability to correct any deficiencies of any type in the property, or any costs incurred to correct such deficiencies whether legal, physical, or financial.

3. **Post Appraisal Services:** The contract for appraisal, consultation, or other service is fulfilled upon completion of the assignment. The appraiser(s) or others assisting in this report will not be required to provide testimony in court or other hearing, and will not participate in post appraisal services other than routine questions with the client or third parties so designated by the client without a separate engagement and for an additional fee. If testimony or deposition is required due to subpoena, the client shall become responsible for the incursion of fees and charges for any additional time, regardless of the party.

4. **Duplication and Dissemination of Report or Report Contents:** This appraisal has been completed for the client's specific use and the appraiser(s) has no liability, accountability, or obligation to any third party. The appraiser(s) retain copyright of the data, discussions, and conclusions contained herein. Possession of this report does not constitute the right of publication either in whole or in part. The client may only disseminate complete final copies to third parties engaged in the course of underwriting and loan securitization. Duplication and dissemination of selected sections of this report to third parties without express written consent of the signatories of the report are prohibited. This report in whole or in part may not be distributed to the general public by use of advertising media, public relations, new outlets, etc. without the written consent of the signatories. Exemptions from this restriction include duplication for the client's internal use, dissemination to accountants, attorneys, or advisors of the client. The exemption also extends to any court, governmental authority, or regulatory agency that has jurisdiction or subpoena power over the individuals or parties for whom the appraisal has been prepared or for ethics enforcement, provided that the report will not be published in whole or in part in any public document or medium. This report shall not be advertised to the public to make a "sale" or any "security" as defined by the Securities Act of 1933.

5. **Appraisal Institute Use Restrictions:** Disclosure of the contents of this appraisal report is governed by the By-Laws & Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraisers or the firm with which they are connected, or any reference to the Appraisal Institute or to the MAI designation) shall be disseminated to the public through advertising media, public relations media, news media, sales media or any other public means of communication without the prior written consent and approval of the undersigned. No part of this report or any of the conclusions may be included in any offering statement, memorandum, prospectus or registration without the prior written consent of the appraisers.

6. **Unauthorized User:** The report has been prepared for the client and the client's intended use. The appraiser(s) has no liability to any third party. Any authorized user of this document who provides a copy of this document to, or permits reliance thereon by, any person or entity not authorized by Reliant, LLC in writing to use or rely thereon, hereby agrees to indemnify and hold Reliant, LLC, its affiliates and their respective shareholders, directors, officers, and employee's harmless from and against all damages, expenses, claims and costs, including attorney's fees, incurred in investigating and defending any claim

arising from or in any way connected to the use of, or reliance upon, the document by any such unauthorized person or entity.

7. **Reliability of Information Used:** Through the course of this assignment the appraiser(s) collected data from numerous sources deemed reliable, but not guaranteed. No liability is assumed for the inaccuracies of data supplied by the various sources either public or private. Data relied upon in this report has been confirmed with primary or secondary sources considered reliable and/or reasonable, and appropriate for inclusion in the analysis. Although there were no reasons to doubt the general accuracy of such data, unimpeachable verification or affidavits of all data is an impractical and an uneconomic expenditure of time and resources and/or may involve legal or confidentiality issues.
8. **Right to Amend Report:** The appraiser(s) reserves the right to amend, modify, alter, or correct any and all statements, analyses, and conclusions of the value indications in the event that incorrect data was supplied, withheld, altered, or that any other pertinent data unknown, not disclosed, or revealed to the appraiser(s), whether intentionally or unintentionally, during the course of this assignment subsequently becomes available. Examples of such data that could impact the opinions of market value include but are not limited to: street addresses, Assessor's Parcel Numbers, site area, site dimensions, gross building area, net rentable area, usable area, common area, number of units, number of room, rent rolls, historical operating statements and budgets, sales data, etc.
9. **Obligation of User to Report Errors:** Any authorized user is required immediately contact the appraiser(s) and report errors, discrepancies, or alterations to the proposed properties or land parcels to determine the impact on the opinion(s) of market value.
10. **Market Dynamic and Valuation Fluctuations:** The opinions of market value expressed within the report are subject to change over time as a result of market dynamics. Market values are highly susceptible to both macro and micro economic forces that influence the property. Such forces include but are not limited to: exposure on the market, length of time, marketing efforts, motivations and preferences of market participants, productivity of the property, the property's market appeal, changes in investor requirements regarding income and yields, etc. The opinions of market value are made as of the report date and subject to fluctuations over time as a result of natural market forces.
11. **Date of Value, Dollar Values, and Purchasing Power:** The date of the report and the effective date of the market value opinions are stated in the letter of transmittal or with the appropriate sections of the report. All dollar amounts are based on the purchasing power of the United States Dollar (USD). The analyses and conclusions of the appraisal are based upon the known market conditions as of the date of report. Changes in market conditions or purchasing power may warrant a new appraisal assignment. The appraiser(s) is available for consultations regarding changes in the economic conditions.
12. **Fixtures, Furniture, and Equipment (FF&E) and Business Concerns:** Personal property, FF&E, intangibles, going concerns, etc., unless specifically stated as a component of the real estate, are excluded from the market value estimates.
13. **Non-Viewed Units/Spaces:** In certain instances, due to current occupancy or lack of access, portions of the subject's units/spaces are not available to be viewed during the walk through. Unless otherwise stated in the report, in these cases the person accompanying the appraiser on the walk through has represented that the condition and quality of these units/spaces are similar to that of the property (viewed areas) as a whole. It is a general assumption of this assignment that the units/spaces that were not viewed are commensurate condition and quality with those viewed by the appraiser during the walk through.
14. **Proposed Improvements, Renovations, and Repairs:** For the purposes of this analysis, the proposed improvements, renovations, and/or repairs are presumed to be completed in a workman-like manner, and according to the detail, plans, and specifications supplied to the appraiser(s). The market value opinions for such construction, renovations, and repairs are subject to an inspection of the improvements to determine completion as per plans and specifications.

15. **Date of Completion Value:** The actual delivery date of proposed product may vary widely from the anticipated date of delivery due to weather and other variables. If proposed or under construction, it is an ordinary assumption of this assignment that the subject is completed as of the at completion date, which has been developed based on discussions with ownership, contractors, architects and typical market derived construction deliveries.
16. **Limitations of Competency:** The appraiser is competent in the valuation of real estate, which is a subset of the field of economics. The appraiser is not competent in the field of law, engineering, construction, architecture, surveying or other areas of expertise outside of the field of real estate economics. Clients bear the responsibility of consulting and retaining experts outside the appraisal profession as required by the situation.
17. **Lease Verification / Validation:** Where applicable, the scope of lease verification was generally limited to their economic characteristics and legal aspects of the leases were not reviewed or analyzed. It is assumed that all of the leases are valid, legally binding documents.
18. **Divisions or Fractional Interests:** The opinions of market value apply to the entire property unless specifically identified and established within the conclusions and analyses of the report. Division of fractional interests by the client or third party will render this report invalid.
19. **Component Values:** The distribution of total valuation between the land and the building improvements in this report are applicable only under the existing program or utilization of the property. The component values between land and building are not intended, nor are they to be used in conjunction with any other appraisal assignment, and are rendered invalid if used.
20. **Survey:** Site plans, sketches, or other illustrations are not surveys unless specifically identified as an exhibit from a licensed survey. Surveys of the site boundaries were not completed, nor does the appraiser(s) imply such expertise. Dimensions and areas of the site were obtained from sources deemed reliable but not guaranteed. Additionally, it is further assumed that no encroachments exist.
21. **Exhibits:** Maps, plats, sketches, photographs, and other exhibits are intended for illustration, visualization, and assistance in describing and analyzing the property in full context. Such exhibits may not be removed, reproduced, or separately used beyond this report.
22. **Building Area:** Reliant, LLC makes no warranty or certification relating to building area. In instances when building area is not provided and is either partially or entirely unknown the appraiser may be required to measure the property to provide an indication of building area. Measurements by the appraiser may be made onsite or be made from property drawings, sketches, or actual architectural plans. The user(s) of this assignment are cautioned not to view the appraisers building area estimate as having the same degree of accuracy as a building area study performed by an appropriately qualified/certified individual such as an architect or engineer and are recommended to engage such individuals for this type of information.
23. **Clear Title:** It is specifically assumed, unless otherwise indicated, that the title to the property is clear and marketable, that there are no recorded, unrecorded, or potential liens, defaults, encumbrances, etc. that would adversely affect the marketability and transfer of ownership. The appraiser(s) does not imply expertise in determining defects in the title, nor has the appraiser(s) been informed of such adversities. Specific questions regarding the title, including title insurance should be directed to a well qualified real estate title company. The legal description provided by title report, surveyor, government records, etc. is assumed to be correct.
24. **Subsurface Rights, Avigation Easements, and Transferable Development Rights (TDR's):** The market value opinion(s) specifically assume that there are no mineral deposit rights or other subsurface rights, avigation easements, or transferable development rights associated with the property unless explicitly stated within the report.

25. **Private Deed Restrictions:** The appraiser(s) makes the explicit assumption that there are no private deed restrictions that in any way limit the use of the subject property.
26. **Americans with Disabilities Act (ADA):** The ADA became effective on January 26, 1992. The appraiser(s) does not imply expertise in the interpretation of the ADA, nor has a compliance survey been completed. The potential exists that if a compliance survey is completed combined with a detailed analysis of the ADA requirements, deficiencies may be revealed that could adversely impact the market value conclusion(s). No specific information regarding any non-compliance issues have been provided to the appraiser(s) and the possibility of non-compliance was not considered in the developing the opinions of value contained herein. Specific compliance questions should be directed to the appropriate governing jurisdictional agency.
27. **Zoning Ordinances:** It is assumed that no changes to the current zoning code/ordinances or other regulations regarding the use of the property, density of development, construction components and/or quality of components, etc. are imminent or under consideration by the jurisdictional governing body, unless otherwise noted in the report. The property is appraised under the assumption that the improvements are approved, that certificates of occupancy or permits have been or will be issued, and that all other applicable national, state, local, or other administrative requirements have successfully been, or will be obtained or renewed for any use considered in the opinion(s) of market value.
28. **Adverse Governmental Controls:** Unless otherwise stated, the appraiser(s) is unaware of any governmental controls on the property, public initiative issues, rent or price controls, or any other adverse governmental or public controls contemplated regarding the legal use of the property.
29. **Property Compliance:** The appraiser(s) expresses no opinions or warranties that may require legal expertise or specialized investigations beyond the methods and investigations typically employed by real estate appraisers. Market value opinion(s) and conclusions contained within the report assume that the property is compliant with all environmental and government regulations such as building permits, fire department approvals, occupancy permits, building codes, licenses, etc. If the appraiser(s) has not been supplied with a termite inspection, occupancy permit, etc., no responsibility or representation is assumed for correction costs associated with obtained those items or deficiencies discovered before or after they were obtained. The appraiser(s) assumes no responsibility for costs incurred to obtain flood hazard determination, flood hazard insurance, or consequences arising for failure to obtain flood hazard insurance. Although the appraiser(s) has searched publicly available FEMA maps, a flood certification should be obtained from a qualified agent for the Federal Flood Insurance Program.
30. **Structural Integrity and System Components:** No advice or warranty of any kind are expressed or implied regarding the condition or adequacy of the mechanical systems, structural integrity of the improvements, soils, settlements, drainage, or other factors regarding the integrity and adequacy of the component systems of the improvements. The appraiser(s) is not a qualified engineer, nor is expertise implied with respect to engineering matters. Client may desire to retain the services of a qualified licensed contractor, civil engineer, structural engineer, architect, or other expert in determining the quality, condition, and adequacy of the improvements prior to the disbursement of funds. It is assumed that the existing improvements are structurally sound and constructed to the applicable federal, state, and local building codes and ordinances. That assumption includes, but is not limited to: the superstructure, roofing, electrical, plumbing, mechanical, HVAC, elevator, etc. The opinion(s) of market value are based upon no hidden or unapparent adverse conditions of the improvements, the site, or the subsoil, which would cause a loss in value. No responsibility or liability is assumed for any adverse conditions or for the expertise and retention of experts in discovery, detection, and cost to cure. In the event that professional consultations or reports reveal negative factors that would create a loss in value, the appraiser(s) reserves the right to amend the opinion(s) of market value and other conclusions contained herein.
31. **Environmental Hazards:** Unless specifically stated, the appraiser(s) has no knowledge regarding the presence or absence of toxic materials including but not limited to: asbestos, urea-formaldehyde

insulation, leaking underground storage tanks, contaminated groundwater, or other potentially hazardous materials and substances that would adversely affect the market value and marketability of the property. The appraiser(s) does not imply expertise and no liability is assumed for the detection or remediation of such materials or substances, whether above or below the ground surface. Although a perfunctory observation was made during the walk-through, the client is referred to an environmental expert for further details, if so desired. If environmental hazards are discovered, the market value opinion(s) may be negatively affected, requiring a re-appraisal of the property for an additional fee.

32. **Environmental Compliance:** Unless otherwise noted, the appraiser(s) makes the assumption that the property is in compliance with all applicable national, state, or local environmental regulations.

33. **Competent Property Management:** It is assumed that the subject property analyzed currently is, or will be under efficient and competent management and that said management is not, or will not be, inefficient or super-efficient.

34. **Financial Documentation:** Historic income and expenses may have been provided by ownership, a lender, property manager, real estate agent or other third party. The financial information is assumed to reflect actual income and expenses at the subject using Generally Accepted Accounting Principles (GAAP). This information is assumed to be accurate and it has not been audited in any way.

35. **Cash Flow Projections:** The cash flow projections presented in this report are forecasts of future performance characteristics based upon the macro and micro economic data detailed in the analysis. The income, vacancy, expenses, and general economic conditions presented are not to be construed as predictions of the future, but rather reasonable expectations of future performance based on market modeling practices. Unless otherwise stated, the cash flow modeling is intended to reflect the opinions and practices of market participants and is not the analyst's forecast of what will actually occur. Actual results will vary and are affected by fluctuating economic conditions and efficiency of management. The appraiser(s) makes no warranty, express or implied, that the forecasts will occur as outlined. Additionally, future economic projections may be adversely affected by unforeseen circumstances and economic repercussions beyond the realm of knowledge or control, such as the events of September 11, 2001.

36. **Asset Recommendations and Consultations:** No statements contained within the report shall constitute recommendations with regard to the acquisition, disposition, or holding of the asset at the stated market value indication(s). Such decisions warrant significant research and strategy, with specific investment questions requiring additional consultations and financial analysis. Any user should consider this document as only one factor together with its independent investment considerations and underwriting criteria, in its overall investment decision. The assignment is not intended to be either a positive or a negative indication, nor endorsement, of the soundness of an investment or underwriting decision.

37. **Agreement to Mediation and Binding Arbitration:** If a dispute arises out of or relates to this assignment and if the dispute cannot be settled through negotiation, the parties agree first to try in good faith to settle the dispute by mediation administered by the American Arbitration Association under its applicable procedures. Any controversy or claim arising out of or relating to this assignment that cannot be resolved through said mediation shall be settled by binding arbitration administered by the American Arbitration Association under its applicable rules and binding judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

38. **Property Specific Assumptions, Limiting Conditions and Hypothetical Conditions:** The user is directed to the Assignment Overview section of this report for a listing of Extraordinary Assumptions and Hypothetical Conditions specific to this assignment. The user is specifically cautioned to understand each of the items listed and their impact on the property and scope of this assignment.

Terms & Definitions

Market Value[9] *The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date, and the passing of title from seller to the buyer under conditions whereby:*

a. *the buyer and seller are typically motivated;*

b. *both parties are well informed or well advised, and acting in what they consider their own 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;*

e. *and the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.*

Market Rent[10] *The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs).*

As Is Value[11] *The estimate of the market value of real property in its current physical condition, use and zoning as of the appraisal date.*

Prospective Value[12] *A value opinion effective as of a specified future date. The term does not define a type of value. Instead, it identifies a value opinion as being effective at some specific future date. An opinion of value as of a prospective date is frequently sought in connection with projects that are proposed, under construction, or under conversion to a new use, or those that have not yet achieved sellout or a stabilized level of long-term occupancy.*

Retrospective Value[13] *A value opinion effective as of a specified historical date. The term does not define a type of value Instead, it identifies a value opinion as being effective at some specific prior date. Value as of a historical date is frequently south in connection with property tax appeals, damage models, lease renegotiation, deficiency judgments, estate tax, and condemnation. Inclusion of the type of value with this term is appropriate, e.g., "retrospective market value opinion."*

[9] Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [f].
[10] Source: The Dictionary of Real Estate Appraisal, Fifth Edition, Chicago: Appraisal Institute, 2010.
[11] Source: The Dictionary of Real Estate Appraisal, Fifth Edition, Chicago: Appraisal Institute, 2010.
[12] Source: The Dictionary of Real Estate Appraisal, Fifth Edition, Chicago: Appraisal Institute, 2010.
[13] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

At Completion Value[14] *The market value at the effective date construction is completed or the certificate of occupancy is issued.*

At Stabilization Value[15] *The concept of value at stabilization is based on stabilized occupancy. Stabilized occupancy is defined as occupancy at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property.*

Aggregate of Retail Values[16] *The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. Also called the sum of the retail values, aggregate retail value, or aggregate retail selling price.*

Value in Use (Use Value)[17] *The value of a specific property for a specific use.*

Business Value[18] *The market value of a going concern, including real property, personal property, and the intangible assets of the business.*

Going Concern Value[19] *The market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the market value of the going concern. Or the value of an operating business enterprise. Goodwill may be separately measured but is an integral component of going-concern value when it exists and is recognizable.*

Liquidation Value[20] *The most probable price that a specified interest in real property should bring under the following conditions:*

Consummation of a sale within a short time period.

The property is subjected to actual market conditions prevailing as of the date of valuation.

Both the buyer and seller are acting prudently and knowledgeably.

The seller is under extreme compulsion to sell.

The buyer is typically motivated.

Both parties are acting in what they consider to be their best interests.

A normal marketing effort is not possible due to the brief exposure time.

Payment will be made in cash in U.S. dollars or in terms of financial arrangements

[14] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.
[15] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.
[16] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[17] Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [f].
[18] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[19] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[20] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

comparable thereto.

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.

This definition can also be modified to provide for valuation with specified financing terms.

Stark Law Definition of Fair Market Value[21]

To comport with the Federal Physician Self-Referral Law (commonly known as the "Stark Law"), 42 C.F.R. §411.351, the appraisal must determine the fair market value in accordance with the following definition: Fair market value means the value in arm's-length transactions, consistent with the general market value. "General market value" means the price that an asset would bring as the result of bona fide bargaining between well informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party, on the date of acquisition of the asset or at the time of the service agreement. Usually, the fair market price is the price at which bona fide sales have been consummated for assets of like type, quality, and quantity in a particular market at the time of acquisition, or the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals. With respect to rentals and leases described in §411.357(a), (b), and (l) (as to equipment leases only), "fair market value" means the value of rental property for general commercial purposes (not taking into account its intended use). In the case of a lease of space, this value may not be adjusted to reflect the additional value the prospective lessee or lessor would attribute to the proximity or convenience to the lessor when the lessor is a potential source of patient referrals to the lessee. For purposes of this definition, a rental payment does not take into account intended use if it takes into account costs incurred by the lessor in developing or upgrading the property or maintaining the property or its improvements. Due to the following language in this definition: "between buyers and sellers who are not otherwise in a position to generate business for the other party", sales comparables involving sales between buyers and sellers in a position to generate business for the other party (for example, a sale by a hospital to a referral source, or vice versa) are not to be used in determining the Fair Market Value of the property.

Intended Use[22]

The use or uses of an appraiser's reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.

Intended User[23]

The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.

[21] Source: 42 C.F.R. §411.351.
[22] Source: Uniform Standards of Professional Appraisal Practice 2010-2011 Edition, The Appraisal Foundation.
[23] Source: Uniform Standards of Professional Appraisal Practice 2010-2011 Edition, The Appraisal Foundation.

Fee Simple Estate[24]	*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.*
Leased Fee Interest[25]	*A freehold (ownership interest) where the possessory interest has been granted to another party by creation of a contractual landlord-tenant relationship.*
Leasehold Interest[26]	*The tenant's possessory interest created by a lease.*
Real Property[27]	*The interest, benefits, and rights inherent in the ownership of real estate.*
Personal Property[28]	*Identifiable tangible objects that are considered by the general public as being "personal" - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate. Or, Consists of every kind of property that is not real property; movable without damage to itself or the real estate; subdivided into tangible and intangible.*
Fixture[29]	*An article that was once personal property, but has since been installed or attached to the land or building in a rather permanent manner so that it is regarded in law as part of the real estate.*
Intangible Property[30]	*Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.*
Extraordinary Assumption[31]	*An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.*
Hypothetical Condition[32]	*That which is contrary to what exists but is supposed for the purpose of analysis.*
Gross Building Area[33]	*Total floor area of a building, excluding unenclosed areas, measured from the exterior of the walls of the above-grade area. This includes mezzanines and basements if and when typically included in the region.*
Rentable Area[34]	*For office buildings, the tenant's pro rata portion of the entire office floor, excluding elements of the building that penetrate through the floor to the areas below. The rentable area of a floor is computed by measuring to the inside finished surface of the dominant portion of the permanent building walls, excluding any major vertical penetrations of the floor. Alternatively, the amount of space on which the rent is based; calculated according to local practice.*

[24] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[25] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[26] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[27] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[28] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[29] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[30] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[31] Source: Uniform Standards of Professional Appraisal Practice 2010-2011 Edition, The Appraisal Foundation.
[32] Source: Uniform Standards of Professional Appraisal Practice 2010-2011 Edition, The Appraisal Foundation.
[33] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[34] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

Useable Area[35] *For office buildings, the actual occupiable area of a floor or an office space; computed by measuring from the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining usable areas, and to the inside finished surface of the dominant portion of the permanent outer building walls. Sometimes called net building area or net floor area.*

Gross Leasable Area[36] *Total floor area designed for the occupancy and exclusive use of tenants, including basements and mezzanines; measured from the center of joint partitioning to the outside wall surfaces.*

Tidelands[37] *Lands that lie below the mean high watermark. These include lands that are awash by normal tidal flows and submerged lands below mean water. In some cases, the term tidelands applies to grasslands that are only occasionally flooded, or submerged lands.*

Uplands[38] *A piece of land that abuts a parcel with riparian rights; describes an owner once removed from a water right by a riparian owner.*

Special Purpose Property[39] *A property with a unique physical design, special construction materials, or a layout that particularly adapts its utility to the use for which it was built; also called a special design property.*

Excess Land[40] *Land that is not needed to serve or support the existing improvement. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land may have the potential to be sold separately and is valued separately.*

Surplus Land[41] *Land that is not currently needed to support the existing improvement but cannot be separated from the property and sold off. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved parcel.*

Depreciation[42] *In appraising, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date.*

Entrepreneurial Profit (Developer's Margin)[43] *A market-derived figure that represents the amount an entrepreneur receives for his or her contribution to a project and risk; the difference between the total cost of a property (cost of development) and its market value (property value after completion), which represents the entrepreneur's compensation for the risk and expertise associated with development.*

[35] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[36] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[37] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[38] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[39] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[40] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[41] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[42] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[43] Source: The Appraisal of Real Estate, Thirteenth Edition, The Appraisal Institute.

Exposure Time[44] *The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal; a retrospective estimate based on an analysis of past events assuming a competitive and open market.*

Marketing Time[45] *An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.*

[44] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.
[45] Source: The Dictionary of Real Estate Appraisal, Fifth Edition. Chicago: Appraisal Institute, 2010.

Addendum: Letter of Engagement

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Phone: (907) 341-2222
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Email: admin@reliantadvisory.com

Letter of Engagement

April 10, 2012

Mr. Derek Duncan
Goldbelt
3075 Vintage Blvd Ste 200
Juneau, AK 99801

Phone: 907-790-1430

Via Email: derek.duncan@goldbelt.com

RE: **12-0300, Robertson Tram Site Valuation**
490 S Franklin St., Juneau AK, 99801

Dear Mr. Duncan,

Thank you for choosing Reliant, LLC to perform this assignment. The following is a proposal to perform services. Upon execution by your signature this proposal becomes a binding agreement between the parties.

Property Identification

Name	Robertson Tram Site Valuation
Identification	490 S Franklin St., Juneau AK 99801
Property Type	Special Purpose

Scope of Assignment

Compliance The analysis and reporting of the assignment will be compliant with the following:

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- Uniform Standards of Professional Appraisal Practice (USPAP) as promulgated by the Appraisal Standards Board of the Appraisal Foundation.
- The bylaws of the Appraisal Institute.

Assignment - Type(s) of Value Requested

To estimate market value:

- As Is

These values are defined in the attached Terms & Definitions section.

Intended Use of Assignment

Ground lease renewal with CBJ.

Intended User(s) of Assignment

Goldbelt

Property Interest

This will be an appraisal of the real property. Intangible and personal property will be specifically excluded from this valuation.

Property Rights

Fee Simple

Assignment Presentation

Summary

SUMMARY REPORT FORMAT

The report will comply with the reporting requirements set forth under Standards Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice. Therefore, it will present only summary discussions of the data, reasoning, and analyses that were used to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses will be retained in the appraiser's files. The depth of discussion contained in this report will be specific to the client's intended use.

Inspection

An inspection of the subject will be performed by the appraiser.

Special Instructions

The primary purpose of the appraisal is to estimate market value of the Robertson Tram site based on its legally permissible highest and best use. The primary valuation method performed will be the land residual technique, whereby the market value of the total tram will be estimated and depreciated cost plus developer's margin are subtracted to arrive at the contributory value of the vacant land. Special care will need to be taken to back out each of the property components, including any air rights or other ground lease interests.

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Robertson Tram Site Valuation

Limitations to Scope of Work	USPAP permits limitations to the scope of work consistent with the assignment problem, intended user, and intended use. The scope of work will be limited by the General Assumptions & Limiting Conditions, which are attached for your review. Limitations to the scope of work will also result from the level of information / documentation available to the appraiser.

Assignment Fee & Payment

Total Fee	$24,000.00
Expense Reimbursement	None.
Retainer	$0.00
Balance Due Upon Final Delivery	$24,000.00
Payment Due Date	Final payment is due in net 15 days from the time of invoice, which will occur upon completion of services.
Financing of Late Payments	Reliant LLC reserves the right to charge interest on payments more than 30 days past due from the date of invoice accruing at monthly compound interest rate of 3%.

Assignment Schedule of Delivery

Date of Assignment Delivery	The assignment will be completed within six weeks from the date of the engagement. You may authorize this assignment by signing this letter and returning it to us with the requested retainer if applicable.
Timeliness of Delivery	Every effort to deliver the assignment within the agreed upon time frame will be made. This date of delivery is predicated upon the requested property information being provided in a reasonable timeframe. The date of assignment delivery may be amended in the event that this information is not provided within a reasonable period of time.

Other Important Conditions

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Copies of Report At the stated fee four hard copies of the report will be provided. Additional copies of the assignment are available at a charge of $100 per copy.

Individual(s) to Perform Assignment The assignment will be prepared by a Managing Member of the firm (either Theodore S. Jensen, MAI or Per E. Bjorn-Roli, MAI). Unless, otherwise agreed to in advance, associates may be used in the preparation of the assignment at the managing members discretion.

Assignment Termination If you wish to cancel this assignment anytime following your authorization to proceed with the assignment, a written notice of cancellation must be provided. In the event of cancellation you agree to pay for the professional time and materials spent on the assignment as of the date notification of cancellation occurs. In the event of cancellation you shall be provided access to the appraisers work to date, including the work file, upon payment for the amount due.

Assignment Review As part of this assignment, responses will be made to appropriate reviews conducted by yourself, employees, reviewers of your staff and/or by independent reviewers whom you employ. No obligation exists to respond to reviews from any other recipient of the report. While review comments will be considered, Reliant, LLC and its employees have no obligation to modify the assignment or opinions in any way.

Post Assignment Services & Expert Testimony The report communicating assignment results is intended as a standalone document. While normal questions may arise during the review process, the scope of work does not include any additional services. The performance of this assignment does not contemplate or include any post assignment delivery hourly services. Please refer to Item 2 of the General Assumptions & Limiting Conditions. In the event that post assignment services are required written authorization of the client is required and hourly rates shall be set based on Reliant, LLC's normal fee schedule in place at the time said authorization is provided.

Hourly Fee Schedules Current hourly rated are as follows:

Managing Members:	$225/hour
Expert Testimony:	$300/hour
Associates:	$125/hour
Analysts:	$100/hour
Support Staff:	$75/hour

Hourly Billing Policy Unless otherwise agreed in writing, all hours dedicated to working on an assignment are considered billable, including time spent in route to meetings or traveling (if applicable).

Certification & General Assumptions A sample Certification is enclosed for review. The Certification is part of the terms and conditions of this assignment. General Assumptions & Limiting Conditions that will be incorporated into the assignment are enclosed for your

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& Limiting Conditions review. By your authorization to proceed you agree to these conditions. The assignment may also contain extraordinary assumptions, limiting conditions and hypothetical conditions.

Request for Information

Information Requested

In order to meet the proposed date of assignment delivery it is important that the following requested information be provided. Items designated as having a "high" priority are required to make substantial progress and complete the assignment. Please ignore information that is not applicable to your property.

Scenario / Property Type	Item Requested / Question	Priority
For ALL Properties	▪ Any sales or listings in the last 3 years (including partial interest sales or stock transfers)? If so, provide copies of closing documents / settlement statements and details on the transaction.	High
	▪ Is the property currently listed for sale? If so, provide asking price, listing time thus far, name of listing agent (if any) and copies of listing packages.	High
	▪ Is the property currently pending sale? If so, provide Earnest Money Agreement or Purchase and Sale Agreement and other details on the transaction.	High
	▪ Most recent title report.	As Avail.
	▪ Environmental reports.	As Avail.
	▪ Are there any known environmental conditions at the property?	High
	▪ Past appraisal (particularly the descriptive portions).	As Avail.
	▪ Please indicate availability for the appraiser to perform a walkthrough of the premises and take exterior and interior photographs.	High
	▪ Legal description.	As Avail.
IF Vacant Land	▪ Soils reports. This is particularly important if there is organic material present on the property.	High
	▪ Costs to cure any development issues including, poor soils or costs to bring utilities to the site (if available).	High

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Robertson Tram Site Valuation

IF Existing Construction	▪ As-built surveys and site plans.	**High**
	▪ Building drawings, floor plans, etc.	**High**
	▪ Building area studies (if available).	**High**
	▪ What is the condition of the roof (below average, average, good, new)? When was the roof last replaced? Is there a roof warranty?	**High**
	▪ Any other major improvements, upgrades or repairs recently completed? If so, provide cost, description and year performed.	**High**
	▪ Is there any known outstanding deferred maintenance or any capital improvements planned? If so, provide description of item and estimated cost of repairs, if available.	**High**
IF Proposed Construction	▪ Digital architectural renderings of exterior and interior (if available).	As Avail.
	▪ Digital copies of architectural drawings.	**High**
	▪ Project narrative or description.	As Avail.
	▪ Itemized cost budgets / not to exceed estimates.	**High**
	▪ Copies of construction bids (both accepted and rejected).	As Avail.
	▪ Estimated date when construction will begin.	**High**
	▪ Estimated completion date of proposed improvements.	**High**
IF a Leased Assets	▪ Income and expense history for the last 3 years plus YTD plus Budget (if available).	**High**
	▪ Current rent roll (for multi-tenant properties).	**High**
	▪ Signed copies of any ground and/or building leases, with amendments and supplements.	**High**
	▪ If leased to a credit tenant, if available, please provide the credit rating of the tenant.	As Avail.

Format of Requested Information It is preferred that the requested information be provided in digital format to reduce the amount of time spent recreating charts and tables. Financial information is preferred in an Excel format. Other documents are preferred in Adobe PDF format. In the event it is not available in digital format please do not delay delivery of the requested information in hard copy format.

Due Date of Requested This information should be provided no later than within five business days of the date of this request. In the event that the requested information is not provided

Information within this time the date of assignment delivery may be amended as is required by the delay.

Responsibility to Provide Information It is the client's responsibility to ensure that the requested information is provided to the appraiser by either yourself or a third party in the agreed upon time frame. If you have any questions please do not hesitate to call.

To indicate your acceptance of this proposal and authorization to proceed with the assignment please sign, date and return this agreement via fax.

Mr. Derek Duncan
Goldbelt Hotel

Date

Addendum: Robert S. Spitzfaden Legal Opinion

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June 20, 2012

Derek Duncan
Vice President
Goldbelt, Inc.
3075 Vintage Blvd Ste. 200
Juneau, AK 99801

Re: Legal Use of Tram Property

Dear Mr. Duncan:

Goldbelt, Inc has requested this firm's opinion as to the legal use of certain property leased from the City and Borough of Juneau pursuant to the lease of January 31, 1995 (herein the Lease) for purposes of determining the fair market value of the unimproved land at its highest and best use.

It is this firm's opinion that the reasonable probable legal use of the property for the stated purpose is the existing use as an aerial tramway base terminal and associated structures and uses as set out in paragraph 3 of the Lease.

I. The Lease. The Lease was entered into on January 31, 1995, between Lessor City and Borough of Juneau (herein City), and Lessee Mount Roberts Development Corporation (herein Mount Roberts). The Leased Premises that Mount Roberts leases from the City consists of 10,000 square feet of land[1] and a 100 foot easement (the Air Rights Easement). The term of the Lease is thirty-five years, with Mount Roberts having a right to renew for an additional thirty-five years.

The use of the premises leased by Mount Roberts is only for the aerial tramway, with any other use or development a violation of the Lease subjecting the Lease to cancellation. The Lease requires Mount Roberts to construct the aerial tramway as described in section 3 of the Lease, and to keep the Leased Premises and improvements thereon in good condition during the term of the Lease. Upon termination of the Lease, the improvements become the property of the City, or must be removed, at the City's option.

[1] The 10,000 feet consists of the following:

Lot 13 Block 83 ATS No. 3	4,882 sq ft
Lot 16 Block 83 ATS No. 3	399 sq ft
Lot 17 Block 83 ATS No. 3	869 sq ft
Lot 1 Dockside Subdivision	3,850 sq ft

Base Rent was set by the Lease at $30,000 annually for the first three years of the Lease.[2] Thereafter, Base Rent was set at ten percent of appraised market value of the Leased Premises per year or $30.00 per square foot of the Leased Premises, whichever was greater.[3] The Lease requires an appraisal every three years to set a new Base Rent.[4] The basis of the appraisal is "the fair market value of the unimproved land of the Leased Premises including the Air Rights Easements, at its highest and best use." The appraisal is not to consider "any buildings or structural improvements above or below ground, landscaping or paving, with the Leased Premises to be considered unimproved land."

II. Applicable Zoning Law. The Leased Premises are located in the waterfront commercial zone[5] within a special waterfront commercial zone. 49.25.300; 49.70.960. Prior to the execution of the Lease in 1995, it was unclear whether the then existing zoning code authorized an aerial tramway and associated uses in the waterfront commercial district. The City modified its land use code to add a provision to the Table of Permissible Uses authorizing aerial conveyances and appurtenant facilities in the waterfront commercial zoning district, but provided such a use required a conditional use permit as well as requiring that the aerial tramway be water-dependent, water-related, or water-oriented.[6]

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[2] The Lease originally provided for Royalty Rent but that provision was deleted by agreement of the City and Mount Roberts in 2006.

[3] In 2006, the City and Mount Roberts agreed to reduce Base Rent from ten percent of appraised market value to 8% of appraised value.

[4] See section V herein as to the effective date of the rent adjustment.

[5] The waterfront commercial zone authorizes a variety of uses such as residential, retail sales, offices under 1000 square feet and over 2500 square feet, manufacturing, theaters, restaurants and bars, storage, but almost all such uses require a conditional use permit as well as having to be water-dependent, water-related, or water-oriented. Table of Permissible Uses, 49.25.300.

[6] "*Water-dependent* means a use or activity which can be carried out only on, in, or adjacent to water areas because the use requires access to the water body." 49.80.120.

"*Water-oriented* means uses or mixtures of uses which would benefit from being near the water and are intrinsic to waterfront development, and which meet all of the following criteria: (1) Uses must be part of a larger fully-planned development which also incorporates water-dependent or water-related uses: (2) Uses which are not directly water-dependent or water related must be necessary to the overall development of the project; (3)Uses must be integrated functionally by architectural and site designs which are sensitive to the waterfront site; (4) Uses

The City's land use code sets a minimum lot size in the waterfront commercial zone of 2,000 square feet, with minimum lot width and depth of 20 feet and 60 feet respectively. 49.25.400. Set backs are ten feet on the front, street, rear and side yards. Id.

III. Applicable Conditional Use Permit. Mount Roberts applied for and secured the necessary conditional use permit in order "to construct an aerial tramway" on the Leased Premises. Planning Commission Notice of Decision March 1, 1995, CU-04-95. In particular, the conditional use permit authorized:

> [A] base terminal site located at the cruise ship terminal and an upper terminal site located at the 1760 foot election of Mt. Roberts. The base facility will have a footprint of approximately 10,000 square feet and will include the tram drive equipment, ticketing and other similar activities.

The Notice Of Decision incorporated the report, findings and recommendations of the Community Development Director. The Director's report of February 24, 1995 included a finding that "there is a public policy that the CBJ should to (sic) expand its visitor industry offerings." Both the Director's report and the Notice of Decision found the aerial tramway met the requirements imposed by the special waterfront commercial zone, and the Tram was water-related and water-oriented. The Notice of Decision incorporated the Director's finding "that there is no feasible and prudent alternative to meet the public need for the facility."

The Notice of Decision found: "The Tram satisfies the requirements of a major tourist attraction of the kind contemplated for the area of the Ferry Terminal by the Downtown Waterfront Plan."

IV. Highest and Best Use Of The Leased Premises Limited by Zoning Law and The Lease. The Lease directs appraisal of the fair market value of the unimproved land at its highest

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must act as economic stimuli and anchor points to enable other forms of development, particularly public access improvements; and (5)Uses must contribute to a diverse and healthy downtown core." 49.80.120.

"*Water-related* means a use or activity which is not directly dependent upon access to a water body, but which provides goods or services that are directly associated with water dependence and which, if not located adjacent to water, would result in a public loss of quality in the goods or services offered." 49.80.120

and best use.[7] Applicable law restricts highest and best use to the reasonably probable legal use of the Leased Premises, as limited by the Lease itself and applicable zoning law.

A. *Fair Market Value.* In *Gackstetter v. State, 618 P.2d 564, footnote 2 (Ak. 1980)*, the Alaska Supreme Court held fair market value to be:

> Fair market value is defined as the amount of money "which a purchaser willing but not obliged to buy the property would pay to an owner willing but not obliged to sell it, taking into consideration all uses for which the land was suited and might in reason be applied." 4 J. Sackman, Nichols on Eminent Domain s 12.2(1) (rev. 3d ed. 1979) (footnotes omitted).[8]

B. Highest and Best Use Limited by Reasonably Probable Legal Use. The Alaska Supreme Court in *Kelley v. Municipality of Anchorage, Board of Equalization, 2000 WL 34545815 (Ak. 2000)*[9] described highest and best use as:

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[7] But for the lease provision directing fair market value of the unimproved land be determined at highest and best use, it would not be necessary to determine highest and best use as actual use of the premises would govern in readjusting rent. *City of Kenai v. Ferguson, 732 P.2d 184, 188 (Ak 1987).*

[8] Other Alaska cases make the same point with different language. *Fortson v. Fortson, 131 P.3d 451footnote 35 (Ak. 2006) ("We have defined fair market value as "[t]he amount at which property would change hands, between a willing buyer and a willing seller, neither being under compulsion to buy or sell and both having reasonable knowledge of the relevant facts." Doyle v. Doyle, 815 P.2d 366, 370 n. 6 (Alaska 1991) (quoting BLACK'S LAW DICTIONARY 597 (6th ed.1990)).; State v 7.026 Acres, 466 P.2d 364, 365 (Ak. 1970)(Fair Market Value is the price in money that the property could be sold for on the open market under fair conditions between an owner willing to sell and a purchaser willing to buy, with reasonable time allowed to find a purchaser); Baskurt v v Beal, 101 P.3d 1041 (Ak. 2004)(Fair Market Value for these purposes has been defined as not the fair "forced sale" value of the real estate, but the price which would result from negotiation and mutual agreement, after ample time to find a purchaser, between a vendor who is willing, but not compelled to sell, and a purchaser who is willing to buy, but not compelled to take a particular piece of real estate). Martens v. State, 554 P.2d 407, 409 (Ak. 1976)(Fair market value is amount which a fully informed seller would receive from a fully informed buyer in a normal, open market sale).*

[9] *Kelley*, as an unpublished decision, may be cited if it has persuasive value in relation to an issue in this case, and no published opinion would serve as well. Appellate Rule 214(d)(1). *Kelley* is persuasive on the definition of highest and best use, and the Court's reliance on the definition of the highest and best use found in Appraisal Institute, *Appraisal Of Real Estate (11^{th} Ed. 1996).*

> The highest and best use of property is commonly defined as the highest and most profitable use that is reasonably probable and not based on speculation or conjecture.

In doing so, *Kelley* relied on the definition of highest and best use found in Appraisal Institute, *The Appraisal of Real Estate* 297 (Stephanie Shea-Joyce ed., 11th ed.1996) defining highest and best use as "the reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value." The Thirteenth Edition of the Appraisal Institute's *The Appraisal of Real Estate* at page 278-279 defines highest and best use as: "The reasonably probable and legal use of vacant land or an improved property that is physically possible, appropriately supported, and financially feasible and that results in the highest value."[10]

The legal component of highest and best use requires analysis of uses permitted by applicable zoning laws, as well as private restrictions such as long term leases. Appraisal Institute, *The Appraisal of Real Estate, pages281-282 (Thirteenth Edition).*[11] See generally *Bocek Brothers v. Anchorage, 750 P.2d 335 (Ak 1988) (Use allowed in zoning district directly affects compensation to be awarded in condemnation proceedings).* Alaska law requires a determination of what is permissible pursuant to applicable zoning laws, and changes to zoning laws if such changes are reasonably probable in the near future. *Martens v. State, 554 P.2d 407, 409-411 (Ak. 1976).*[12] Not just zoning restrictions, but other governmental restrictions, codes,

[10] Courts often utilize the Appraisal Institute's definition of highest and best use including the reasonably probable legal use component. *Mocco v City of Jersey City, 222 B.R.440, 458 (D. New Jersey 1998); General Motors Corp. v Linden City, 22 N.J. Tax 95, section III (NJ 2005)(Reviewing definition of highest and best use in various editions, indicating definition has stayed relatively constant);936 Second Avenue L.P. v Second Corporate Development Co., 891 N.E. 2d 289, 292 (Ct of App NY 2008);Yamhill County Assessor v Johnson Living Trust, 2011 WL 867240 (Or. Tax Magistrate Div 2011); Newark v West Milford Township, 7 N.J. Tax 35 (NY 1984).*

[11] "In applying the test of legal permissibility, the appraiser determines which uses are permitted by current zoning, which uses could be permitted if a zoning change were granted, and which uses are restricted by private restrictions on the site. Private restrictions, deed restrictions and long-term leases may prohibit certain uses or specify building setbacks, heights, and types of material. . . . A long-term lease may affect the highest and best use because lease provisions may limit use over the remaining term of the lease." *The Appraisal of Real Estate, pages 281-282 (Thirteenth Edition).*

[12] Other jurisdictions are consistent with Alaska law requiring a determination of what is legally permissible pursuant to existing zoning law and changes which are reasonably probable in the near future. *United States v. 480.00 Acres Of Land, 557 F.3d 1297, 1306-07(11th Cir.*

and regulations impact what is legally permissible. *Mocco v. City of Jersey City, 222 B.R. 440 (D. New Jersey 1998).* However, where a property is zoned for a use for which there is no reasonable expectation that the property will be so utilized, a lesser included use may be deemed highest and best use. *City of Shreveport v. Shreve Land Investors Partnership, 556 So. 2d 638, 641 (Ct. of App. La 2nd Cir. 1990); see generally, 9A.L.R.3d 291 (1996).* Potential changes in legally permissible uses cannot be conjectural or speculative, in determining highest and best use, as uses must be feasible, nor merely in the realm of possibility. *Babinec v. State, 512 P.2d 563, 569 (Ak 1973); City of Hilldale v. Cooke, 28 P.3d 697, 703 (Utah 2001).*

The use restrictions in long term leases must be considered in determining the reasonably probable legal use of vacant land. *936 Second Avenue L.P. v. Second Corporate Development Co., Inc, 891 N.E. 2d 289, 291-292Ct of App NY 2008)(Effect of lease must be considered by appraisers in setting renewal rent unless lease itself excludes consideration of effect of lease); Textron Financial-New Jersey, Inc., v. Herring Land Group, LLC, 2011 WL 2600749 (US District Court, District of New Jersey 2011)(Appraisal methodology must taken into account existence of lease as hypothetical investor and original parties to lease have knowledge of the lease); Dicker v United States, 352 F.2d 455, 458-59 (U.S. App. D.C. 1965) (Prospective lease is evidence of highest and best use bearing on fair market value).*[13]

2009)(Zoning restriction precludes use, use cannot be considered in highest and best use analysis; government cannot restrict use to depress value);Unified Government Of Athens-Clarke County v. Watson, 577 S.E. 2d 769-771 (Ga. 2003)(Evidence of use not permissible if precluded by zoning unless change to zoning is probable, not remote or speculative, and sufficiently likely to have appreciable influence on present market value); 9 A.L.R. 3d 291 section 2[a] (1996) ("More difficulty has been occasioned when it is asserted that the land should be valued in the light of possible future changes in zoning regulations affecting the land, since such changes necessarily involve speculative factors. Where land is not presently available for a particular use, by reason of a zoning ordinance or other restriction imposed by law, but the evidence tends to show a reasonable probability of a change in the near future, the effect of such probability upon the minds of purchasers has generally been taken into consideration in fixing present market value. Although the doctrine of reasonable probability involves some speculation, it has been justified on the ground that it is the same speculation used by a prospective purchaser in determining the amount he should pay. However, where the possibility of rezoning is so remote that it would not have an effect on a prospective purchaser's offer, it has been held too speculative for the courts to consider in determining the market value of the property condemned.").

[13] "A long-term lease may affect the highest and best use because lease provisions may limit use over the remaining term of the lease." Appraisal Institute, *page 282.*

IV. The Actual Use As An Aerial Tramway is the Highest and Best Use due to Lease and Zoning Restrictions. The reasonably probable legal use, for highest and best use purposes, of the Leased Premises, is as an aerial tramway terminal and associated uses as described in the Lease due to the use restrictions of the Lease and conditional use permit.

The Lease restricts the use of the Leased Premises to an aerial tramway terminal and associated uses thru the year 2030, with an extension for another 35 years available to the lessee Mount Roberts; and requires Mount Roberts to build and keep in good condition the aerial tramway terminal and associated uses as defined by the Lease. The Lease does not indicate that the use restrictions of the Lease are not to be considered in determining highest and best use. Where, as here, a lease contains restrictions on the use to which the premises may be put, the use specified in the lease, is the highest and best use. *Mailman v. Commissioner of Internal Revenue, 1989 WL 157475 (U.S. Tax Ct. 1989)(Lease required premises be used as medical facility and prohibits general office use, so highest and best use was medical facility): Lehmann v. Commissioner of Internal Revenue, 1997 WL 524183 (U.S. Tax Ct. 1997)(Hotel use highest and best use because lessee under long term lease used the premises for hotel); Dicker v. United States of America, 352 F. 2d 455, 458 (DC Cir 1965)(Prospective lease evidence of highest and best use); Wu v. Interstate Consolidated Industries, 277 Cal. Rptr. 546, 549-550 (Cal. Ct of App,4th District, Div 3, 1991)(Court found fair market rent was based on the use required by the lease, distinguishing cases where the long term lease had no use restrictions).*[14] The Lease restricts the use of the Leased Premises to an aerial tramway terminal and associated uses, and does not prohibit consideration of that restriction in determining highest and best use. As the only use to which the Leased Premises can be put for at least the next 15 years, and potentially an additional 35 years, the only reasonably probable legal use of the Leased Premises is for the use specified in the Lease.

Applicable zoning and governmental restrictions likewise limit legal use of the Leased Premises to an aerial tramway. While the waterfront commercial zone in which the Leased Premises are located authorizes a number of uses, pursuant to its policy that the City should expand its visitor industry offerings, the City granted a conditional use permit to utilize the Leased Premises as an aerial tramway, in particular for a base terminal and an upper terminal with the base facility having a footprint of approximately 10,000 square feet including the tram drive equipment, ticketing and other similar activities. The conditional use permit does not

[14] In order for an appraisal not to take into account the use restriction and other terms of a long term lease, the lease itself must explicitly eliminate the lease from consideration. *Funger v. Maizels, 377 A. 2d 70, 73 (DC Ct. of App 1977)(Lease clause provided appraisal shall be made as if the leased land were not under lease).*

authorize any other use.[15] Accordingly, the conditional use permit limits and restricts usage of the Leased Premises to an aerial tramway as specified in the permit. A change in use as suggested by the City's appraisal to first floor retail[16], would require a special use permit, which would require among other findings that retail use is water dependent, water related or water oriented; and is a use authorized within the special waterfront commercial zone. There is no reasonable probability that the necessary permit and findings could be secured in the near future given the Lease is valid for another 18 years, the public policy favoring expanding visitor offerings, and the City changed the zoning code specifically to authorize and accommodate the aerial tramway use.

V. Effective Date Of Rent Adjustment. The effective date of the next rent adjustment is July 1, 2012, in accordance with John M. Stone's letter of April 3, 2006.

The lease provides the Base Rent be effective on the first day of the third anniversary of the Permit Date, and shall be reset effective on the first day of each successive third year anniversary of the Lease.[17] As a matter of fact, the City did not seek until 2006 to adjust the rent from the $30,000 initial annual base rent.

The City and Mount Roberts negotiated new arrangements regarding the rent, which are reflected in the April 3, 2006 letter from John M. Stone to J. Gary Doubray. The letter reflected

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[15] No work can be done in the City without a valid development permit. 49.15.110. A conditional use permit is a development permit. 49.80.120.

[16] Use of comparable sales requires determining the highest and best use, to ensure the comparable sales have a similar highest and best use to that of the subject. *Oenga v. United States, 96 Fed. Cl. 479, 542-43 (Ct. Fed. CC. 2010)(Citing to the Appraisal of Real Estate 39, 299-300, 361 (13th Edition).* Accordingly, comparable sales of retail use properties, cannot be used to value the instant property whose reasonably probable legal use is as a aerial tramway. Furthermore, it is not reasonably probable that a retail building of the size of the comparable sales could be constructed across lot lines on the four lots of the Leased Premises (see footnote 1) given the minimum lot size, width and depth minimums, and set back restriction.

[17] Permit Date is defined to be the earliest of January 1, 1996 or when Mount Roberts secured all applicable government permits and licenses. Mount Roberts did not secure all applicable permits and licenses until after January 1, 1996, so the Permit Date is January 1, 1996. The Lease was signed January 31, 1995. So it appears the third anniversary of the Permit Date is not the same date as the third anniversary of the Lease.

agreement to delete the Royalty Rent, set rent at $104,000/ year (based on 8% of 2005 assessment) to remain in effect for three years until adjusted pursuant to paragraph 5 of the Lease, with the new payment plan to commence July 1, 2006. Paragraph 5 of the Lease provides for adjustment every three years, but paragraph 5 would have adjusted rent in less than three years, contrary to the Stone letter making the 2006 adjustment effective for three years. Accordingly, the effect of the Stone letter was to institute a new three year adjustment schedule commencing on July 1, 2009. The City did not adjust the rent in 2009, but continued to invoice for the rent amount set in 2006, which was paid. The City did not begin a process to adjust rent until June, 2011. Failure to adjust rent pursuant to a rent adjustment clause waives the rent adjustment. *Altman v. Alaska Truss & Mft. Co., Inc., 677 P.2d 1215, 1221-226 (Ak. 1983).* Accordingly, the City waived the July 1, 2006 rent adjustment, making the next rent adjustment date July 1, 2012.

VI. Conclusion. For the reasons advanced herein, for purposes of highest and best use, the reasonably probable legal use of the Leased Premises is for an aerial tramway base terminal and associated structures and uses as set out in paragraph 3 of the Lease, because the Lease and conditional use permit so limit the use, so it is not reasonably probable in the near future that the use would change.

Cordially,

Robert S. Spitzfaden

Addendum: "Ground Leases: Rent Reset Valuation Issues"

Ground Leases: Rent Reset Valuation Issues

by Tony Sevelka, MAI

ABSTRACT

The varied and unique challenges presented in the valuation of long-term ground leases with rent reset or rent review clauses have not been extensively addressed in appraisal literature. Collectively, less than a handful of articles about ground leases have been published in *The Appraisal Journal*. Most of the guiding principles underlying rent reset valuation, however, stem from case law in common law jurisdictions such as the United States, Canada, and Britain. This article discusses ground lease rent reset issues and related court cases.

While there are recognized and well-established valuation methods and techniques, the application of a particular valuation procedure to resolve a ground lease problem is always a function of the language contained in the ground lease–in particular the rent reset clause–and any constraints imposed by the quality and quantity of available market data. Problem identification always starts with a thorough reading of the lease, paying particular attention to relevant provisions, definitions, and descriptions of terms essential to the valuation process.

All opinions of value involve some aspect of real estate law. In specialized areas such as ground lease valuation, an awareness of relevant case law is paramount in developing and applying appropriate valuation methods. A basic understanding of contract law and an ability to interpret various legal documents, including leases, are important. Appraisal assignments involving potential arbitration and litigation often require the guidance of legal counsel. Conflicting interpretations of lease provisions at the time of rent review often lead to divergent and irreconcilable opinions of value, and resolution of a ground lease valuation dispute may require the court's intervention and guidance.

Ground Leases

A ground lease is an enforceable contract that creates a lessor's interest and a lessee's interest in a legally defined parcel of land, where virtually all of the incidents of ownership are transferred from the landowner to the lessee for the entire term of the ground lease. The landowner retains the reversionary interest in the land realizable upon expiration of the ground lease. The lessor's interest is known as the *leased fee* interest, while the tenant's interest is referred to as the *leasehold* interest. Both the lessor and the lessee enjoy rights and privileges and are subject to obligations and restrictions, as agreed upon and spelled out in the executed ground lease, and which the courts strictly interpret. A *ground lease* is variously defined as follows:

- A lease of vacant land, or land exclusive of any buildings on it, or unimproved real property. Usually a net lease.[1]

1. *Black's Law Dictionary*, Centennial Ed. (1891–1991), 6th ed., 704.

- Usually a long-term lease of land with the lessee permitted to improve or build on the land and to enjoy those benefits for the term of the lease.[2]
- A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.[3]

Aside from the financial benefits available to the landowner for entering into a long-term lease, there must be sufficient financial incentive (reward) for a prospective lessee (developer) to commit time, effort, and capital into undertaking site and building improvements, and marketing the finished product, if the developer is not an end user. The lease term must be of a sufficient length so the prospective lessee (developer) can amortize or recapture his or her investment. Moreover, the term of the ground lease must be of sufficient length to allow the lessee (developer) to obtain third-party leasehold mortgage financing on terms and conditions that make the proposed development financially feasible and to accommodate subtenant occupancy leases. Sometimes, the length of the ground lease is tied to the expected economic life of the proposed leasehold improvements.

A leasehold interest in unimproved land is less valuable than the corresponding freehold interest in the same land. Likewise, a 99-year lease will have a value much higher than a 40-year lease relative to the freehold value of the same land. The degree of relativity, expressed as a percentage of the freehold value, will vary between one type of property and another and from area to area, with the predominant factor being the length of the term, especially in a mortgage-dependent market. Over time, the value of a leasehold position gets progressively less as the lease approaches the expiration date, when the income from existing or future subtenant occupancies ceases and the land (including existing leasehold improvements) reverts to the freeholder (landowner).[4]

Rent Reset Clauses

Rent reset clauses provide the mechanism to adjust the ground rent payable by the lessee at predetermined intervals throughout the life of a long-term ground lease. In *Basingstoke and Deane Borough Council v. Host Group Ltd.*,[5] the court describes the mechanism and objective of rent review clauses, and the role of the appraiser:

> The means by which rent review clauses afford landlords relief in respect of increases in property values or falls in the value of money is by providing, normally, for a valuer, in default of agreement, to assess the up-to-date rent for the demised premises at successive review dates. In making that assessment the valuer will be achieving the intended purpose of keeping the rent in line with current property values having regard to the current value of money if, but only if, he assesses the up-to-date rent on the same terms (other than as to the quantum of rent) as the terms still subsisting between the parties under the actual, existing lease.

Nonetheless, the parties to a ground lease are free to deviate from reality and structure a rent reset clause in any manner they deem appropriate, even if the basis for determining rent bears no relationship to what has actually been leased or to any of the other subsisting clauses in the ground lease, including the remaining term of the lease.[6] Also, there is no prescribed length of time between rent reviews, which largely depends on the length of the overall term of the ground lease. Generally, ground leases with terms less than 40 years have scheduled rental payments established at the commencement of the lease that cover the entire term of the ground lease.

Development on leased land for which ground rents have not been predetermined is difficult to finance. Ground rent payments, unless specifically

2. International Valuation Standards (IVS) Glossary, in Appraisal Institute, *Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute, 2010), 249.
3. *Dictionary of Real Estate Appraisal*, 92.
4. In Canada, the Central Mortgage and Housing Corporation (CMHC) considers a 60-year land lease intended to accommodate residential use as being equivalent to 75% of the value of outright ownership. See, http://www.cmhc-schl.gc.ca/en/inpr/afhoce/tore/afhoid/fite/lale/lale_001.cfm. Research conducted by Capozza and Sick indicated that 80-year to 90-year prepaid land leases with single-family dwellings in the Salish Park area of the City of Vancouver, Canada, sold for a 20% to 40% discount from comparable fee-simple properties in the adjacent Dunbar and Kerrisdale areas. See "Valuing Long-Term Leases: The Option to Redevelop," *Journal of Real Estate Finance and Economics* 4 (1991): 209.
5. *Basingstoke and Deane Borough Council v. Host Group Ltd.*, [1988] 1 WLR 348, 56 P&CR 31, 284 EG.
6. In *McDonalds Real Estate Ltd Liability Partnership v. Arundel Corporation*, [2008] 2 EGLR 53, [2008] EWHC 377 (Ch), McDonalds entered into a 50-year ground lease for a 1.3-acre site in 1985 for the purpose of developing its first drive-thru restaurant in the UK. The lease contains covenants to comply with the Planning Acts and to use the demised premises only as a restaurant, together with ancillary office accommodation, storage, staff facilities and car-parking space in connection therewith, or for such other retail uses the landlord might authorize, such authority not to be unreasonably withheld or delayed. The rent is to be reset at 5-year intervals throughout the term of the lease on the understanding that the second method of estimating market rent at each rent review is to assume a term of 20 years, regardless of the actual remaining term, and is to apply to both the land and a hypothetical "modern single storey warehouse comprising 20,000 net useable square feet of which 15% were useable as ancillary offices and constructed to a high standard in accordance with all statutory and other relevant consents with all usual amenities including adequate parking and loading facilities."

subordinated, take priority over any mortgage payments associated with leasehold improvements. Unless ground rents are fixed throughout the term of the ground lease, the mortgage lender has no practical way of protecting its financial interest against unanticipated spikes in future ground rent payments that may overwhelm the earning capacity of the leasehold improvements and cause the lessee to default on the ground lease, putting the leasehold mortgagee at financial risk. Many lenders refuse to underwrite loans for leasehold improvements unless the ground rent has been prepaid or the amount of ground rent can be reasonably ascertained throughout the entire term of the ground lease and sustained by the potential income generated from subtenant occupancies.

Leasehold mortgagees are extremely cautious and apply conservative underwriting standards that typically require repayment of self-liquidating mortgage loans at least 10 years prior to the expiration of the existing lease term. Leases whose unexpired terms are less than 20 years are generally not considered suitable for mortgage financing. Leasehold mortgages, as commercial mortgage-backed securities, also carry greater financial risk.

Amortization of the costs of leasehold improvements requires that the ground lease be of a sufficient length for the lessee (developer) to recover his or her entire investment in the leasehold improvements while in possession of the land, which will revert to the landowner upon expiration of the ground lease. Depending on the use of the land and scale of development, amortization of major leasehold improvements in most instances will require a minimum of 40 years to permit the lessee (developer) to recover the investment and facilitate leasehold mortgage financing; most long-term leases run 50 to 99 years. Low order uses, such as gas stations and fast food outlets with low floor area ratios (FARs), may only require a 20-year ground lease.

Highest and Best Use[7]

A rent reset clause may instruct an appraiser to ignore both the improvements and the lease itself, valuing the land in fee simple and as if unencumbered and available for ground-up development in perpetuity. This type of rent reset clause facilitates an unrestricted highest and best use analysis,[8] which may or may not result in the highest or most probable ground rent at the time the rent is to be reset.

A restricted highest and best use analysis flowing from the provisions of a lease that dictate a specific or limited number of uses (which may or may not be legally permissible under the land use controls prevailing at the date of the rent review) can result in rental payments that are either lower or higher than those achievable based on an unrestricted highest and best use analysis. Similarly, where a lease dictates scale of development either less than or greater than permitted under the provisions of the prevailing land use controls, it too leads to a restricted highest and best use analysis, and can result in rental payments that are lower or higher than those achievable based on an unrestricted highest and best use analysis.

A rent reset clause that fails to specifically state that the lease itself is to be ignored imposes time constraints on the investment horizon, resulting in a restricted highest and best use analysis. The length of time remaining on the lease, including any extension of the lease term exercisable at the discretion of the tenant at the time of the rent review, may cause some or all of the uses permitted under the prevailing land use controls or those strictly dictated by the lease to be financially infeasible for ground-up development. This results in rental payments lower than those achievable based on an unrestricted highest and best use analysis. In this sense, a ground lease is similar to a space lease, whose length of occupancy available to the tenant is determined by the term of the lease. In defining a ground lease valuation problem in the context of highest and best use, the most critical and interrelated issues confronting the appraiser are as follows:

- The identification of what is to be appraised (i.e., land only or land and improvements), based on a thorough reading of the lease or as instructed by legal counsel.
- The constraints of the lease, if any, imposed on highest and best use analysis, to determine whether the valuation is of the fee simple interest or of the estate for years,[9] reflecting the period

7. Whether highest and best use analysis of land is undertaken on an unrestricted or restricted basis, the highest and best use must still be legally permissible, physically possible, financially feasible, and maximally productive. Appraisal Institute, *The Appraisal of Real Estate*, 13th ed. (Chicago: Appraisal Institute, 2008), 278–279.
8. This is analogous to valuing a property as if vacant, unimproved, and unencumbered, and, in the absence of a jurisdictional exception, may require the appraiser to impose a hypothetical condition on the highest and best use analysis.
9. Also known as a *tenancy for years*, and defined as "a leasehold interest in real estate established by a contract for possession for a specified period of time." *The Dictionary of Real Estate Appraisal*, 195.

remaining on the lease at the time of the rent review.

- The legally permissible use(s) governed by the prevailing land use controls or the use(s) dictated by the language of the lease.
- The scale of development legally permissible pursuant to the provisions of the prevailing land use controls or the scale of development dictated by the language of the lease.
- The physical constraints of the land, if any, imposed on the scale of development either legally permissible or dictated by the language of the lease.
- The remaining term of the lease, including any renewal options exercisable at the discretion of the lessee.
- The marketability and financial feasibility of the legally permissible use(s) or the use(s) dictated by the language of the lease, and achievable in the context of the remaining term of the lease, including any renewal options available to the lessee.

Market Analysis

Through supply and demand analysis, the appraiser identifies and tests the level of market support for legally permissible and physically possible uses, while recognizing any restrictions or constraints imposed by the lease. Sufficient market demand is a precursor of highest and best use analysis in the context of financial feasibility of a particular use and scale of development that has passed the initial tests of legal permissibility and physical possibility.

For example, in *Michelson*,[10] insufficient demand for office space rendered the hypothetical development of an office tower on the leased land infeasible at the date of the rent review, reinforcing the critical role of supply and demand in highest and best use analysis. The ground lease was for a term of 55 years, with the rent scheduled to be reset initially at the end of the 25th year of the lease term. The lease provided as follows:

> Upon the expiration of the twenty-fifth (25th) year…of the term of this Lease, the basic rental shall be adjusted to that sum which the Lessor could derive from said property if it were made available on the open market for new leasing purposes for…[office] use (exclusive of the value of Lessee's improvements thereon);

On the date of the first rent review, the remainder of the initial lease term was 30 years, with the parties reaching consensus on the following issues:

> The parties agree the lease requires the rent adjustment, 'if any,' to be decided on the basis of a valuation of a hypothetical transaction…First, it must be imagined the improvements to the Property do not exist, because the rent for the Property must be determined 'exclusive of the value of Lessee's improvements thereon.' Second, the relevant question is the market valuation of a new 55 year ground lease in 2002, with the same terms and conditions as those contained in the original ground lease (other than an adjustment of dates). This interpretation follows from the lease's directive to adjust the rent based on making the Property available 'on the open market for new leasing purposes…' Neither party contends the lease demands a valuation of a 30 year ground lease (the remainder of the actual term), which would presumably reduce the value of the leasehold. The parties stipulate that the only permitted use of the Property in 2002 was for an office building similar in size to the building actually in existence.

The rent adjustment clause called for an estimate of basic rent, but as no provision in the lease instructed the appraisers to assume a 55-year term, application of land residual analysis should have reflected an economic life of 30 years for the hypothetical leasehold improvements, consistent with the remaining term of the lease. The court considered what was the appropriate valuation methodology and what assumptions were appropriate in applying that methodology to the ground lease at issue.

In *Michelson*, the landowner's appraiser relied on a land residual analysis as a check against the freehold land value estimate derived from the sales comparison approach. The lessee's appraiser relied on land residual analysis solely to demonstrate a lack of financial feasibility stemming from a lack of demand for office space, a position supported by an absence of any new office development and an extremely high office vacancy rate in the local market. The appeals court upheld the trial court's ruling that no increase in basic rent was warranted:

> We agree with Michelson that…[its appraiser's] approach measures the economic feasibility of the ground lease transaction proposed in the rent adjustment provision. We further agree that the court was entitled to rely on a measurement of economic feasibility as a prerequisite to the assumption that a ground lease transaction would actually be consummated on the 'open market.'…

10. 2151 *Michelson, L.P., v. Corp. of The Presiding Bishop of The Church of Jesus Christ of Latter-Day Saints*, G039654, 2008 Cal. App. Unpub. LEXIS 10002.

[I]n the statement of facts, the cap rate used by the experts in calculating the feasibility of a ground lease at the Property is issue determinative....The lease calls for an upward adjustment of rent if the rent that could be derived exceeds $88,165. Using [the landowner's appraiser's] cost ($13,497,000) and NOI (ignoring ground rent, $1,525,838) assumptions, the margin for paying ground rent gradually evaporates upon increases in the assumed [building] cap rate:

Cap Rate (R_B)	Feasibility Income to Support Residual Construction Costs	Ground Rent
8.25%	$1,113,502	$412,336
9.00%	$1,214,730	$311,108
9.70%	$1,309,209	$216,629
10.00%	$1,349,700	$176,138
11.00%	$1,484,670	$41,168
15.00%	$2,024,550	-$498,712

[The lessee's appraiser's] methodology does not directly determine market rent; it determines whether sufficient income would be generated to make the deal rational for both the ground lessor and ground lessee.

Testing the Legal Permissibility of Land as though Vacant

In applying the test of legal permissibility, the appraiser determines which uses are permitted by current zoning, which uses could be permitted if a zoning change were granted, and which uses are restricted by private restrictions on the site. Private restrictions, deed restrictions, and long-term leases may prohibit certain uses or specify building setbacks, heights, and types of materials. If deed restrictions conflict with zoning laws or building codes, the more restrictive guidelines usually prevail. A long-term lease may affect the highest and best use because lease provisions may limit use over the remaining term of the lease.

Testing the Financial Feasibility of Land as though Vacant

Only those uses whose value is commensurate with cost, and which are legally permissible and physically possible, are considered financially feasible. For income properties, the analysis focuses on potential uses that are likely to produce an income (or return) equal to or greater than the amount needed to cover operating expenses, financial obligations, and capital amortization of the investments. Any external obsolescence related to a specific use should be incorporated into the test of financial feasibility.

Timing for a specific use is a function of supply and demand, and refers to when improvements should be built in conjunction with future expectations of occupancy and rent levels. Land and location favor financially feasible uses with near-term development potential, as near-term development land is more valuable today due to the time-value of money and the risk profile.

Financeability of Leasehold Improvements

Appraisers often overlook or underestimate issues associated with the financeability of leasehold improvements in ascertaining financial feasibility as part of highest and best use analysis. A ground lease has priority over a leasehold mortgage unless the lease has been subordinated in favor of the leasehold mortgagee. As a general rule, leasehold financing is more costly than financing a fee simple interest. Some of the issues that should be considered in addressing financeability of leasehold improvements and the impact on highest and best use analysis are:

- The ground lease itself as an encumbrance against the property, and whether the lease is assignable and mortgageable[11]
- The use(s) permitted by the ground lease (a narrow range of permitted uses will appeal less to a mortgage lender, and vice versa)
- The term remaining on the ground lease at the time of the rent review (a short remaining term will appeal less to a mortgage lender, and vice versa)[12]
- The frequency of rent resets during the remaining term of the ground lease (more frequent rent resets will appeal less to a mortgage lender, and vice versa)

11. *Airport Plaza, Inc. v. Gladys Motley Blanchard*, 188 Cal. App. 3d 1594; 234 Cal. Rptr. 198; 1987 Cal. App. LEXIS 1346. In denying *Airport's* request to mortgage its leasehold estate and dissolve the corporation and assign its assets, including the ground lease, to its two shareholders, the appeals court found that hypothecation constitutes an assignment of less than the entire leasehold, which is prohibited by the ground lease without the consent of the landowner. The court further found that no commercial lender would make a loan without requiring the landowner to consent to conditions, which would amount to an amendment of the ground lease. The court also found that the lessee was entitled to assign the entire leasehold estate without the landowner's consent, but only if the assignor remained personally liable on the ground lease.

12. The City of Vancouver was compelled to extend all of its existing 40- and 41-year ground leases, thereby enabling cash-starved housing cooperatives to obtain leasehold mortgage financing to cover the high cost of building envelope failure associated with many housing projects. *Housing Policy Report*, Vancouver City Council, February 16, 2005, CC File No.: 4664.

- The required or anticipated method of rent adjustment
- The right of the mortgagee to cure any default by the lessee of the provisions of the ground lease
- The right to reconstruct damaged leasehold improvements
- The lease provisions, if any, that provide mortgagee protections

In the context of land assumed to be unimproved, those uses found to be financially feasible are tested to ascertain the comparative productivity of each use and to determine which use produces the maximum productivity. Different uses have different risk profiles and varying rates of return are demanded by market participants at different points in time.[13] Of the financially feasible uses tested, the highest and best use is the use that produces the highest residual land value, consistent with the market's perception of risk and the rate of return demanded by the market for the perceived risk associated with the use.

Absent any legislative or public policy constraints, determining financial feasibility is a collaborative effort between landowner and lessee, with each party wanting to maximize its financial position by working to reach a consensus as to the most productive use(s) to be made of the land within the term of the ground lease. When the rent is to be reset during the term of the lease, the initial use(s) and scale of development may no longer be financially feasible due to changes in market conditions and limitations imposed by the language and remaining term of the lease. A use predetermined or dictated by the language of a lease may not be financially feasible at the time of rent review, which can negatively impact the earning potential of the land.[14]

Distinguishing Between Market Value and Market Rent

Market value concerns itself with vendors and purchasers, whereas market rent only pertains to lessors and lessees, a distinction articulated in *Bondi v. City of Toronto.*[15] In that case, the appeals court rejected the appraiser's estimate of rent and the two-step methodology of estimating rent based on the unrealizable value of the land in its (unrestricted) highest and best use.

> [The appraiser founded his] opinion as to the present sale value of the land viewed from the angle of its redevelopment potentiality. Even assuming that this was a perfectly proper manner of fixing the value of the freehold to the owner thereof who would eventually realize that potentiality, there was a complete absence of evidence as to what part, if any, of that potentiality would be realized during the 21-year period of the lease for which the rent was to be fixed.

In the rental dispute between B.C. Rail Partnership (lessor) and Pacific West Systems Supply Ltd. (lessee),[16] the ground lease was for a term of 20 years, and included a provision for reviewing the rent at five-year intervals. The rent was to be adjusted in accordance with a clause stating "the revised rental shall reflect a fair market rental on the date of such adjustment." The appeals court noted the lease called only for an estimate of fair market rental, and that objective differed from the language of the rent review clauses of the ground leases in the two other cited cases[17] that had dictated a two-step approach to estimating renewal rent. In the two cases cited, the primary objective was to estimate land value as bare land, to which was applied the rate of return specified in the lease in fixing the new annual rent.

A similar distinction was drawn between market rental value and market value in *Bullocks' Inc. v. Security-First National Bank of Los Angeles:*[18]

> Rental value is measured partially in terms of time, by the month or by the year, et cetera. The parties were not fixing rental value in the lease, they were fixing rent. They determined such rent by taking a...fixed percentage of the full value (not the rental value) of the land. The parties based rent upon the fair market value of the property rather than upon its rental value for any given period of time.

13. Investors will accept different rates of return, depending upon investment alternatives and differing levels of risks inherent in the use, location, and other characteristics of the property.
14. *2151 Michelson, L.P. v. Corp. of The Presiding Bishop of The Church of Jesus Christ of Latter-Day Saints.*
15. In *Bondi v. City of Toronto*, [1967] O.J. No. 1112, the land was leased for 21 years, with the lessor granting the lessee a further 21 years at an agreed upon rent to be "at such rent per foot frontage per annum as the said demised premises shall be worth irrespective of any improvements made thereon by the lessee or any prior lessee thereof."
16. *Pacific West Systems Supply Ltd. v. B.C. Rail Partnership*, 2003 BCSC 391, 2004, BCCA247 (Can LII).
17. *No. 100 Sail View Ventures Ltd. v. Janwest Equities Ltd.* , (B.C.C.A.) [1993] B.C.J. No. 2338. (Leave to appeal to the Supreme Court of Canada denied.) and *Musqueam Indian Band v. Glass*, 2000 SCC 52, [2000] 2 S.C.R. 633.
18. *Bullock's Inc. v. Security-First National Bank of Los Angeles*, 160 Cal. App. 2d 277; 325 P.2d 185; 1958 Cal. App. LEXIS 2119.

Valuation Premise

Contested rent reset clauses accompanied by a lack of appropriately defined or described terms can lead to widely divergent conclusions as to the interest to be appraised (freehold or remaining lease term),[19] the nature of the demised premises (land or land and improvements), and the highest and best use. Courts in common law jurisdictions have consistently held that the lease itself, as an encumbrance,[20] is a restriction on the use of land that must be taken into account in fixing the rent unless the lease contains language to the effect that the lease is to be ignored.[21] The following cases illustrate this point.

In *New York Overnight Partners v. Gordon*,[22] the rent for the 15-year renewal term of the lease was to be calculated at 6.5% of the "appraised value of the land." The lease expressly excluded from the definition of *land* the "buildings and improvements thereon erected." When the parties failed to reach consensus on the meaning of the phrase "appraised value of the land," they sought judicial interpretation to settle the dispute. The appeals court upheld the lower court's findings that, "the appraiser must determine the value of the land as though vacant, without improvements," because the lease expressly provided that the appraiser value the land as unimproved. Pursuant to the express terms of the ground lease, the parties did not intend the land to be appraised for its highest and best use as currently improved to establish the rental rate for the renewal term.[23]

In *Ruth E. Abers et al., v. Christine Marie Rounsavell*,[24] the rent for the leased land was to be reassessed after 30 years, adjusted to 8% of the then current fair market value, exclusive of all land improvements. The dispute focused on the meaning of "leased land" as used in 150 single-unit leases created on an 18.5-acre parcel developed as a leasehold condominium project. In 1969, the landowner initially entered into a unitary ground lease for 55 years with a developer to lease 18.5 acres for development as apartments. In 1974, the ground lease was amended and conveyed to another developer for a term of 75 years to accommodate a phased 150-unit condominium project, with the ground lease converted to 150 individual leases. As the units were sold, each purchaser signed an assignment for the particular described condominium. The assignment contained the same legal description of the leased property as the ground lease to which it pertained. In May 1975, with the division of the ground lease into separate condominium leases, the landowner and developer formally cancelled the ground lease. *Leased land* was defined as a specified condominium unit along with an undivided interest in the common area in each of the two leasehold condominium parcels. In addressing the meaning of leased land, the trial court concluded leased land meant "the entire 18 and one-half acre parcel of land on which the condominium complex was located" and that "the 18 and one-half acre parcel would be assessed at its 'highest and best use'." In overturning the lower court's ruling, the appeals court observed:

> The plain language in the recorded deeds gives rise to the reasonably justified expectation that the rent adjustment clauses will be limited to the fair market value of the leaseholds for the [150] individual condominium units, rather than fair market value of the entire 18 and one-half acres.

In *853 Seventh Ave. Owners*[25] the court examined the term *demised premises* in lease provisions. The court commented as follows:

> In [the opinion of the Court of Appeals in *936 Second Ave. L.P. v. Second Corporate Dev. Co., Inc...*], where

19. David C. Lennhoff, "You Can't Get the Value Right If You Get the Rights Wrong," *The Appraisal Journal* (Winter 2009): 60–65. See "Letters to the Editor" and author's follow-up responses (Summer 2009): 274–283 and (Winter 2010): 112–114.
20. Any right to, or interest in, land which may subsist in another to diminution of its value, but consistent with the passing of the fee by conveyance. *Knudson v. Weeks*, D.C.Okl., 394 F.Supp. 963, 976. A claim, lien, charge, or liability attached to and binding real property; e.g., a mortgage; judgment lien; mechanics' lien; lease; security interest; easement or right of way; accrued or unpaid taxes. If the liability relates to a particular asset, the asset is encumbered. *Black's Law Dictionary*, 527.
21. "Absent an agreement to the contrary, the effect of a net lease must be considered in valuing property for the purpose of setting rent for a renewal lease term." *936 Second Ave. L.P. v. Second Corp. Dev. Co.*, 10 N.Y. 3d 628 (2008); accord *New York Overnight Partners*, ("[w]hen the language of the lease so dictates, appraisals must take into consideration all restrictions...as well as the lease term"). Such a rule comports with precedent, appraisal practices and common sense. 201–203*Lexington Ave. Corp. v 205/215 Lexington Ltd. Partnership*, 224 AD2d 183 [1st Dept 1996], lv denied 88 NY2d 813 [1996]; *Ruth v. S.Z.B. Corp.*, 2 Misc 2d 631 [Sup Ct, NY County 1956], affd 2 AD2d 970 [1st Dept 1956]); *936 Second Ave. L.P. v. Second Corp. Dev. Co.*, 10 N.Y. 3d 628 (2008).
22. *New York Overnight Partners v. Gordon*, 88 N.Y.2d 716; 673 N.E.2d 123; 649 N.Y.S.2d 928; 1996 N.Y. LEXIS 3059.
23. The appeals court rejected the landowner's position that consideration should be given to the "more advantageous use of the land...valued as a parcel of property permitting usage of a building containing 152,000 square feet of floor space thereon, rather than as a theoretically vacant and unimproved parcel."
24. *Ruth E. Abers et al., v. Christine Marie Rounsavell, as Trustee, et al*, 189 Cal. App. 4th 348; 116 Cal. Rptr 3d 860; 2010 Cal. App. LEXIS 1788.
25. *853 Seventh Ave. Owners v. W & HW Realty Co.*, 2010 NY Slip Op 01420.

> the determination of rent for the net lease was to be based on "the value of the demised premises with all buildings and improvements thereon including any and all improvements erected by Tenant"..., the Court found that the net lease itself was to be taken into account in determining the rent...Since the wording of the lease here at issue specifically excludes buildings or improvements, as well as the lease itself, from the determination of value, the finding in *936 Second Ave.* is of no effect.

In *Revenue Properties v. Victoria University*,[26] the arbitrators fixed the renewal rent for the demised premises both as unencumbered and encumbered by the lease, leaving the court to interpret the rent reset clause. The lease did not indicate that the lands were to be considered as if unencumbered; therefore, the court ruled that the valuation had to take into account the lease as an encumbrance against the lands. According to the court, to do otherwise, "would be to ignore the very basis of the relationship between the parties as a landlord and tenant and would create a highly artificial situation." The court went on to note "the entire arbitration is because there is a lease. Therefore it is necessary to acknowledge that the lands are subject to a lease even without considering the specific details of the lease."

In *City of Vancouver v. David William Martin et al.*[27] the arbitrators reached a similar conclusion and recognized the lease itself as an encumbrance by drawing a distinction between unencumbered fee simple value and "market rental value of the said lands,"[28] stating that "the direction in the Model Lease is to determine the market rental value." In reaching this conclusion, the arbitrators relied upon the following two cases:

- *No. 100 Sail View Ventures Ltd. v. Janwest Equities Ltd.*,[29] where the court considered a rent review provision that required that the new rent be "10% of the fair market value of the Leased Premises as bare land at the date of the review." The issue was whether this language required that use restrictions in the lease be taken into account when arriving at the "fair market value of the Leased Premises as bare land." The finding of the majority of the court was that the phrase "fair market value of the Leased Premises as bare land" meant that the valuation had to be done without reference to the lease and consequently without reference to the restricted use found in the lease.[30]
- In *Pacific West Systems Supply Ltd. v. B.C. Rail Partnership*,[31] the court of appeals considered whether the use restrictions in the lease should be taken into account when a rent review provision required a determination of "fair market rental." As in *No. 100 Sail View*, the review provision stipulated that improvements created by the tenant were to be disregarded. The landlord argued that as the improvements were to be disregarded, it followed that the use restrictions in the lease also should be disregarded. The court disagreed, and distinguished this case from *No. 100 Sail View* on the basis that in that case the lease called for a determination of "the fair market value," whereas the lease in *Pacific West* required a determination of "market rental." The court found that to determine market rental "the terms of the lease the tenant holds are critical," and that there was "no sound basis on which it can be said that the parties to this lease can have intended that the tenant be put in the position of paying rent based on the unrestricted use of the lands when it is precluded from enjoying what may be the highest and best use."[32]

26. *Revenue Properties v. Victoria University*, [1993] O.J. No. 843, 101 D.L.R. (4th) 172.
27. *City of Vancouver v. David William Martin et al.*; retrieved April 4, 2011 from http://www. geoffmeggs.ca/wp-content/ uploads/2011/03/Arbitral_Award.pdf.
28. "'Said Lands' in both the Ground Lease and the Model Strata Lot Lease are defined as 'Lot 9, False Creek, Plan 16003.'"
29. *No. 100 Sail View Ventures Ltd. v. Janwest Equities Ltd.*, [1993] B.C.J. No. 2338, [1994] 2 W.W.R. 396.
30. In *Choosing the Right Words: Interpreting Rent Review and Renewal Clauses in Commercial* Leases, Menzies observes that the court referred to the decision in *Basingstoke*, but declined to follow it. "Since *Basingstoke* also referred to the rent being assessed as 'a bare site,' the decision in *Janwest Equities* calls into question in British Columbia the approach adopted by the English Court of Appeal in *Basingstoke* when faced with the words 'as bare land' or 'as a bare site' in a rent review or renewal clause. It is difficult to understand the reasoning of the majority in *Janwest Equities* and its conclusion that bare land means land unencumbered by a lease. A more logical interpretation is that bare land means land without buildings constructed thereon since there can be bare land encumbered by a lease restricting its use. ..[i]f a landlord wishes for the assessment to be made without reference to the lease encumbering the land, it should expressly state this in the rent review or renewal clause."
31. *Pacific West Systems Supply Ltd. v. B.C. Rail Partnership*, 2003 BCSC 391, 2004 BCCA 247 (Can LII).
32. "[O]ther authorities cited by the Lessees are consistent with the distinction discussed in *Pacific West*; see, for example, *CNR v. Inglis.*, 1997 CanLII 1070 (Ont. CA); *Basingstoke and Deane Borough Counsel v. Host Group Ltd.* [1988] 1 A11 E. R. 824; *Plaza Hotel v. Wellington Associates*, 55 Misc. 2d 843 (1967, Supreme Court of New York). In *Revenue Properties Co. v. Victoria University*, [1993] O.J. 843, even though the lease contained language very similar to the lease in *No. 100 Sail View*, the Ontario Court of Appeal found that the lands to be valued must be valued as encumbered by the relevant lease as to do otherwise 'would create a highly artificial situation.'"

In *Manhattan Church of Christ Inc. v. 40 East 80 Apt. Corp.*, a lease provision explicitly excluded the lease, as well as the improvements, from consideration in estimating the "fair market value" of the land. The lease stated, "The basic rent…during each 20 year period…shall be an amount per annum equal to 6 percent of the fair market value…of the land…, considered as vacant, unimproved and unaffected by this lease…[33] Conversely, in *Plaza Hotel Assocs. v. Wellington Assoc.*,[34] the rent reset clause did not contain the language "unaffected by this lease," and, therefore, the court considered the lease restriction regarding the use of the property, as it caused the property not to be put to its (unrestricted) highest and best use.

A more recent decision, *Basingstoke and Deane Borough Council v. Host Group Ltd.*,[35] also held that if a rent review clause makes no provision to ignore the lease itself, all of the subsisting terms and conditions of the lease must be taken into account in estimating ground rent. The ruling makes no distinction between land leases and land and building leases. Arguing in favor of a presumption founded on the reality of the entire ground lease, the appeals court articulated its position as follows:

> The declaration…made by the judge was that the valuer should assess the up-to-date rental value on the basis that the demised premises were available for letting on the terms and conditions of a hypothetical lease containing 'such terms and conditions as the valuer regards as reasonable for a lease of a bare site for development current at the relevant date' and that the site is available for any lawful use. This construction of para (vii) [the rent review clause] would mean that the valuer's role would not be confined…to assessing the value of a property with stated characteristics. His role would extend to choosing some of the characteristics of the property…namely 'such terms and conditions as the valuer regards as reasonable for a lease of a bare site at the relevant date.' Paragraph (vii) contains no express direction giving such a power to the valuer. …the natural (and, indeed necessary) implication from the terms of para (vii) read as a whole in its context in this lease is that the rental value to be assessed by the valuer is of a notional letting on the same terms (other than as to quantum of rent) as those subsisting between the actual parties to the lease but modified to the extent expressly provided…

Remaining Term of Lease

The term remaining on the lease, plus any term extension provided by way of a renewal option exercisable at the discretion of the lessee, is an important consideration in determining the highest and best use of a property. Highest and best use analysis is not only concerned about the timing of a particular use and scale of development, but it is also sensitive to the length of time required to fully amortize the investment in a particular development by providing the lessee with both a return *on* and return *of* the investment and ensuring third-party mortgage financing can be obtained for leasehold improvements.

When development costs required to support a particular use and scale of development cannot be financed and/or recovered by the lessee (developer) over the remaining term of a ground lease, including any renewal option, that particular use is precluded from consideration as a candidate for highest and best use. Highest and best use analysis is forward-looking from the date the rent is to be reset rather than from the date the lease was initially executed, regardless of whether the lease itself is to be ignored. The term remaining coupled with any extension of the term available to the lessee are taken into consideration in reaching a conclusion as to highest and best use over the investment horizon. This means that the amount of potential rent flowing from a particular use is dependent on the term of the lease remaining at the date of rent review.

In *United Equities v. Mandordic*,[36] the court, in a split decision, concluded that the value of the land should be appraised according to its highest and best use, and not as only a garage. The court said, however, that consideration would have to be given to the term of the lease and the renewal option in determining the use to which the land could be put. Weis characterizes this court decision as follows.[37]

> Presumably, the intent of the majority opinion was to instruct the appraiser: Go ahead and appraise the property for its highest and best use. But bear in mind that the lease has 21 years to go with one more renewal option for 21 years. When you value the land for its highest economic use, remember that you only have the right to use the land for a maximum period of 42 years. If

33. *Manhattan Church of Christ Inc. v. 40 East 80 Apt. Corp.*, 2007 N.Y. Misc. LEXIS 6595; 238 N.Y.L.J 54. Affirmed 2008 N.Y. App. Div. LEXIS 7820 (N.Y. App. Div. 1st Dep't, Oct. 21, 2008).
34. *Plaza Hotel Assoc. v. Wellington Assoc.*,[1967] 55 Misc 2d 483, affd 28 AD2d 1209, affd 22 N.Y.2d 846.
35. *Basingstoke and Deane Borough Council v. Host Group Ltd.*, [1988] 1 WLR 348, 56 P&CR 31, 284 EG.
36. *United Equities v. Mandordic*, 8 A.D.2d 298 (1st Dept 1960), affd N.Y.2d 911 (1960).
37. Harry K. Weiss, "Valuation of Land Under Long Term Leases," *The Appraisal Journal* (October 1971): 520–525.

> you project a higher use for the land, limit your appraisal to that stipulated period of time. This might influence your maximum value. Ask yourself, "How much would a builder or any other user of the land pay for it, faced with this time limitation [42 years]?"

As a practical matter, a lessee can only control a property for the term of the lease, including any extensions of the lease. Depending on how long the lessee can potentially maintain control of the property, reconstructing or replacing existing improvements to accommodate another use or the same use at a higher density in response to changing market conditions may not be financially feasible or allowed by the lease.

In highest and best use analysis, the level of rent flowing from a particular use is also impacted by the remaining term of the lease at the date of the rent review, as noted in the following two cases.

In *Wu et al. v. Interstate Consolidated Industries et al.*,[38] the tenants of a motion picture theater exercised the second of three 5-year options from 1986 to 1991. When the parties failed to reach agreement, three appraisers were appointed to determine the fair market rental value. On the basis of the potential highest and best use of the premises as retail shops, rent reflecting the average of the two closest appraisals was fixed at $8,475 per month. Another appraisal by one of the two appraisers, along with the appraisal of the third appraiser, reflected an average rent of $3,083.33 per month if the premises continued to be used as a theater. The lease restricted use of the premises to a theater, and the appeals court found that the purpose of a renewal option clause was to benefit the financial interests of the tenant by ensuring an opportunity to continue its business and recoup its investment. The court stated, "An interpretation that the rent during the option terms is to be based upon the highest and best use of the property despite the purposes for which lessor and lessee agreed it could be used, would be economically unreasonable and violate the intent of the parties." The appeals court further expressed concern over the prospect of an ever-changing highest and best use that the tenant could never exploit during the five-year period between each rent review:

> ICI contends that to remain in the premises Wu must incur the substantial expense of converting the theater into a retail shopping center, an investment Wu may never recoup because in another five years ICI may conclude there is yet another highest and best use of the property....Such an option is in essence no option, is unreasonable, and could not have been the intent of the parties when they signed the lease.

Chancebutton Limited et al. v. Compass Services UK & Ireland Limited[39] addresses the issue of whether an estimate of market rent at the rent review date should be based on the original term of a lease or the remaining term of a lease. The lessee contended that the term reflected the remaining term of 5 years at the date of the rent review, while the landlord contended that the hypothetical term was 25 years commencing on the relevant review date. In siding with the lessee, the court observed that, "The courts have consistently construed rent review clauses requiring that the hypothetical term be 'equal to' or 'equivalent to' the term of the actual lease as requiring that the rent be determined on the assumption that only the unexpired residue of the original term remains."[40]

Change in Zoning

A ground lease that is written to take into consideration any changes in zoning effected after the commencement of the lease can work to the benefit of either the landowner or the lessee when it comes time to reassess the rent, as noted in examples in *Commentary on Form of Ground Lease*:[41]

> **Example 1**
> In *Ruth*,[42] the tenant, who leased property next to the Third Avenue elevated railroad, was required to build a 2-story building and to maintain the building in good condition. The tenant could not substantially alter the building without the landlord's consent. At the time that the new rent (6% of the 'full and fair value of the land...vacant and unimproved, in fee simple,...free of lease and unencumbered....') was to be determined, the elevated railroad had been demolished and much

38. *Daniel Wu et al. v. Interstate Consolidated Industries et al.*, 226 Cal. App. 3d 1511; 277 Cal. Rptr. 546; 1991 Cal. App. LEXIS 58; 91. See *DBN North Beach, LLC v. John F. Debs et al.*, G039834, 2009 Cal. App. Unpb. LEXIS 127, decided in accordance with the ruling in *Wu*; the lessor's appraisal, based upon a highest and best use as bare land suitable for a mixed-use residential and commercial project, was rejected in favor of lessee's appraisal, reflecting the existing use of the property as a coffee shop, with the appeals court concluding that a market rental rate based on an unrestricted highest and best use would be "economically and commercially unreasonable and violate the intent of the parties."

39. *Chancebutton Limited et al. v. Compass Services UK and Ireland Limited*, [2004] EWHC 1293 (Ch).

40. *Ritz Hotel (London) Limited v. Ritz Casino Limited* [1989] 2 EGLR 135; *Lynnthorpe Enterprises Limited v. Sidney Smith (Chelsea) Limited* [1990] 2 EGLR 131 (C.A.); *St. Martin's Property Investments Limited v. CIB Properties Limited* [1999] L&TR 1 (C.A.).

41. Committee on Real Property Law and Ground Lease Subcommittee, *Commentary on Form of Ground Lease* (New York City Bar Association 2009), 25–26.

42. *Ruth v S.Z.B. Corp.*, 2 Misc. 2d 631 [Sup Ct, NY County 1956], affd 2 AD2d 970 [1st Dept. 1956].

larger buildings could be constructed due to zoning changes. Accordingly, the value of the land, as limited by the lease restriction requiring the tenant to maintain a 2-story building, was considerably less than the value of the land unencumbered by the lease. The court determined that the valuation must be made without any consideration of the use restrictions contained in the lease because the lease expressly provided that the land was to be valued as if unencumbered by the lease. The rent was reset at a level which the lessee could not afford to pay, and the lessee defaulted on the ground lease and forfeited the improvements.

Example 2

In *New York Overnight Partners, L.P.,*[43] a ground lease provision called for a determination of the 'appraised value of the land.' The property had been zoned downward after the execution of the lease, in that the existing building, although a legal nonconforming use, was larger than could have been constructed under current zoning laws. The lease defined 'land' to specifically exclude improvements. The court held that the appraiser must determine the value of the land as though vacant, without improvements. The court also stated that although land value should ordinarily be appraised at its highest and best use, the fair market value must be determined with reference to any existing restrictions on the land, including the term of the lease and current zoning regulations. The court emphasized that because this lease clearly indicated that the value was to be determined as if the property was raw, vacant land, the beneficial impact on the value of the property of the existing nonconforming use could not be considered...

Appraisal Procedures

Appraisers should apply valuation procedures that are consistent with the overall objective of the rent review clause or as specifically directed by the language of the lease.[44] A combination of valuation inputs and procedures may be required, depending on the language of the rent review clause, the particular opinion of value being sought, and the quantity and quality of market data available. The selection of necessary valuation inputs may include, but are not limited to, the following items:

- land sales and land leases
- investor surveys
- land and land and building rates of return
- availability of mortgage financing
- leasing commissions
- appropriate units of comparison (floor area ratio, net rentable area, etc.)[45]
- space/unit inventory and absorption
- land rents and building space rents
- operating costs
- construction costs
- mortgage financing costs
- tenant inducements
- appropriate measurement standards
- consumer price index or other indices

Appraisers enjoy broad discretion in deciding which factors are relevant to a particular valuation problem and how such factors impact the valuation, absent an agreement expressly requiring or precluding consideration of such factors.[46] While market value and market rent are well-defined by the appraisal profession, other types of value, not as clearly defined or described in a lease may require interpretation by the court.

Conclusion

Rent reset assignments can present appraisers with some of the most challenging and complex valuation work. However, as with every appraisal assignment, problem identification is the first step, and that necessitates a thorough reading of the ground lease. In common law jurisdictions, there has been a stream of precedents that make no distinction between land and building leases and land leases in recognizing the subsisting terms of a lease, including the remaining term, premised on a presumption of reality when

43. *New York Overnight Partners, L.P., v. Gordon*, 217 A.D.2d 20, 633 N.Y.S.2d 288 (1st Dept. 1995), aff d 88 N.Y.2d 716, 649 N.Y.S.2d 928 (1996). The ground lease supported the Ritz-Carlton Hotel, a 152,000-square-foot structure, but by the time of rent adjustment the site had been down-zoned to permit only 82,500 square feet of buildable footage.

44. "[A]ppraisers are not limited to a single method of valuation unless the lease provides otherwise." "[T]he appraisers were free to use the market value method or the land residual method or any other reasonable method in assessing value." *Olympia & York 2 Broadway Co. v. Produce Exch. Realty Trust*, 93 AD2d 465, 468 [1983].

45. See *Chock Full O'Nuts Corp. v. NRP LLC* I 2007 NY Slip Op 09708 [47 AD3d 189]. "'The rents of comparable properties can provide a basis for estimating market rent for a subject *property once they have been reduced to the same unit basis applied to the subject property* Comparable rents may be adjusted just as the transaction prices of comparable properties are adjusted in the sales comparison approach' (*Appraisal of Real Estate*, at 481 [11th ed])." (*Matter of Saratoga Harness Racing v. Williams*, 91 NY2d 639, 644 [1998]."

46. "Appraisers have broad discretion in determining 'which of the myriad factors are relevant to a particular valuation and how such factors impact the valuation of the parcel of land, without interference or direction from the court,' absent an agreement expressly requiring or precluding consideration of such factors." *New York Overnight Partners v. Gordon*, 88 N.Y.2d 716, 721 [1996].

dealing with rent reset clauses. Of course, the parties to a lease are free to override a presumption of reality by including lease language to the contrary.[47]

Highest and best use analysis, whether undertaken on an unrestricted or restricted basis, pursuant to the language of a lease, must consider supply and demand as part of the test of financial feasibility, which includes issues of mortgage financeability. The selection of appraisal procedures to be applied and the factors to be considered will depend entirely upon the opinion of value sought, whether market value, market rent, or some other defined or described opinion of value, pursuant to the rent review provisions of the lease. In those instances where the direction or meaning of the rent review clause is unclear, the courts may have to intervene and provide the necessary guidance.

Tony Sevelka, MAI, SREA, AACI, FRICS, CRE, is the founder of International Forensic & Litigation Appraisal Services Inc. and International Valuation Consultants Inc. He has been an appraiser since 1972 and specializes in forensic and litigation work. A number of his articles have been published in *The Appraisal Journal*, and he was the recipient of the 2004 Swango Award for the article "Subdivision Development: Risk, Profit, and Developer Surveys." He is an adjunct professor in the real estate program at Homburg University, and he holds a BGS in real estate studies from Thompson Rivers University.

Contact: tonysevelka@intval.com

Additional Reading

American Arbitration Association, *Arbitration of Real Estate Valuation Disputes*. New York: American Arbitration Association, 1987.

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Menzies, Gary R. "Choosing the Right Words: Interpreting Rent Review and Renewal Clauses in Commercial Clauses." *Alberta Law Review* (1996): 853–869.

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Rothenberg, Pamela V. "A Ground Lease Primer: 'Dealing' with the Intimidating Ground Lease." *Real Estate Finance* (December 2003): 29–32.

47. In *Canary Wharf Investments (Three) v. Telegraph Ltd.* [2003] EWHC 1575 (Ch), where the remaining term on the lease was only 15 years, the court held that "the term of the hypothetical lease...is to be a term of 25 years from the relevant rent review date..." At the time of the rent review, longer leases allowed prospective tenants to negotiate cheaper annual rents, thus resulting in an estimated saving to the tenant of approximately £7.5 million over the actual remaining term of 15 years.

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Simkin, Steve, and Barry Langman. "Crafting Rent Provisions Requires a Careful Approach. *New York Law Journal* 242, no. 125 (December 30, 2009); retrieved April 22, 2011 from http://www.paulweiss.com/files/Publication/1c1bc1c4-c4b4-4d30-84ea0eb3f9011188/Presentation/PublicationAttachment/e1258512-4f59-46d3-a448-439226574327/PW_NYLJ_30Dec09.pdf.

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Trerice, Jr., Byron W. *Ground Leases.* Chicago: National Institute of Real Estate Brokers, 1970.

Wetmore, Robert, and Chris Klinger. "Land Leases: More Than Rent Schedules." *Urban Land* (June 1991): 6–9.

Web Connections

Internet resources suggested by the Y. T. and Louise Lee Lum Library

National Association of Realtors, Field Guide to Ground Leases
http://www.realtor.org/library/library/fg410

National Retail Properties Net Lease Exchange
http://www.nnnex.com/

NCREIF–database with valuation/lease data and transaction data
http://www.ncreif.org/data.aspx

Society of Industrial and Office Realtors
http://www.sior.com

Addendum: Ground Lease Documents

Clary

Goldbelt, Inc.

JUN 23 1998

RECEIVED

MEMORANDUM OF LEASE

This Memorandum of Lease is executed by and between City and Borough of Juneau, Lessor, and Mount Roberts Development Corporation, Lessee, pursuant to AS 40.17.120 and paragraph 42 of the unrecorded Lease executed by the parties on January 31, 1995:

1. Names and addresses of the parties:

Lessor: City and Borough of Juneau
155 South Seward Street
Juneau, Alaska 99801

Lessee: Mount Roberts Development Corporation
369 South Franklin Street
Juneau, Alaska 99801

2. Date of Lease:

January 31, 1995

3. Description of the real property leased:

(A) The Leased Premises cover portions of the following lots in an area not to exceed 10,000 Square Feet as shown on Exhibit A:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska

(B) In addition, the lease includes an easement one hundred feet in width (fifty feet on each side of the tramway centerline) for the surveying, engineering, design, planning, development, construction, maintenance, and operation of a tramway, including without limitation, cables, tramway fixtures, cars, and appurtenant structures and equipment ("Air Rights Easement"), covering portions of the following property owned by the Lessor as generally shown in Exhibit B:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska

Lot 1, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska

Lot 2, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska

Roberts Street

(C) In addition, while Lessor does not warrant that Lessor has any right, title or other interest in the following lands, to the extent Lessor in fact has any such right, title or other interest, the Lease includes the described Air Rights Easements where said lands are within 50 feet of the tramway centerline as generally shown in Exhibit B:

South Franklin Street

G Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska, excepting that portion of G Millsite heretofore conveyed to Alaska Tram Corporation by Warranty Deed recorded December 20, 1976, in Book 128, page 254, Juneau Recording District, First Judicial District, State of Alaska.

F Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

B Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

P Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

H Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

X Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

Bear No. 7 in U.S. Mineral Survey 1027A, Juneau Recording District, First Judicial District, State of Alaska

"It" Mining Claim, according to U.S. Mineral Survey 1027A, Juneau Recording District, First Judicial District, State of Alaska

Additional parcels along the tramway line as shown in Exhibit B hereto which are currently held by the State of Alaska, Department of Natural Resources

4. Commencement and Termination Dates of the Lease:

Commencement Date:	January 31, 1995
Termination Date:	January 30, 2030

5. Conditions Upon Which Lessee May Exercise A Right To Renew:

Lessee may renew the lease for an additional thirty-five years commencing at the end of the initial term except the Lessor may deny renewal for good cause shown. "Good cause" must relate to acts and omissions under the Lease.

IN WITNESS WHEREOF, the Lessor and Lessee have caused this Memorandum of Lease to be executed the day and year first written above in Juneau, Alaska.

LESSOR: CITY AND BOROUGH OF JUNEAU

By: ______________________

Mark Palesh
City & Borough Manager

LESSEE: MOUNT ROBERTS DEVELOPMENT CORPORATION

BY: ______________________

John Heiser
Vice President

ACKNOWLEDGMENT BY LESSEE

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 8 day of February, 1995, by John Heiser, Vice President of Mount Roberts Development Corporation, an Alaska corporation, on behalf of the corporation.

[SEAL]

Donna M. Hatten
Notary Public on and for the State of Alaska
My commission expires: 9-11-96

ACKNOWLEDGMENT BY LESSOR

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 8 day of February, 1995, by Mark Palesh, City & Borough Manager of the City and Borough of Juneau.

[SEAL]

Donna M. Hatten
Notary Public on and for the State of Alaska
My commission expires: 9-11-96

CITY AND BOROUGH OF JUNEAU
Lessor

MOUNT ROBERTS DEVELOPMENT CORPORATION
Lessee

LAND LEASE

AMENDMENT

By this writing the undersigned do hereby amend that certain lease dated and entered into as of the 31st day of January 1995, between the City and Borough of Juneau and Mount Roberts Development Corporation. Except as specifically modified herein, the parties do hereby acknowledge that the terms of the lease are in full force and effect, and incorporated herein by reference.

Under this amendment:

1. The lease boundary line around the Lower Tram Terminal Building is currently at or near the building construction line leaving little or no yards around the building. Both parties wish to provide the level of safety required by the Uniform Building Code as adopted by the City and Borough of Juneau for Type of Construction, Allowable Area, Fire Protection of Exterior Walls and Protection of Openings without costly upgrading of the tram building unless site conditions change in such a way as to create a safety threat.

2. Lessee has proposed and the Building Official has approved a Building Code Modification allowing the use of areas of the Lessor's property to serve as yards for the Lessee's building and to allow placement of up to four temporary or seasonal structures of up to fifty square feet each within those yards provided the structures are placed at least ten feet from the lease line and are not used to store combustible materials. Such yards shall be forty feet on all sides or sixty feet on three sides and zero feet on the fourth side of the building measured perpendicular to the building or such other dimensions as required in the current Uniform Building Code.

3. Should the Lessor or its successors obtain a building permit to undertake any construction on the remainder of its adjacent property, the Lessor shall, within thirty days, notify the Lessee and provide the Building Official with an analysis of the impact of such construction on the code compliance of the Lower Tram Terminal Building. If such analysis shows that the Lessee's building will no longer be in compliance with the Uniform Building Code or that the current condition of Lessee's building will cause Lessor's proposed construction to be designed in a more expensive manner than would be required if the Lower Tram Terminal Building were constructed with more fire resistance materials or method, Lessee shall, within thirty days, propose improvements of its building to the Building Official and Lessor as may be required to have the least impact on the cost of the Lessor's construction. Such improvements may include any or all of the following: installation of an automatic fire sprinkler system throughout the building; an automatic fire sprinkler system on the exterior of the building; or other improvements or adjustments which will meet the intent of the Uniform Building Code for Type of Construction, Allowable Area, Fire Resistance of Exterior Walls, and Protection of Openings. The Building Official will then determine whether proposed improvements to the Lessee's building shall be acceptable. The required Lessee improvements shall be completed within 120 days of the Lessor's notification or before occupancy of Lessor's building, whichever is longer. Lessor will endeavor to

notify Lessee of planned improvements so as to avoid construction improvements to Lessee's building during the tourist season. The Lessee waives objection to imposition of such requirements regardless of the nature or extent of Lessor's construction which causes the requirement to be imposed. Lessee's waiver includes any lawsuits or other claims.

This amendment is provided at the request of, and for the sole benefit of the Lessee. Provisions of paragraphs 1, 2, and 3 (above) notwithstanding, Lessor may revoke this amendment by giving Lessee 120-day advance written notification.

Agreed and accepted this 9 day of November 1995.

LESSOR: **CITY AND BOROUGH OF JUNEAU, ALASKA**

By: ______________________
David R. Palmer
City & Borough Manager

Approved as to form:

____
John R. Corsó
City & Borough Attorney

LESSEE: **MOUNT ROBERTS DEVELOPMENT CORPORATION**

By: ______________________
John Heiser
V. President

ACKNOWLEDGMENT BY LESSEE

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 9 day of NOVEMBER, 1995, by John Heiser, President of Mount Roberts Development Corporation, an Alaska corporation, on behalf of the corporation.

[SEAL]

Donna McHatten
Notary Public on and for the State of Alaska
My commission expires: 9-11-96

ACKNOWLEDGMENT BY LESSOR

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 9 day of NOVEMBER, 1995, by David R. Palmer, City & Borough Manager of the City and Borough of Juneau.

[SEAL]

Donna McHatten
Notary Public on and for the State of Alaska
My commission expires: 9-11-96

I:\AA\CD\TRAM\ROBERTS\LEASE.AM

CITY AND BOROUGH OF JUNEAU
Lessor

MOUNT ROBERTS DEVELOPMENT CORPORATION
Lessee

LAND LEASE

TABLE OF CONTENTS

* Section 3. Corrections. The Manager is authorized without further Assembly review or approval to make such minor, technical, or formal additions or deletions to the lease prior to execution as may be necessary to effectuate its intent.

* Section 4. Amendments. Prior or subsequent to execution, the Manager may negotiate substantive changes to the lease and, upon Assembly approval by motion, execute an amendment incorporating such changes.

* Section 5. Prior Legislation. Ordinance No. 94-39 is repealed, provided that such repeal shall not be construed to invalidate any negotiation conducted pursuant to the authority granted by Ordinance No. 94-39. The lease authorized herein may be enforced according to its terms notwithstanding any procedural or substantive deviations or differences from CBJ Title 53.

* Section 6. Effective Date. This ordinance shall be effective thirty days after its adoption.

Adopted this 19th day of December, 1994.

[signature]
Mayor

Attest:

[signature]
Clerk

Exhibit "A"

to

Ordinance No. 94-42

Presented by:	The Manager
Introduced:	12/12/94
Drafted by:	J.R.C.

ORDINANCE OF THE CITY AND BOROUGH OF JUNEAU, ALASKA

Serial No. 94-42

AN ORDINANCE APPROVING A LEASE OF APPROXIMATELY 10,000 SQUARE FEET WITHIN LOTS 1 AND 2A, DOCKSIDE SUBDIVISION AND LOTS 13B, 16, AND 17, BLOCK 83, TIDELANDS ADDITION TOGETHER WITH AIR RIGHTS OVER ADJACENT PROPERTY TO MT. ROBERTS DEVELOPMENT CORPORATION FOR THE DEVELOPMENT OF AN AERIAL TRAM AND ASSOCIATED FACILITIES.

WHEREAS, Mt. Roberts Development Corporation has applied for a lease of city and borough land at the Cruise Ship Terminal on South Franklin Street for the development of an aerial tramway and associated facilities, and

WHEREAS, the Planning Commission at its meeting of October 20, 1994, approved the lease in concept, and

WHEREAS, CBJ 53.09.260 provides that upon review by the Planning Commission and authorization by the Assembly by ordinance, the Manager may commence negotiations for the lease, sale or exchange or other disposal of city and borough land, and

WHEREAS, the Assembly, by Ordinance No. 94-39 authorized the Manager to negotiate and, upon approval by the Assembly by motion, execute a lease subject to certain conditions, and

WHEREAS, the Manager has advised the Assembly that negotiations with Mt. Roberts Development Corporation have produced a lease instrument containing conditions at variance with those authorized by Ordinance No. 94-39, and that Assembly approval should take the form of an additional ordinance rather than a motion;

NOW, THEREFORE, BE IT ENACTED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF JUNEAU, ALASKA:

* Section 1. <u>Classification</u>. This ordinance is a noncode ordinance.

* Section 2. <u>Approval of Lease, Authorization to Execute</u>. A lease between the City and Borough of Juneau and Mt. Roberts Development Corporation in substantially the form attached as Exhibit "A" is approved, and the Manager is authorized to execute such lease.

THIS INDENTURE made this _____ day of January, 1995, by and between the CITY AND BOROUGH OF JUNEAU, ALASKA, a municipal corporation, whose address is 155 South Seward Street, Juneau, Alaska 99801 (hereinafter called "Lessor"), and Mount Roberts Development Corporation, an Alaska corporation, whose address is 369 South Franklin Street, Suite 207, Juneau, Alaska 99801 (hereinafter called "Lessee").

WITNESSETH:

1. Authority: This Lease is entered into pursuant to the authority of the City and Borough of Juneau as directed in Ordinances 94-39 and 94-42.

2. Leased Premises and Air Rights Easement: (a) Lessor does hereby lease and Lessee does hereby take from Lessor, the premises described as follows and as further shown in Exhibit A attached hereto and incorporated herein (hereinafter called "Leased Premises"), situated in the Juneau Recording District, State of Alaska:

Portions of the following lots in an area not to exceed 10,000 Square Feet as shown on Exhibit A:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska

(b) Lessor does hereby lease and Lessee does hereby take from Lessor an easement one hundred feet in width (fifty feet on each side of the tramway centerline) for the surveying, engineering, design, planning, development, construction, maintenance, and operation of a tramway, including without limitation, cables, tramway fixtures, cars, and appurtenant structures and equipment. The easement shall burden all lands owned by Lessor, or in which Lessor has an interest of any kind, where said lands are to be traversed by Lessee's tramway, including without limitation the premises described as follows and as generally shown in Exhibit B attached hereto and incorporated herein (hereinafter called "Air Rights Easement"), situated in the Juneau Recording District, State of Alaska:

Portions of the following lots as shown on Exhibit B:

Lot 13B, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 16 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

That portion of Lot 17 lying Northwesterly of Dockside Subdivision, Block 83, Tidelands Addition to the City of Juneau according to Plat 355, Juneau Recording District, First Judicial District, State of Alaska

Lot 1 Dockside Subdivision according to Plat 89-9, Juneau Recording District, First Judicial District, State of Alaska

Lot 2A, Subdivision of Lot 2, Dockside Subdivision according to Plat 91-71, Juneau Recording District, First Judicial District, State of Alaska

Lot 1, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska

Lot 2, Block 6, U.S. Survey 7A, amended Addition to Juneau, Juneau Recording District, First Judicial District, State of Alaska

Roberts Street

Lessor does not warrant that Lessor has any right, title or other interest in the following lands, but to the extent Lessor in fact has any such right, title or other interest, Lessor leases to Lessee the described Air Rights Easements where said lands are within 50 feet of the tramway centerline as generally shown in Exhibit B:

South Franklin Street

G Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska, excepting that portion of G Millsite heretofore conveyed to Alaska Tram Corporation by Warranty Deed recorded December 20, 1976, in Book 128, page 254, Juneau Recording District, First Judicial District, State of Alaska.

F Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

B Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

P Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

H Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

X Millsite, according to U.S. Mineral Survey 982B, Juneau Recording District, First Judicial District, State of Alaska

Bear No. 7 in U.S. Mineral Survey 1027A, Juneau Recording District, First Judicial District, State of Alaska

"It" Mining Claim, according to U.S. Mineral Survey 1027A, Juneau Recording District, First Judicial District, State of Alaska

Additional parcels along the tramway line as shown in Exhibit B hereto which are currently held by the State of Alaska, Department of Natural Resources

(c) Lessee shall cause the Leased Premises and the Air Rights Easements to be surveyed by a registered land surveyor and a copy of the survey delivered to Lessor within 160 days of the Permit Date, as defined in Section 4 herein, but in no event later than the commencement of construction. Upon completion of the survey, Lessor and Lessee shall prepare a supplemental memorandum of lease setting forth the description of the Leased Premises and the Air Rights Easements as surveyed. Said supplemental memorandum of lease shall be recorded in the Juneau Recording District.

3. Use of Premises: (a) The Lessee agrees to use the Leased Premises for the following purposes:

The surveying, engineering, design, planning, development, construction, operation and maintenance of an aerial tramway base terminal and associated structures and uses . As used herein, "associated structures and uses" means:

1. a waiting room
2. a ticket office
3. public restrooms; Lessee shall provide public restrooms as specified by the Planning Commission
4. an area for the exhibition of tram models, photographs, and similar historical and explanatory materials
5. administrative space

The Leased Premises shall be used only for purposes within the scope of the application and the terms of the Lease, and in conformity with the provisions of the City and Borough Code, and applicable state and federal laws and regulations. Use or development for other than the allowed uses shall constitute a violation of the Lease and subject the Lease to cancellation at any time.

(b) The Lessee agrees to install improvements according to the following conditions:

(1) Tramway Plans and Specifications. All plans for uphill equipment and systems shall be properly certified as being in accordance with the American National Standards Institute's Safety Requirements for Aerial and Surface Passenger Tramways and Surface Tows (B77.1) A complete set of drawings, specifications, and records for each lift shall be maintained by the Lessee and made available to Lessor upon request. These documents shall be retained by Lessee for a period of three years after removal of the system from the Leased Premises.

(2) Plan Preparation and Certification. All plans for development, layout, construction, reconstruction or alteration of improvements on the site, as well as revisions of such plans, must be prepared by a licensed engineer, architect, or other qualified individual acceptable to Lessor's authorized officer. Design and construction specifications of buildings must be prepared and certified by an architect licensed in the State of Alaska. Plans and specifications for tramway mechanical and cable systems must be prepared and certified by a mechanical engineer licensed in the State of Alaska. Such plans must be accepted by Lessor's authorized officer before the commencement of any work. Lessee may be required to furnish as-built plans, maps, or surveys upon the completion of construction.

(3) Preconstruction and Construction Supervision. Preconstruction and construction activities must be personally supervised by a qualified representative of Lessee, approved by Lessor's authorized officer. In the event that the Lessee's designated representative is unavailable, Lessee must either immediately designate a similarly qualified individual (and immediately seek approval by Lessor's authorized officer for the change) or all work must stop. In addition, Lessee must provide for all major construction activities to be supervised by a qualified engineer or architect licensed in the State of Alaska who is experienced in commercial construction. Construction of aerial passenger tramways must be supervised by an engineer qualified and experienced in this type of construction. Construction activities within the Lease site shall be minimized throughout the period of May through September to prevent disruption of tourist use of the cruise ship terminal. A detailed construction mobilization and staging plan shall be submitted to Lessor for approval.

(4) Certificate of Completion. Before new improvements are open for public use, Lessee shall submit to Lessor's authorized representative a certificate of inspection from an engineer registered in the State of Alaska, certifying that the improvements have been constructed in accordance with the approved plans and that any deficiencies noted in the inspection have been corrected.

(c) The Lessee shall conduct its operations in accordance with the following:

(1) Conditions of Operations. Lessee shall maintain its facilities, improvements and operations on the Leasehold Lands to standards of repair, orderliness, neatness, sanitation, and safety generally applicable to general industry standards.

(2) Operation of Leasehold Lands.

A. A qualified representative(s) of Lessee, approved in advance by Lessor's authorized officer, shall conduct and manage all operations, services and facilities authorized by the Lease.

B. The designated, approved representative(s) of Lessee shall be present at the resort, on or adjacent to the Leased Lands, at all times when the facilities authorized by the Lease are open to the public.

C. The tramway shall be operated and maintained in accordance with the American National Standards Institute's Safety Requirements for Aerial and Surface Passenger Tramways and Surface Tows (B77.1)

(3) Lift Inspections. Lessee shall have all passenger tramways inspected by a qualified mechanical engineer or tramway specialist registered in the State of Alaska. Inspections shall be made in accordance with the American National Standards Institute's Safety Requirements for Aerial and Surface Passenger Tramways and Surface Tows (B77.1) A certificate of inspection, signed by an officer of Lessee, attesting to the adequacy and safety of the installations and equipment for public use, shall be received by Lessor prior to public operation. Lessee shall make the certificate available to Lessor upon request, and shall post the certificate in a conspicuous location available to the general public.

(4) Damage to or Destruction of Improvements. In the event that any buildings, facilities, or improvements constructed or managed by Lessee located on the Leasehold Lands are declared unsafe or unfit for use or occupancy, Lessee shall immediately commence and diligently pursue to completion the necessary repair, replacement or reconstruction.

(5) Operating Plan. Lessee or its designated representative shall prepare and annually revise by September 30 of each year an Operating Plan. The Operating Plan shall be prepared in consultation with the Lessor's authorized officer and cover winter and summer operations as appropriate. The provisions of the Operating Plan and the annual revisions submitted by Lessee shall become a part of the Lease. The Operating Plan shall consist of at least the following sections:

A. First aid.
B. Communications.
C. Signs.
D. General safety and sanitation.
E. Erosion control.
F. Accident reporting.
G. Search and rescue.
H. Designation of representatives.
I. Lift system operation.
J. Public access.
K. An updated organization chart with names and qualifications of managers.
L. Employee safety plan.

(6) Refuse Disposal. Lessee shall dispose of solid waste resulting from activities on the Leasehold Lands, including materials, garbage, rubbish of all lands. by hauling the waste to an approved transfer site or sanitary landfill disposal area.

(7) Temporary Suspension. Lessor reserves the right pursuant to law to suspend Lessee's operations, in whole or in part, in response to an immediate and direct threat to public health on municipal lands. Any such suspension shall occur only after consultation with Lessee and, if within the reasonable control of Lessee, after Lessee has been given an opportunity to resolve the threat in a timely manner and thereby prevent suspension of operations.

4. Term: (a) The base term of this Lease, including the air rights easement granted herein, shall be for a period of thirty-five years commencing on the effective date of this Lease, unless sooner terminated as provided herein.

(b) Lessee shall have the right to renew this Lease for an additional thirty-five years commencing at the end of the Base Term except the Lessor may deny renewal for good cause shown. "Good cause" must relate to acts and omissions under this Lease.

(c) The "Permit Date" of this Lease shall be the date upon which Lessee receives all applicable government permits and licenses necessary to commence construction of the base terminal of the tramway, or January 1, 1996, whichever occurs first.

5. Base Rent: (a) The Base Rent (including payment for the Air Rights Easement) shall be ten percent of the appraised market value of the Leased Premises per year or $30.00 per square foot of the Leased Premises, whichever is greater. For the first three years of the Lease term and until adjusted as provided herein, the rent shall be $30,000.00 per year.

(b) Base Rent shall accrue commencing on the execution date , but shall not be payable until 18 months after the Permit Date or the last day of the month in which the tramway is operating and open to the public, whichever is earlier. At the end of the 18th month or the conclusion of the month during which the tramway becomes operational and opens to the public, as applicable, Lessee shall pay all accrued unpaid Base Rent, together with the Base Rent for the remainder of the current quarter.

(c) After the first Base Rent payment is made as provided in this section, Base Rent shall be paid quarterly, due in advance on the first day of the month of each quarter, without the necessity of any billing by Lessor.

(d) The Leased Premises shall be appraised for the determination of Base Rent of the Lease as follows:

(1) The agreed upon appraised market value of the Leased Premises for the first three years after the Permit Date shall be deemed to be $30.00 per square foot.

(2) An appraisal shall be conducted every three years thereafter. The new Base Rent shall be effective commencing on the first day of the third anniversary of the Permit Date of the Lease, and shall be reset effective on the first day of each successive third year anniversary of the Lease.

(3) The basis of appraisal shall be the fair market value of the unimproved land of the Leased Premises including the Air Rights Easements, at its highest and best use. The appraisal shall not consider any buildings or structural improvements above or below ground, landscaping or paving. The appraisal shall consider the Leased Premises as unimproved land.

(4) A certified appraiser selected and compensated by the Assessor of the City and Borough of Juneau shall conduct each initial appraisal. If Lessee concurs in the result of the appraisal by the CBJ Assessor, the appraisal shall establish the fair market value for calculating the Base Rent. If Lessee does not concur in the result of the appraisal by the CBJ Assessor, Lessee shall hire an independent certified appraiser, and present the results to Lessor. If Lessor concurs in the results of the independent appraisal, the appraisal shall establish the fair market value for calculating the Base Rent. If Lessor does not concur, Lessor and Lessee shall negotiate in good faith to reach a fair market value between the results of the initial and independent appraisals. If Lessor and Lessee cannot agree, Lessor and Lessee shall engage and share in the cost of a third independent certified appraiser (acceptable to both parties) to determine the fair market value of the Leased Premises. The third appraiser shall be instructed to select either the initial appraisal or the independent appraisal as the one which most closely reflects the fair market value of the Leased Premises. The fair market value selected by the third appraiser shall be final, and shall establish the fair market value for calculating the Base Rent. In this section, "certified" means a regular member of the Society of Real Estate Appraisers or the American Institute of Real Estate Appraisers (or the successor body of either group) who has been properly designated MAI, SREA or SRPA, or any future similar designation which denotes proficiency in the appraisal of commercial real property.

6. **Royalty Rent:** (a) In addition to the Base Rent, Lessee shall pay to Lessor a Royalty Rent upon all gross revenues generated from all ticket sales and other sales on the Leased Premises and actually tendered to Lessee (hereinafter "Leasehold Revenues") according to the following schedule.

However, regardless of the Leasehold Revenues, in no event shall the Royalty Rent be less than $60,000.00 annually.

Leasehold Revenues	Royalty Rate
$0 to $3 million	1%
$3 million to $5 million	3%
$5 million to $8 million	4%
Over $8 million	5%

(b) Lessee shall pay the Royalty Rent to Lessee on an annual basis no later than January 31 of the year following the calendar year for which Royalty Rent is due.

(c) Royalty Rent shall not accrue until the tramway is operating and open for business to the public.

(d) Lessor shall have the right at all reasonable times during the tenancy of the Lease, upon ten day's advance written notice, to inspect, review and copy any records of Lessee that are necessary to verify Lessee's compliance with its compensation obligations under the Lease.

7. Holding Over: If Lessee holds over beyond the expiration of the base term and any renewal, such holding over shall constitute a tenancy from month-to-month only.

8. Interest on Late Payments: (a) Should any installment of rent or other charges provided for under the terms of this Lease not be paid when due, the same shall bear interest at the rate of twelve percent per year.

(b) Lessee hereby covenants and agrees to pay the rent when due and understands that payment of rent is a condition precedent to the continuance of this Lease.

9. Taxes, Assessments, and Liens: (a) During the term of this Lease, Lessee shall pay, in addition to the rents, assessments, rates, charges, and utility bills which Lessee may become liable to pay including any tax on Leaseholds imposed generally on lessees, and Lessee shall promptly pay or otherwise cause to be discharged. any claim resulting or likely to result in a lien, other than mortgage lien, against the Leased Premises or the improvements placed thereon.

(b) Lessee may, at any time or from time to time during the term of this Lease or any renewal thereof, encumber by deed of trust or mortgage or other security instrument, by way of assignment or otherwise. Lessee's interest under this Lease and the Leasehold interest and easement hereby created for any purpose, without the consent of Lessor.

10. Assignments: Lessee may assign the Leased Premises and Air Rights Easement, provided the proposed assignment shall be first approved by Lessor in writing, which approval shall not unreasonably be withheld. The assignee shall be subject to all of the provisions of the Lease. All terms, conditions, and covenants of the underlying Lease which may be made applicable to the assignment are hereby incorporated into the assignment.

11. Warranty of Title; Quiet Enjoyment; No Warranty As To Fitness: (a) Lessor hereby represents and warrants that Lessor is the owner in fee simple of the Leased Premises, and of the real property subject to the Air Rights Easements (excepting those parcels for which no warranty is provided as described in Section 2 of this Lease)

(b) Lessee, upon payment of the rent and all other charges provided for in this Lease and upon observing and keeping all of the covenants, agreements, and provisions of this Lease on its part to be observed and kept, shall lawfully and quietly hold, occupy, and enjoy the Leased Premises and the Air Rights Easements during the term of this Lease without hindrance or molestation.

(c) The Lessor does not warrant by its classification or leasing of the Leased Premises or the Air Rights Easements that the land is suited for the use authorized under the classification or lease and no guaranty is given or implied that it shall be profitable to employ the Leased Premises and Air Rights Easements to said use.

12. Protection of Prior Easements: Lessee shall place no building or structure over any portion of the Leased Premises which shall prevent the use of:

(a) the easements previously granted by instrument recorded May 12, 1989, in Book 316, page 642, Juneau Recording District, First Judicial District, State of Alaska to Alaska Marine Lines, Inc., for access, ingress and egress, or

(b) the use agreement dated April 15, 1963, between the City and Borough of Juneau and the State of Alaska.

13. Encumbrance of Parcel: Lessee, during the term of this Lease, shall not encumber or cloud Lessor's title to the Leased Premises, the real property subject to the Air Rights Easement, or any portion thereof, nor enter into any lease, easement, or other obligation of Lessor's title without the prior written consent of Lessor; and any such act or omission, without the prior written consent of Lessor, shall be void against Lessor.

14. Valid Existing Rights: This Lease is entered into and made subject to all valid existing rights, including easements, rights-of-way, reservations, or other interests in land in existence, on the date of execution of this Lease.

15. Modification: This Lease may be amended, modified or otherwise changed only by an agreement in writing signed by all parties in interest or their successor in interest.

16. Cancellation: (a) This Lease may be cancelled in whole or in part, at any time, upon mutual written agreement by Lessee and Lessor.

(b) Lessor may cancel the Lease if it is used for any unlawful purpose.

(c) If Lessee shall default in the performance or observance of any of the Lease terms, covenants, or stipulations thereto, or of the regulations now or hereafter in force, or any of the provisions of the City and Borough Code, and should the default continue for 30 calendar days after service of written notice by Lessor without remedy by Lessee of the conditions warranting default, Lessor may subject Lessee to appropriate legal action including, but not limited to, forfeiture of Lease. No improvements may be removed by Lessee or other person during any time Lessee is in default.

(d) Failure to abide by the following timetable shall, in the discretion of Lessor, constitute grounds for cancellation:

(1) Commencement of construction of the base terminal of the tramway within 18 months after the effective date of the Lease.

(2) Completion of the foundation for the base terminal of the tramway within six months after commencement of construction.

(3) Completion of construction of, and issuance of a certificate of occupancy for, the base terminal of the tramway within 24 months after commencement of construction.

(e) Lessee shall not be held responsible, nor shall this Lease be subject to forfeiture or cancellation, for delays in complying with the foregoing schedule where such delays are due to flood, fire, earthquake, tsunami, or other natural catastrophe; strike, lockout, work stoppage; acts of civil or military authorities; war, insurrection, riot or other civil commotion; act of God; or by any other cause which is unavoidable or beyond the reasonable control of Lessee, but not including the unavailability, insufficiency, or delays in receiving financing. If delayed by force majeure, Lessee shall use reasonable diligence to correct the cause of the delay.

17. Bonding of Contractors: Lessee shall require the general contractor(s) performing work on the Leased Premises to be bonded to ensure completion of construction of the base terminal of the tramway.

18. Environmental Matters:

(a) Lessee's Responsibility for Environmental Laws. Lessee shall, at its own expense, comply with all existing and hereafter enacted environmental responsibility laws, hereafter "Environmental Laws". Lessee shall, at its own expense, make all submissions to, provide all information to, and comply with all requirements of the appropriate governmental authority, hereafter "Authority," under the Environmental Laws.

Should the Authority require that a cleanup plan be prepared and that a cleanup be undertaken because of any spills or discharges of or contamination by Hazardous Materials, as hereafter defined, on the Leasehold Lands that occur during the term of the Lease, or arise out of or in connection with Lessee's use or occupancy of the Leasehold Lands, then Lessee shall, at its own expense, prepare and submit the required plans and financial assurances and carry out the approved plans. Lessee's obligations under this section shall arise if there is any event or occurrence on the Leasehold Lands during the term of the Lease or arising out of or in connection with the Lessee's use or occupancy of the Leasehold Lands that requires compliance with the Environmental Laws.

At no expense to Lessor, Lessee shall promptly provide all information requested by Lessor for preparation of affidavits or other documents required by Lessor to determine the applicability of the Environmental Laws to the Lease, and shall sign the affidavits promptly when requested to do so by Lessor.

(b) Indemnification by Lessee. Lessee shall indemnity, defend and hold harmless Lessor from all fines, suits, procedures, claims, liabilities, and actions of any land arising out of or in any way connected with any spills or discharges of or contamination by Hazardous Materials on the Leasehold Lands that occur during the term of the Lease or arise out of or in connection with Lessee's use or occupancy of the Leasehold Lands; and from all fines, suits, procedures, claims, liabilities, and actions of any kind arising out of Lessee's failure to provide all information, make all submissions, and take all steps required by the Authority under the Environmental Laws or any other law concerning any spills or discharges or contamination that occur during the term of the Lease or arise out of or in connection with Lessee's use or occupancy of the Leasehold Lands.

(c) Lessee's Assurances to Lessor. Lessee agrees that it will not discharge or dispose of or suffer the discharge or disposal of any petroleum products, gasoline, hazardous chemicals or Hazardous Materials upon the Leased Lands except when fully in compliance with the Environmental Laws. Lessee agrees that it will not construct any aboveground or underground fuel or chemical tanks without the written consent of Lessor.

In any court action or administrative proceeding it shall be rebuttably presumed that any environmental contamination of the Leasehold Lands (1) has been released on the Leasehold Lands, (2) has resulted from acts or omissions of Lessee or its agents, and (3) has occurred during the term of the Lease. Lessee has the burden of rebutting these presumptions by clear and convincing evidence.

(d) Enforcement Rights of the City and Borough of Juneau. This section of the Lease does not in any way alter the powers and rights of the City and Borough of Juneau, Alaska , or Lessee's duties and liabilities under Title 46 (or its successor) of Alaska Statutes or other state or federal statutes regarding Environmental Laws. For example, notwithstanding the provisions of the Lease, the City and Borough of Juneau, Alaska, shall not be precluded from claiming under any statute that Lessee is strictly liable, jointly and severally, for damages and costs incurred by the City and Borough of Juneau, Alaska, for cleanup of contamination of the Leasehold Lands.

(e) Notice of Environmental Problems. Lessee agrees to immediately notify Lessor if Lessee becomes aware of (1) any Hazardous Material or other environmental problem or liability with respect to the Leasehold Lands or (2) any lien, action, or notice resulting from the claimed or actual violation of Environmental Laws, including but not limited to the generation, recycling, reuse, sale, storage, handling, transport, and disposal of any Hazardous Material.

(f) Lessee's Obligations Unconditional. Lessee's obligations under this section regarding environmental compliance are unconditional and shall not be limited by any nonrecourse or other limitations of liability provided for in the Lease or any document executed in connection with the Lease. The representations and covenants of Lessee set forth in the Lease, including without limitation the indemnity for environmental compliance provided herein, are (1) separate and distinct obligations from Lessee's obligations under the Lease, (2) shall not be discharged or satisfied by lease compensation or other payment under the Lease, and (3) shall continue in effect after any further transfer of the Leasehold Lands.

(g) "Environmental Laws" Defined. For purposes of the Lease, "Environmental Laws" is defined to include, but shall not be limited to, the Comprehensive Response Compensation and Liability Act ("CERCLA)", 42 U.S.C. 9601, et. seq., the Resource Conservation and Recovery Act ("RCRA"),42 U.S.C. 6901, et. seq., the Federal Water Pollution Control Act, 33 U.S.C. 1251, et. seq., the Clean Air Act, 42 U.S.C. 7401, et. seq. and AS 46.03.710-.850, and any other local, state and federal laws or regulations, whether currently in existence or hereafter enacted, that govern (1) the existence, cleanup or remedy of contamination on property, (2) the protection of the environment from spilled, deposited, or otherwise emplaced contamination, (3) the control of hazardous wastes, or (4) the use, generation, transport, treatment, removal or recovery of Hazardous Material.

(h) "Hazardous Material" Defined. For purposes of the Lease, "Hazardous Material" means any hazardous or toxic substance, material, or waste which is or becomes regulated by the City and Borough of Juneau, Alaska, the State of Alaska, or the United States government. It is any substance which at any time shall be listed as "hazardous" or "toxic" or in the regulations implementing the CERCLA, RCRA, and AS 46, or which has been or shall be determined at any time by any agency or court to be a hazardous or toxic substance regulated under Environmental Laws. The term "Hazardous Material" shall also include, without limitation, raw materials, building components, the products of any manufacturing or other activities on the Leasehold Lands, wastes, petroleum, oil. and source, special nuclear or byproduct material as defined by the Atomic Energy Act of 1954, as amended (42 U.S.C. 301 1, et. seq., as amended)

(i) Pre-Construction Audits.

(1) Lessee shall engage a qualified contractor to conduct a Phase I environmental audit of the Leased Premises. The Phase I audit shall be performed prior to the effective date of the Lease. The cost of the Phase I audit shall be paid by Lessee. The results of the Phase I audit shall be available to the authorized employees or agents of Lessor and Lessee as designated by the respective party.

(2) In the event the Phase I environmental audit reveals reasonable cause to believe the Leased Premises are contaminated or polluted in such a manner as to require cleanup or remediation under applicable law, Lessee shall engage a qualified contractor to conduct a Phase II environmental audit and evaluation of the Leased Premises prior to the commencement of any construction on the Leased Premises. The cost of the Phase II audit shall be borne solely by Lessee.

(3) In the event the Phase II audit demonstrates contamination or pollution of the Leased Premises in such a manner as to require cleanup or remediation under applicable law, Lessor shall immediately notify the proper governmental authorities, and shall comply with all lawful directions of said authorities. In such event, Lessee shall have the right, in its sole discretion, to terminate the Lease upon 30 days written notice to Lessor.

(j) Termination Audits

(1) One year prior to termination of the Lease, Lessee shall engage and pay for a qualified contractor to conduct a Phase I environmental audit of the Leased Premises. The results of the Phase I audit shall be available to the authorized employees or agents of Lessor and Lessee as designated by the respective party.

(2) In the event the Phase I environmental audit reveals reasonable cause to believe the Leased Premises are contaminated or polluted in such a manner as to require cleanup or remediation under applicable law, Lessee shall engage and pay for a qualified contractor to conduct a Phase II environmental audit and evaluation of the Leased Premises.

(3) In the event the Phase II audit demonstrates contamination or pollution of the Leased Premises in such a manner as to require cleanup or remediation under applicable law, Lessee shall

immediately notify the proper governmental authorities, and shall comply with all lawful directions of said authorities.

(4) As used in this paragraph (j), the terms "Phase I Audit" and "Phase II Audit" shall be construed according to the standards applicable at the time the audit or audits are conducted.

19. Re-entry: These entire agreements are upon the condition that if Lessee shall be in arrears in a payment of rent for a period of 30 days, or if Lessee abandons Leased Premises; or if Lessee shall fail or neglect to do or perform or observe any of the terms, agreements, covenants, or conditions contained herein on its part to be kept and performed and such failure or neglect shall continue for a period of not less than 30 days after Lessor has notified Lessee in writing of Lessee's default hereunder and Lessee has failed to correct such faults within 30 days, or if Lessee shall be declared to be bankrupt or insolvent according to law, or if any assignment of its property shall be made for the benefit of creditors, then, in any of the said cases or events, Lessor may, at its option, immediately or at any time thereafter, without demand or notice, enter into and upon the Leased Premises and real property subject to the Air Rights Easement, or any part thereof, and in the name of the whole and repossess the same and expel said Lessee and those claiming by, through, or under Lessee, remove Lessee's effects and improvements (if any) forcibly, if necessary, without being deemed guilty of trespass and without prejudice to any remedy which otherwise might be used for arrears of rent or breach of covenant or condition. On the re-entry aforesaid, this Lease shall terminate.

20. Landlord's Lien: In addition to its other remedies, Lessor shall have a landlord's lien upon all property on the Leased Premises for any rents in arrears, and Lessor shall have a right to the common law, nonjudicial remedy of distress for rents in the event of any arrearage.

21. Waste and Injury to Leased Premises: Lessee shall be liable to and promptly pay Lessor for any waste or injury to the Leased Premises or real property subject to the Air Rights Easement. Lessee shall take all prudent precautions to prevent or suppress pollution of the ground surface, water, air, or land. If Lessee commits waste, or trespass or injury upon Leased Premises, Lessee, in addition to being civilly liable for any damages caused, shall be criminally liable as provided by law.

22. Rights of Mortgagee or Lienholder: (a) Any lender on the security of the leasehold estate, or successor or assign of such lender, shall have the following rights at any time during the Lease term or any renewal thereof:

(1) To do any act or thing required of Lessee hereunder, and all such acts or things done and performed shall be as effective to prevent a forfeiture of Lessee's rights hereunder or cancellation of this Lease as if done by Lessee;

(2) To realize on the security afforded by the leasehold estate by exercising foreclosure proceedings or power of sale or other remedy afforded in law or in equity or by the security

documents or by acceptance of a grant, assignment or other conveyance in lieu of foreclosure or other such remedy, and to transfer, convey or assign the title of Lessee to the leasehold estate and easement created hereby to any purchaser at any such foreclosure sale, and/or to acquire and succeed to the interest of Lessee hereunder by virtue of any such foreclosure sale or other such transfer.

(b) Notwithstanding any other provision of this Lease, the rights of Lessor in the event of default of Lessee may not be exercised until written notice of such default has been given by certified or registered mail, return receipt requested, to any lender (from whom a written notice containing its name and address has been received by Lessor from Lessee) or to the person or firm designated by any such lender to accept such notices pursuant to written notice by such lender to Lessor. Such lender shall have the right to cure any such default within ten days of receipt of such notice by such lender or said person or firm with respect to any default that can be cured by the payment of money, or to cure any other default by taking reasonable steps to commence the remedy of such default within 30 days of receipt of notice thereof, and diligently continuing the curing of the same to completion. Lessor agrees any such curative action by lender shall be tantamount to curative action by Lessee.

(c) No such lender or successor or assign of such lender shall be liable to Lessor as an assignee of this Lease unless and until such time as such lender, its successors or assigns, shall acquire the rights of Lessee hereunder through foreclosure or other appropriate proceedings in the nature thereof, or as a result of any other action or remedy provided for by such mortgage or deed of trust or other security instrument, or which may otherwise be provided by law, or through grant, assignment or other conveyance in lieu of any of the foregoing. The liability of such lender or successor or assign of such lender as an assignee shall be confined solely to the period or duration of possession or ownership of such lender or successor or assign of such lender of the Leased Premises and Air Rights Easéments as lessee hereunder.

(d) If the leasehold estate or any interest or part thereof and the fee of any of the Leased Premises or real property subject to the Air Rights Easements shall become vested in the same person, firm, corporation, or other entity other than Lessor, there shall be no merger of the leasehold estate and the fee unless and until any lender shall have consented thereto in writing.

(e) In order to aid Lessee in financing improvements to be situated on the Leased Premises and by use of the Air Rights Easements, Lessor agrees to amend this Lease as shall be reasonably necessary to satisfy the lender's reasonable security interest requirements, provided such amendment shall not decrease significantly any of Lessee's obligations or Lessor's rights under this Lease. Such amendment may in Lessor's discretion apply only to the portion of the Leased Premises or the real property subject to the Air Rights Easements which are, or are proposed to be, subject to the proposed security interest and only for the duration of the security interest.

(f) If by reason of any default of Lessee not cured within the curative periods specified hereunder, either this Lease or any renewal thereof is terminated or not renewed at the election of

Lessor prior to the stated expiration. Lessor will enter into a new lease with the lender for the remainder of the base term and renewal term, effective as of the date of such termination, at the rent and on the terms contained herein, subject to the following conditions:

(1) Such lender shall make written request to Lessor for such new lease within 30 days after the date of such termination, and such written request shall be accompanied by a payment to Lessor of all sums then due to Lessor under this Lease;

(2) Such lender shall pay to Lessor at the time for execution and delivery of such new lease any and all expenses reasonably incurred because of the default of Lessee, including legal and attorney's fees; and

(3) Such lender shall perform all other conditions required to be performed by Lessee to the extent that Lessee shall have failed to perform such conditions, or shall take appropriate steps to commence curing and be pursuing the same with diligence and continuity.

(g) Within a reasonable time, Lessee shall notify Lessor of the execution and delivery of any and all deeds of trust, mortgages, or other security instruments entered into by Lessee and affecting the leasehold interest, and furnish Lessor with a true and correct copy thereof.

(h) During the term of this Lease, Lessor shall not encumber any part or all of the Leased Premises (except by way of the sale of municipal bonds generally secured by the full faith and credit of the City and Borough of Juneau or the revenues to be received by Lessor pursuant to this Lease) without the prior written consent of Lessee.

23. Re-Lease: In the event that this Lease should be terminated as herein provided, or by summary proceedings, or otherwise, Lessor may offer the Leased Premises for lease or other appropriate disposal pursuant to the provisions of the City and Borough Code.

24. Forfeiture of Rental: In the event that this Lease should be terminated because of any breach by Lessee, as herein provided, the rental payment last made by Lessee shall be forfeited and retained by the Lessor as partial or total damages for the breach.

25. Written Waiver: The receipt of rent by Lessor with knowledge of any breach of the Lease by Lessee or of any default on the part of Lessee in observance or performance of any of the conditions or covenants of the Lease, shall not be deemed to be a waiver of any provision of the Lease. No failure on the part of Lessor to enforce any covenant or provision herein contained, nor any waiver of any right thereunder by Lessor unless in writing, shall discharge or invalidate such covenants or provisions, or affect the right of Lessor to enforce the same in the event of any subsequent breach or default. The receipt, by Lessor, of any rent or other sum of money after the termination, in any manner, of the term demised, or after the giving by Lessor of any notice thereunder to effect such termination, shall not reinstate, continue, or extend the resultant term therein demised, or destroy, or in any manner impair the efficacy of such notice of termination as may have been given thereunder by Lessor to Lessee prior to the receipt of any such sum of money or other consideration, unless so agreed to in writing and signed by Lessor.

26. Expiration of Lease: Unless the Lease is renewed or sooner terminated as provided herein. Lessee shall peaceably and quietly leave, surrender, and yield up unto Lessor all of the Leased Premises and the real property subject to the Air Rights Easements on the last day of the term of the Lease.

27. Removal or Reversion of Improvements upon Termination of Lease:

(a) Surrender of Leasehold. Upon the expiration, termination or cancellation of the Lease, Lessee shall leave and deliver up all of the Leasehold Lands in good, sanitary and marketable condition, order and repair.

(b) Disposition of Improvements and Chattels After Termination. At Lessor's option, improvements not approved by Lessor shall be removed and the site restored to its original condition at Lessee's sole expense, or such improvements shall be forfeited to Lessor.

(c) Prior to the Permit Date of the Lease, Lessee shall file with Lessor a reclamation plan for the Leasehold Lands, which must be approved in writing by Lessor's authorized officer. Any reclamation plan approved pursuant to a conditional use permit issued by the Community Development Department of the City and Borough of Juneau shall be sufficient for purposes of this paragraph.

A bond, letter of credit, or other security approved as to form by the Lessor's Attorney in the amount of the total cost of implementing the reclamation plan must be posted with Lessor when Lessee receives written approval of the reclamation plan. The bond will be used in the event Lessee fails to leave the site in a safe and clean condition when, and if, the Leasehold is surrendered.

The reclamation plan must include a description of the methods and techniques which Lessee will use to rehabilitate all sites affected by construction. Under the Lease, Lessee retains all ownership rights to site improvements. In the plan, Lessee shall describe its intention to remove. rehabilitate or abandon each such improvement. The plan must also include a schedule which sets forth in detail the steps required for surface rehabilitation, and a specific timeline showing when Lessee will accomplish each step.

28. Rental for Improvements or Chattels Not Removed: Any improvements or chattels, belonging to Lessee or placed on the Leased Premises during Lessee's tenure with or without permission and remaining upon the premises after the termination date of the Lease shall entitle the Lessor to charge a reasonable rent therefor.

29. State Discrimination Laws: Lessee agrees, in using and operating the Leased Premises. to comply with applicable sections of Alaska statutes prohibiting discrimination. particularly AS 18.80.220 (discrimination in employment) and AS 18.80.230 (discrimination in providing public accommodations or services). In the event of Lessee's failure to comply with any of the above non-discrimination covenants, Lessor shall have the right to terminate the Lease and to re-enter and repossess the Leased Premises and hold the same as if the Lease had never been made or issued.

30. Compliance with Regulations and Code: Lessee shall comply with the Code of the City and Borough of Juneau and any regulations issued pursuant thereto. and with all state and federal regulations, as may affect the activity upon or associated with the Leased Premises; and Lessee's failure to do so shall be considered a breach of this Lease agreement. A reference to an ordinance in this Lease or any amendment to this Lease includes any changes in that ordinance or regulation whether by amendment, repeal and replacement, or other means. This Lease does not limit the power of the City and Borough of Juneau, Alaska, to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the Lessee or its agents in connection with this Lease or the value of the interest held under this Lease. In case of conflicting provisions, ordinances and regulations take precedence over this Lease. Lessor assumes no responsibility for enforcing laws, regulations, ordinances and the like which are under the jurisdiction of other governmental bodies.

31. Inspection: Lessee shall allow an authorized representative of Lessor to enter the Leased Premises for inspection at any reasonable time.

32. Unsafe Use: Lessee shall not do anything in or upon the Leased Premises, nor bring or keep anything therein, which will unreasonably increase or tend to increase the risk of fire or cause a safety hazard to persons in any way which violates or causes violation of any applicable health, fire, environmental or other regulation by any level of government.

33. Parking and Rights-of-Way: (a) Lessee shall provide off-site parking for its employees in an amount to be determined by the City and Borough Planning Commission as part of the conditional use permit issued for the tramway project.

(b) Lessor expressly reserves the right to grant easements or rights-of-way across the Leased Premises if it is determined in the best interest of Lessor to do so. Lessor agrees not to grant any easement or right-of-way which will interfere with Lessee's use of the Leased Premises or Air Rights Easements. Annual rentals may be adjusted to compensate Lessee for loss of use of portions of the Leased Premises included within said easements or rights-of-way.

34. Liabilities, Indemnity and Insurance. (a) Indemnity. Lessee shall indemnity, defend and hold Lessor harmless from and against all claims, demands, judgments, damages. liabilities, penalties and costs, including attorney's fees, for loss or damage, including but not limited to property damage, personal injury, wrongful death, and wage, employment or worker's compensation claims, arising out of or in connection with the use or occupancy of the Leased Lands by Lessee or by any other person holding rights under the Lessee, or at Lessee's sufferance or invitation; and from any accident or fire on the Leased Lands; and from any nuisance made or suffered thereon; and from any failure by Lessee to keep the Leasehold Lands in a safe and lawful condition consistent with applicable laws, regulations, ordinances or orders; and from any assignment, sublease, or conveyance, attempted or successful, by Lessee of all or any portion of the Leasehold Lands or interest therein contrary to the conditions and covenants of the Lease. Lessee will hold all goods, materials, furniture, fixtures, equipment, machinery and other property whatsoever on the Leased Lands at the sole risk of Lessee with its successors, assigns and invitees, and will save Lessor harmless from any claim of loss or damage by any cause whatsoever, including claims by third parties; however, this provision has no effect if, but only if, the sole proximate cause of the injury or damage is the Lessor's negligence.

(b) Damage to Lessor's Property. Lessee shall exercise diligence in protecting from damage the land and property of the City and Borough of Juneau, Alaska, covered by and used in connection with the Lease. Unless such damage shall have been caused by Lessor or its invitees, or because of actions taken by third parties due to unrestricted public access to the Leasehold Lands, Lessee shall:

(1) repair damage and restore the site to its previous condition;

(2) pay the City and Borough of Juneau, Alaska, the full cost of any damage resulting from negligence or activities occurring under the terms of the Lease or under any law or regulation applicable to municipal land generally, whether caused by the Lessee, or agents or employees of Lessee; or

(3) accomplish another remedy prescribed by Lessor's authorized officer.

(c) Risk of Loss of Improvements.

(1) Lessee assumes all risk of loss to the improvements resulting from natural or catastrophic events, including but not limited to, avalanches, rising waters, high winds, falling limbs or trees, and other hazardous events. If the improvements authorized by the Lease are destroyed or substantially damaged by natural or catastrophic events, Lessee shall cause an analysis by a certified engineer to be conducted to determine whether the improvements can be safely occupied in the future and whether rebuilding should be allowed. The results of this analysis shall be provided to Lessor's authorized officer.

(2) Prior to re-occupation by the public, Lessee shall produce appropriate certification as to the suitability for occupancy of all affected improvements. The certificate shall be provided to Lessor's authorized officer prior to re-opening of facilities to the public.

(d) Insurance. Lessee shall furnish to Lessor certificates of insurance prior to beginning operations under the Lease, and must give 30 days advance written notice of cancellation, non-renewal or any material change to such insurance coverage. All of the insurance policies shall be in form and substance reasonably satisfactory to Lessor and shall be issued by a company or companies satisfactory to Lessor. Failure to furnish satisfactory evidence of insurance, or the lapse of the policy once acquired, is a material breach and grounds for termination of the Lease. Required insurance is subject to annual review by the City and Borough of Juneau, Alaska, Office of Risk Management.

The coverage shall extend to property damage, bodily injury, or death arising out of Lessee's activities under the Lease including, but not limited to, occupancy or use of the Leasehold Lands and the construction, maintenance, and operation of the structures, facilities or equipment authorized by the Lease.

Without limiting the respective rights of indemnification above, Lessee shall purchase at its own expense and maintain in full force at all times during the term of the Lease, the following policies of insurance:

(1) Statutory Alaska Worker's Compensation, as well as Employer's Liability Insurance, with a limit of not less than $500,000 in compliance with the laws of the State of Alaska, and where applicable, insurance which complies with any other statutory obligations, whether federal or state, pertaining to the compensation of injured employees, and including voluntary compensation. The Worker's Compensation Insurance shall contain a waiver of subrogation clause in favor of the City and Borough of Juneau, Alaska.

(2) Commercial General Liability insurance with a combined single limit of not less than $10 million per occurrence. This policy shall include but not be limited to premises and operations, independent contractors, and products/completed operations, and reference the indemnification provisions of the Lease.

This insurance shall be considered to be the primary of any other insurance carried by the City and Borough of Juneau, Alaska, through self insurance or otherwise. This insurance shall also contain a "cross liability" or "severability of interest" clause or endorsement. The City and Borough of Juneau, Alaska, its officers, its agents, and its employees are to be covered as insureds as respects liability arising out of use of the Leased Lands or operations of Lessee. The insurer shall agree to waive all rights of subrogation against Lessor, its officers, agents, and employees for losses arising from the Leasehold Lands.

(3) All-Risk Property Insurance, including earthquake and flood, including business interruption, on the tramway structures, buildings, and equipment forming part of or otherwise connected to the Leased Lands, in such amounts and with such deductibles as under good business practices are ordinarily provided for on similar tram buildings and equipment, but in no event in an

amount less than the replacement value of the improvements. The City and Borough of Juneau, Alaska, shall also be named as a loss payee on any loss settlement under this section. Lessee shall be obligated to pay the deductibles.

35. Successors: This Lease shall be binding on the successors, administrators, executors, heirs, and assigns of Lessee and Lessor.

36. Condition of Premises: Lessee shall, during the demised term, at Lessee's own cost, cause the Leased Premises and the real property subject to the Air Rights Easement, together with any improvements thereon, to be kept in good repair and kept in a neat, clean, sanitary, and safe condition and shall take all reasonable precautions to prevent, and take all necessary action to suppress destruction or uncontrolled grass, brush, or other fire on the Leased Premises or real property subject to the Air Rights Easement. Lessee shall not undertake any activity which causes or increases a sloughing of or loss of surface materials on the Leased Premises. Lessee shall not in any manner, substantially change the contour or condition of the land without prior written permission of Lessor.

37. Use of Material: Lessee shall not sell or remove for any use elsewhere any timber, stone, gravel, peat moss, topsoils, or any other material valuable for building or commercial purposes; provided, however, that material required for the development of the leasehold may be used, if its use is first approved in writing by Lessor.

38. Responsibility to Properly Locate on Leased Premises: It shall be the responsibility of Lessee to properly locate Lessee and Lessee's improvements on the Leased Premises and real property subject to the Air Rights Easements and failure to so locate shall render Lessee criminally liable as provided by law.

39. Approval of Other Authorities: The issuance by Lessor of this Lease does not relieve Lessee of the responsibility of obtaining licenses or permits as may be required by the Lessor or by duly authorized state or federal agencies.

40. Local Hire: Lessee shall use best efforts to hire contractors and residents located in the City and Borough of Juneau.

41. Notice or Demand: Any notice or demand, which under the terms of this Lease or under any ordinance or statute must be given or made by parties thereto, shall be in writing, and be given or made by registered or certified mail, addressed to the other party at the address herein given. However, either party may designate in writing such new or other address to which the notice or demand shall thereafter be so given, made or mailed. A notice given hereunder shall be deemed delivered when deposited in a United States general or branch post office enclosed in a registered or certified mail prepaid wrapper or envelope addressed as hereinbefore provided.

LESSOR'S ADDRESS: CITY AND BOROUGH MANAGER
City and Borough of Juneau
155 South Seward Street
Juneau, Alaska 99801

LESSEE'S ADDRESS: MOUNT ROBERTS DEVELOPMENT CORPORATION
369 South Franklin Street, Suite 207
Juneau, Alaska 99801

42. **Memorandum of Lease:** At the request of either party, the other party shall execute and acknowledge a memorandum of lease or a memorandum of modification of lease complying with the statutory and regulatory requirements for recordation of such memoranda.

43. **License Prior to Effective Date:** Prior to the effective date of this Lease, Lessee shall have a license to access to the Leased Premises and the Air Rights Easements to perform such examination, testing, engineering, surveying, and other such preparatory work as may be deemed appropriate by Lessee. Prior to performing such work, Lessee shall notify Lessor of the timing, nature and duration of such preparatory work.

44. **Governing Law and Interpretation:** (a) This Lease shall be governed by the laws of the United States, the State of Alaska, and the City and Borough of Juneau.

(b) This is a negotiated Lease where both parties are represented by counsel. Accordingly, the rule of contract interpretation that ambiguities, if any, are to be construed against the drafter shall not apply.

45. **No Broker:** Each party represents to the other that it has dealt with no broker in connection with this Lease.

46. **Entire Agreement; Amendments:** This document excluding any words or paragraphs struck out and including any language added, in either case, initialed and dated by both parties and including exhibits attached hereto contains the entire agreement between the parties, and said agreement may not be modified except in writing. There are no oral promises, representations, or warranties between the parties regarding any matter or thing connected with or related to the matters and things which are the subject of this Lease.

47. **Consultation and Approval:** It is hereby agreed that the development and use of the Leased Premises and the performance by Lessee of its obligations under the Lease requires the continued cooperation and involvement of Lessor and regular consultation between the parties. Whenever an action of one party requires the approval of the other party hereto, the parties shall use their best efforts to consult with each other, including exchange of information and suggestions. Whenever the consent or approval of a party is required, the request shall be acted upon promptly

(generally within 30 working days) and any approval called for herein shall not be unreasonably withheld.

IN WITNESS WHEREOF, the Lessor and Lessee have caused this Lease to be executed the day and year first above written in Juneau, Alaska.

LESSOR: CITY AND BOROUGH OF JUNEAU, ALASKA

By: ______________________________
Mark Palesh
City & Borough Manager

LESSEE: MOUNT ROBERTS DEVELOPMENT CORPORATION

By: ______________________________
John Heiser
President

ACKNOWLEDGEMENT BY LESSEE

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 31st day of January, 1995, by John Heiser, President of Mount Roberts Development Corporation, an Alaska corporation, on (generally within 30 working days) and any approval called for herein shall not be unreasonably withheld.

IN WITNESS WHEREOF, the Lessor and Lessee have caused this Lease to be executed the day and year first above written in Juneau, Alaska.

LESSOR: CITY AND BOROUGH OF JUNEAU, ALASKA

By: ______________________
Mark Palesh
City & Borough Manager

LESSEE: MOUNT ROBERTS DEVELOPMENT CORPORATION

By: ______________________
John Heiser
President

ACKNOWLEDGEMENT BY LESSEE

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 31st day of January, 1995, by John Heiser, President of Mount Roberts Development Corporation, an Alaska corporation, on behalf of the corporation.

[SEAL]

Patricia A. Pilly
Notary Public on and for the State of Alaska
My commission expires: 07-08-97

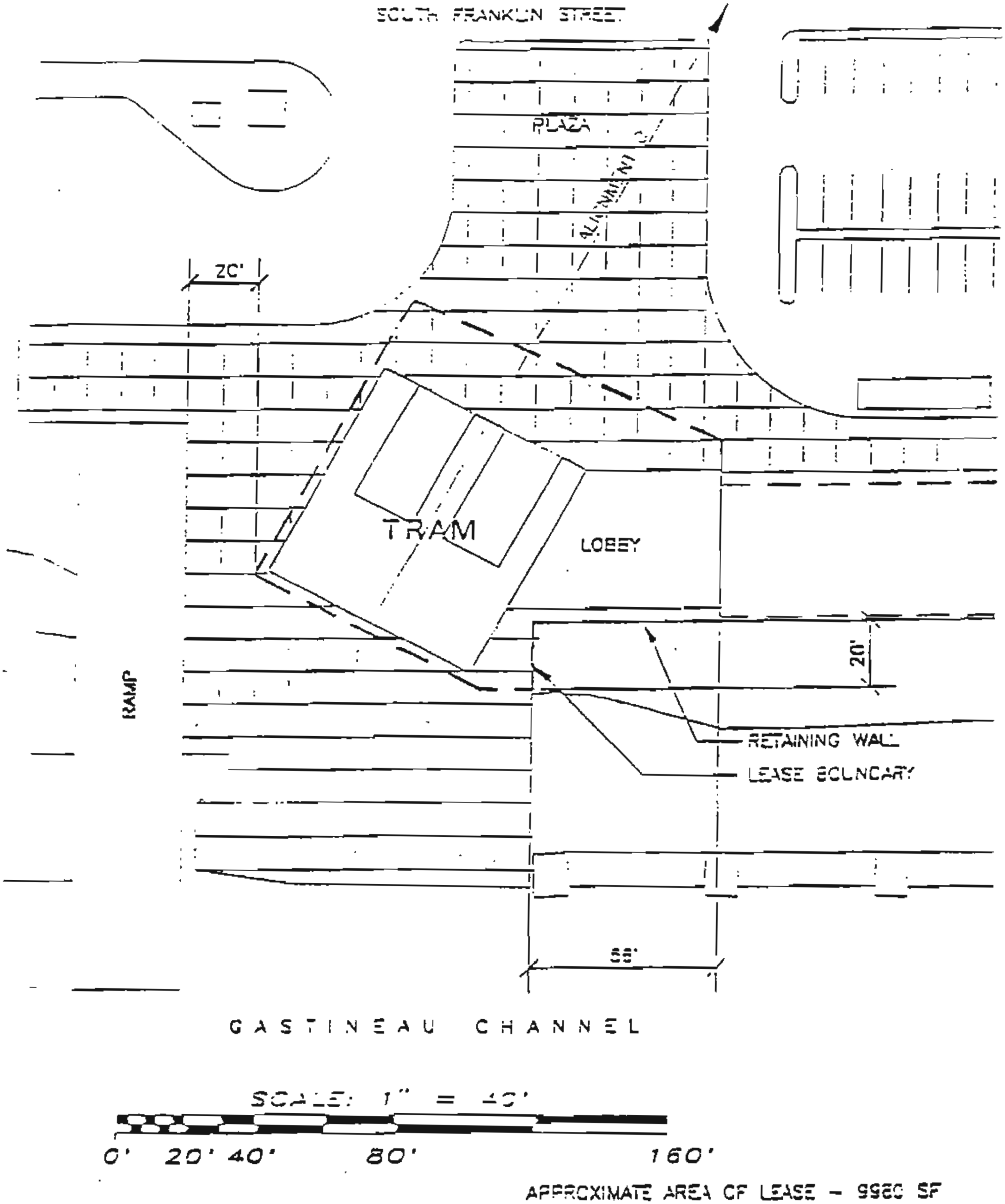
ACKNOWLEDGEMENT BY LESSOR

STATE OF ALASKA)
) ss.
FIRST JUDICIAL DISTRICT)

The foregoing instrument was acknowledged before me this 31st day of January, 1995, by Mark Palesh, City & Borough Manager of the City and Borough of Juneau.

[SEAL]

Patricia A. Pilly
Notary Public on and for the State of Alaska
My commission expires: 07-08-97



APPROXIMATE AREA OF LEASE – 9960 SF

EXHIBIT A

MT. ROBERTS TRAM

Jensen/Douglas
Architects, Inc.
12/9/94

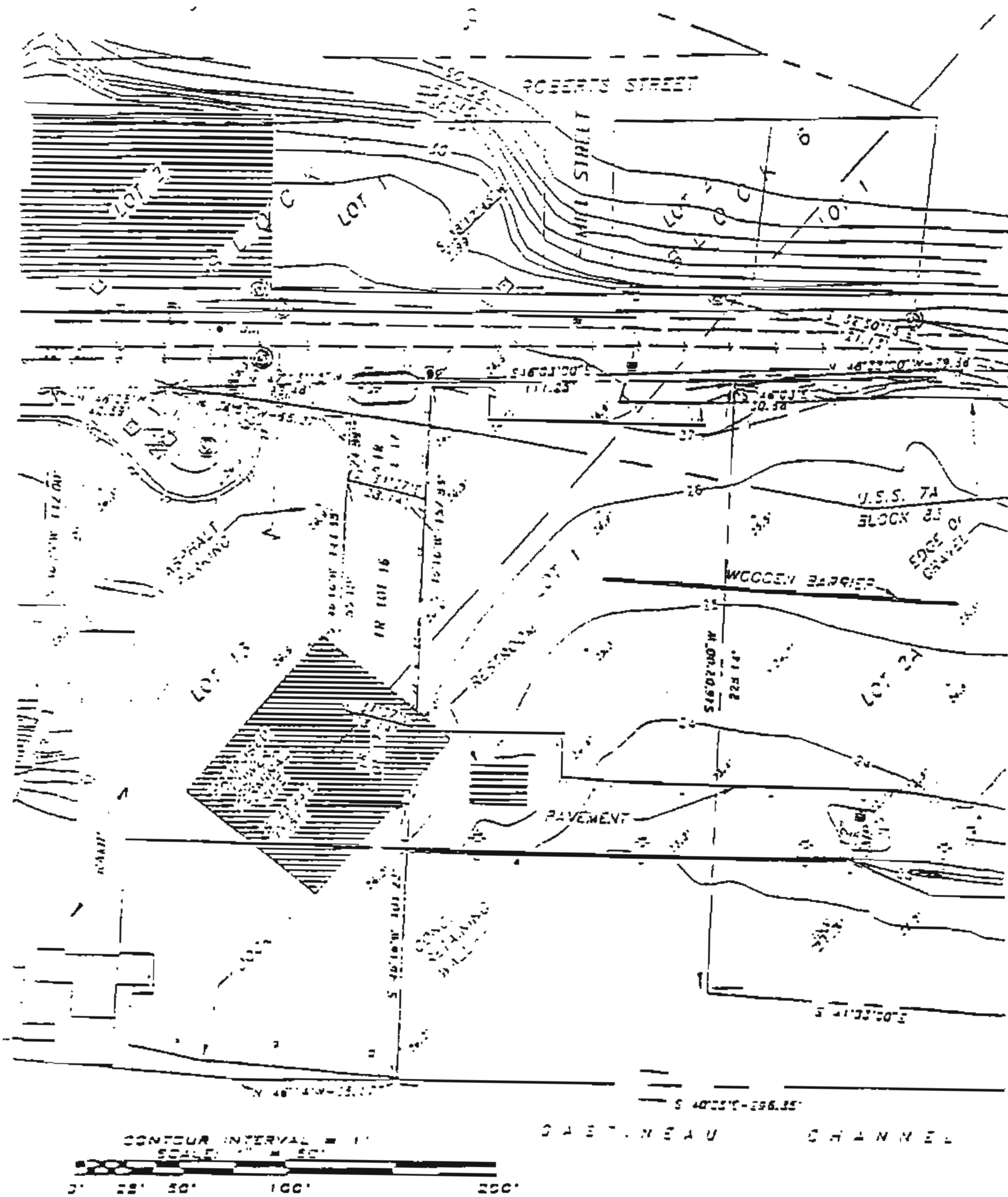


EXHIBIT B

MT. ROBERTS TRAM

Jensen/Douglas
Architects, Inc.
10/5/94

George Reifenstein

From: George Reifenstein

Sent: Friday, March 17, 2006 11:21 AM

To: Gary Droubay; Bob Martin

Cc: Jeff White

Subject: Harbor Board - Tram Lease

The Harbor Board Finance Committee meeting last night resulted in our negotiated flat 8% of assessed value lease being accepted by the committee with a recommendation for approval to the full board. Jeff and Eric had to recuse themselves which left only two committee members (both of whom were supportive) to voice opinions. - George

CITY/BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

Port of Juneau

February 16, 2006

George Reifenstein, Jr.
Mount Roberts Tramway Limited Partnership
490 South Franklin Street
Juneau, Alaska 99801

Dear George,

The rent for your tideland lease is due for adjustment. The current rent was set in 1995.

The lease contains a rather complicated adjustment procedure that goes like this: CBJ does an appraisal; if you don't like it, you do an appraisal; if we don't like it, we both do an appraisal. In an effort to streamline the adjustment process, I propose the following for your consideration.

The "Base Rent" clause of the lease sets the rent at 10% of the appraised value of the leased premises. The current base rent is $30,000 per year. The "Royalty Rent" clause adds at least another $60,000 per year in rent. Your current annual payments are $90,000 per year. If you exceed $3 million in gross revenues, your royalty rent will be at least $90,000 per year. Your total rent will increase to at least $120,000 per year. The 2005 assessment of the leased premises is attached. The CBJ Assessor appraised the tidelands at $1,325,200. I propose we set the total rent of the leased premises at 10% of $1,325,200 or $132,520 per year.

The Docks and Harbors Board is meeting on the adjustment at its March 16, 2006 meeting at 5:00 pm in the Assembly Chambers. I encourage you to attend.

Please call me if you have questions at 586-0294.

Sincerely,

John M. Stone, P.E.
Port Director

cc: Jim Canary, CBJ Assessor

CITY/BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

Port of Juneau

April 3, 2006

J. Gary Droubay
Goldbelt, Incorporated
9097 Glacier Hwy, Suite 200
Juneau, Alaska 99801

RECEIVED
APR 0 7 2006
Goldbelt Inc.

Dear Mr. Droubay,

On March 30, 2006, the Docks and Harbors Board adjusted the annual rent for the Mount Robert's Tramway lease.

The Board set the rent at $104,000 per year, or 8% of the 2005 assessment of the leased premises. This rent will remain in effect for three years until adjusted pursuant to paragraph 5 of the lease. This rent replaces the current rent charged under paragraph 5 and 6 of the lease.

I will direct staff to assess the new rent according to the current quarterly payment schedule. Your new quarterly payment will be $26,000. This will replace the current quarterly payment of $7,500 and the end-of-year annual payment of $60,000. The new payment plan will start on July 1, 2006.

Please call me at 586-0294 if you have questions.

Sincerely,

John M. Stone, P.E.
Port Director

cc: Barbara Rolfe, CBJ Treasurer

CITY/BOROUGH OF JUNEAU
ALASKA'S CAPITAL CITY

Port of Juneau

October 19, 2006

RECEIVED
OCT 24 2006
Goldbelt Inc.

J. Gary Droubay
Goldbelt, Incorporated
9097 Glacier Hwy, Suite 200
Juneau, Alaska 99801

Dear Mr. Droubay,

The CBJ Treasurer's Office recently transferred billing responsibility for the Mount Robert's Tramway lease to the Docks and Harbors Board. We completed a review of the lease payment history and have prepared the attached invoice.

Our records show that you have not paid the royalty rent for 2004, 2005, and ½ of 2006. On July 1, the Board eliminated the royalty rent in lieu of a market-based monthly rent.

I would appreciate if you could review this billing and forward to appropriate staff for payment. Please call me at 586-0294 if you have questions.

Sincerely,

John M. Stone, P.E.
Port Director

cc: Angelica Lopez-Campos CBJ Controller

Addendum: Experience Data

Per E. Bjorn-Roli, MAI
Managing Member

Background

Per E. Bjorn-Roli has a diversified background in appraisal and has worked on many different types of complex properties and assignments requiring specialized analysis. Examples include institutional, portfolio, retail, office, multifamily, special purpose, and other types of real estate.

His real estate skills and knowledge include formulation and evaluation of asset management and development strategies, market research and analysis, property tax appeals, due diligence, site selection, wetland banking/mitigation, transaction negotiation and consulting, pre-acquisition/disposition strategy, risk assessment, market forecasting, and micro and macro economic analysis.

Per has appraised numerous properties in Washington, Alaska, Nevada, Idaho, and Montana. Per is a certified general real estate appraiser in the State of Alaska.

Per is a graduate of Service High School and was born and raised in Anchorage. He has strong roots in the local community – his father immigrated to Alaska from Norway in the 1960s and his grandfather came to Alaska during World War II and has the distinction of selling the first television set in Alaska.

After spending several years in Seattle, Per returned to Anchorage in 2003 and founded Integrated Realty Resources, Inc., which became known as Reliant, LLC in 2009.

Per is proud to reside in Alaska where he enjoys spending time with his family and participating in a wide variety of outdoor activities, including flying, skiing, hiking and mountain biking.

Education

Real Estate Education

- Advanced Applications, AI
- Advanced Income Capitalization, AI
- Advanced Sales Comparison and Cost Approaches, AI
- Highest and Best Use Market Analysis, AI
- Uniform Standards of Professional Appraisal Practice
- Report Writing and Valuation Analysis, AI
- General Applications, AI
- Basic Income Capitalization, AI
- Appraisal Principles, AI
- Appraisal Procedures, AI
- Analyzing Lease Clauses, AI
- Condemnation Appraising:

Per E. Bjorn-Roli, MAI

- (USPAP), AI
- Appraisal Institute Bylaws & Regulations, AI
- The Lending World in Crisis-What Clients Need Their Appraisers to Know Today, AI
- Advanced Topics and Applications
- Condemnation Appraising: Basic Principles & Applications
- Real Estate Finance Statistics and Valuation Modeling

College Education B.S., Business Administration, University of Utah.

Employment History

Reliant, LLC / Integrated Realty Resources, Inc. Managing Director / Member, 2003 to Present, Anchorage, Alaska.

GVA Kidder Mathews Senior Appraiser / Appraiser & Consultant, 2000 to 2003, Seattle, Washington.

Formerly an affiliate of Insignia, GVA Kidder Mathews is the largest commercial real estate firm in Puget Sound.

Cushman & Wakefield Appraiser & Consultant, 1998 to 2000, Seattle, Washington.

C&W is the largest full service commercial real estate firm in the nation and has offices worldwide.

Kincaid & Riely LLC Research Analyst / Associate Appraiser, 1997 to 1998, Anchorage, Alaska.

Designations, Certifications and Awards

State License's / Certifications

- State of Alaska, Certified General Real Estate Appraiser, License No. 302.

Designations Per is one of 5,900 individuals worldwide that has earned the Appraisal Institute's prestigious MAI professional designation (Member No. 396734). Only 5% of commercial real estate analysts achieve this designation.

Awards Per was recognized in 2000 with the Anglyn award for outstanding participation at the Appraisal Institute's 2000 Leadership Development Advisory Council. The award was presented at Valuation 2000 in Las Vegas, Nevada.

Organization Affiliations, Offices & Memberships

- President, Alaska Chapter of the Appraisal Institute, 07/08
- Vice President, Alaska Chapter of the Appraisal Institute, 05/06
- Urban Land Institute Member
- Member BOMA of Anchorage

Partial List of Assignment Clients

Native Organizations

Bethel Native Corporation
Coastal Village Regional Fund
Cook Inlet Region, Inc. (CIRI)
Cook Inlet Housing Authority
Goldbelt Inc.
NANA Regional Corporation
Ounalashka Corporation
Shee Atika Native Corporation
Southcentral Foundation
Tyonek Native Corporation

National Financial Institutions

AMRESCO Capital
ASG Partners
Bank of America
Bank of the West
Bear Stearns Commercial Mortgage
BMC Capital
CALPERS
Chase Bank
CitiGroup Investments
City Mortgage Corporation
CIT Small Business Lending Corp.
CW Capital LLC
Equiva Services LLC
Evertrust Bank
Everett Mutual Bank
Evergreen Community Development Assoc.
First Mutual Bank
Frontier Bank
GE Capital
GMAC Commercial
Hallock Ryno Investments, Inc
Intervest Mortgage
InterWest Bancorp
JP Morgan
Johnson Capital
Key Bank
MetLife
Midland Loan Services Co.
NARA Bank
National Consumer Cooperative Bank
Nomura
Norris Beggs & Simpson Financial Services
Parallel Capital Corporation
Pacific International Bank
Principal Real Estate Investors, LLC
Prudential Real Estate Investors
South Sound Bank
Sterling Savings Bank
The Commerce Bank
US Bancorp
Washington Capital Management, Inc.
National Cooperative Bank (NCB)
Wells Fargo
Zions Bank

Alaska Financial Institutions

Alaska Community First Bank & Trust
Alaska Growth Capital
Alaska Pacific Bank
Alaska USA Federal Credit Union
First National Bank of Alaska
Northrim Bank
Matanuska Valley Credit Union

Government Sector

Alaska Rail Road Corporation
Anchorage Community Development Authority
Anchorage Neighborhood Health Clinic
City of Burien
City of Ketchikan
City of Seattle
City of San Jose
Commercial Capital Initiatives
Federal Aviation Administration
King County
Municipality of Anchorage
Heritage Land Bank
Port of Tacoma
State of Alaska

United States Coast Guard
United States General Services Administration
United States Navy
United States Postal Service
WA State Department of Transportation
WA State Department of Natural Resources

Legal Sector

Aschenbrenner Law Offices
Dorsey & Whitney LLP
Dillon & Findley, P.C.
Heller Erhman LLP
Hartig, Rhodes, Hodge & Lekisch, P.C.
J.P. Tangen
Keene & Currall
Katten, Muchin & Rosenman, LLP
Lasher, Holzapfel, Sperry & Ebberson
Norris Beggs & Simpson
Preston, Gates & Ellis
Ragen & Ragen
Sandberg Wuestenfeld & Corey
Simpson, Tillighast & Sorensen
Turner & Mede

Private Sector

Agbar Technologies
Alaska Electrical Pension Fund (AEPF)
Alaska Pacific University
ARTESIA, A Dexia Company
Building Owners and Managers Association (BOMA) of Anchorage
Browman Development
Birch REA Partners
Carr Gottstein Properties
Chevron USA Products
CH2M Hill / VECO Corporation
Covenant House Alaska
ConocoPhillips
Debenham Properties, LLC
Diamond Parking
Far West Petroleum
Flint Hills Resources Alaska, LLC
Frampton & Opinsky/Calais Company
GCI Communications Corp.
General Warehouse & Storage
General Motors Worldwide
GVA Kidder Mathews
Historic Seattle
Ingersoll-Rand
JL Properties
Katten, Muchin & Rosenman, LLP
Kin Properties, Inc.
Kong Yick Investment Co.
Lehman Brothers
LJ Melody & Company
NewTower Trust
Marlow Construction
The Odom Corporation
Olympic Coast Investment Inc.
Opus Northwest, LLC
OPERF / Regency
Prologis
Providence Alaska
Pinnacle Properties
Pacific Tower Properties / PTP Management, Inc.
Rayonier
Regal Entertainment Group
RISE Alaska, LLC
Samson Tug & Barge
Sierra Pacific Resources
Sekotac USA, Inc.
Sound Transit
South Gate Mall Associates
Steadfast Companies
Situs, Inc.
TelAlaska, Inc.
Touchstone Corporation
TTM Technology
The Dome
Washington Capital Management Company
Weyerhaeuser

Summary of Completed Assignments

Special Purpose Properties

Space Needle, Seattle WA

Alaska Pacific University, Anchorage AK

Puget Sound Naval Shipyard, Bremerton WA

Proposed Regal Cinema Movie Theatre, Fairbanks AK

Regal Cinema Movie Theatre Portfolio, Puget Sound WA

Columbia Winery, Bothell WA

West Coast Forest Products Mill, Everett WA

Chevron & Texaco Portfolio's, AK & WA

Proposed Travel Center, Tacoma WA

Dollar Rent A Car, SeaTac WA

Take Flight T-Hangers, Anchorage AK

Dan's Aircraft Hangers, Anchorage AK

Hilltop Ski Area, Anchorage AK

O'Malley Sports Complex, Anchorage AK

Northern Lights Baptist Church, Anchorage AK

Cliffside Community Chapel, Anchorage AK

Anchorage Airport Mini Storage, Anchorage AK

Dillingham Tank Farm, Dillingham AK

Medical & Biotech Properties

Proposed Northern Lights Professional Medical Center, Fairbanks AK

Proposed Seattle Biomedical Research Institute, Seattle WA

Overlake Hospital, Bellevue WA

Proposed Life Sciences Building, Seattle WA

Proposed WSU Biotech Bldg., Spokane WA

Family Medical & Dental Center, Anchorage AK

Providence Medical Condominiums, Anchorage AK

Providence Proposed MOB Rent Study, Anchorage AK

Mary Conrad Center, Anchorage AK

Hotel Properties

Super 8 Motel, Fairbanks AK

Super 8 Motel, Anchorage AK

Super 8 Motel, Ketchikan AK

Super 8 Motel, Juneau AK

Qupquigiaq Inn, Anchorage AK

Proposed Residence Inn, Anchorage AK (While with Kincaid & Riely)

Executive Suites, Anchorage AK (While with Kincaid & Riely)

Best Western, Seward AK (While with Kincaid & Riely)

Residence Inn, Seattle WA (Consulting)

Extended Stay America, Kirkland WA (Consulting)

Best Value Executive Suites, Anchorage AK

Multifamily / Condominium Properties

403 W. 21st Avenue, Anchorage AK

Marlow Manor Senior Housing, Anchorage AK

Proposed Eagle Ridge Apartments LIHTC, Palmer AK

535 "N" St. Apartments, Anchorage AK

8301 E. 3rd Ave. Apartments, Anchorage AK

Proposed Grass Creek Village at Creekside LIHTC, Anchorage AK

Chugach South Apartments, Anchorage AK

La Maisonette Apartments, Anchorage AK

Wildwood Estates, Anchorage AK

The Mallary Apartments, Anchorage AK

Proposed Condominium & Tract Dev. Lot 4A, Anchorage AK

Terrace Apartments, Anchorage AK

800 E. Dimond Blvd., Ste 3-310
Anchorage AK, 99515
P: 907.341.2222 F: 907.929.2260 Email: per@reliantadvisory.com

Heritage Court Apartments, Eagle River AK

Fort Wainwright & Greely Military Housing, Fairbanks & Delta Junction, AK

629 & 635 E. 79th Avenue, Anchorage, AK

Arctic View Apartments, Anchorage AK

Proposed Aurora Square Town Homes, Anchorage AK

Snow Raven Condominiums, Girdwood, AK

Wharton Mobile Home Park-Vacant Land, Anchorage, AK

Proposed Residential Condominiums, Anchorage, AK

Marathon View Condominium Suites, Seward, AK

Marydale Manor Apartments, Soldotna AK

Providence Residential Market Study

Industrial Properties

K&L Distributors Building, Anchorage AK

Lake Otis Spenard Builder's Supply, Anchorage AK

FedEx Ground, Anchorage AK

Brown Jug / Sadler's Warehouse, Anchorage AK

ASRC Office Warehouse Building, Anchorage AK

Gensco Building, Anchorage AK

DHL Air Cargo Distribution Center, Anchorage AK

CALPERS Industrial Portfolio, Seattle WA

CMI Construction Bldg., Anchorage AK

Barnes & Noble.com Building, Reno NV

Proposed Northern Air Cargo Bldg., Anchorage AK

Pool Arctic Bldg., Anchorage AK

Corporate Express, Anchorage AK

ProLogis Industrial Building, Reno NV

Hyster Dealership, Seattle WA

Pacific Circuits Building, Burlington WA

Weyerhaeuser Ind. Bldg., Federal Way WA

Red Hook Ale Building, Seattle WA

Delta Marine Yachts, Seattle WA

Anchorage Opera Bldg., Anchorage AK

Action Security, Anchorage AK

Petit Industrial Park, Anchorage AK

Johnson's Tire Service, Eagle river

Johnson's Tire Service, South Anchorage

Johnson's Tire Service Midtown, Anchorage

K & L Distributors

Retail Properties

Proposed ACS Stores, Alaska

Trace Retail Center, Anchorage AK

Proposed S. Anch. Strip Retail, Anchorage AK

Dimond Center Mall, Anchorage, AK

SeaTac Mall, Federal Way WA

Downtown Woodinville Center, Woodinville WA

Lakewood Mall, Lakewood WA

Outback Restaurant, Anchorage AK

Party World / America Rents, Anchorage AK

Proposed Parkway Supercenter, Tukwila WA

Proposed Safeway, Seattle WA

Proposed Safeway Plaza, Maple Valley WA

Proposed Smokey Point Retail Center, Smokey Point WA

Cascade Plaza, Everett WA

Pizza Hut Portfolio, Five Locations, ID

South Town Center, Anchorage AK

Plaza at 175th St., Woodinville WA

Lakeside Grocery Store, Sitka AK

Blaine's Graphic Art Supply, Anchorage AK

Office Depot, Juneau AK

Pet Zoo, Eagle River AK

Three Bears, Kenai AK

Office Properties

JL Tower, Anchorage, AK

Bivin Plaza, Anchorage AK

Resolution Tower, Anchorage AK

Calais I & II, Anchorage AK

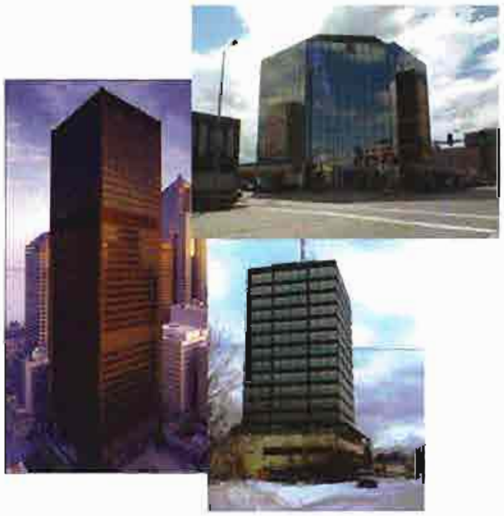
Fourth Ave. Plaza, Seattle WA

Anchorage World Trade Center, Anchorage AK

711 H Street, Anchorage AK

Midtown Business Center, Anchorage AK

Alaska Energy Building, Anchorage AK



KeyBank Building, Anchorage AK

Proposed BBNC Bldg., Anchorage AK

Jordan Creek Center, Juneau AK

Market Place North I & II, Seattle WA

Queen Anne Plaza Rent Study, Seattle WA

Denali Towers, Anchorage AK

Tudor Park, Anchorage AK

Queen Anne Square, Seattle WA

Blanchard Plaza Rent Study, Seattle WA

Northwest Plaza, Federal Way WA

Proposed US Federal Courthouse, Helena MT

Fifth Avenue Plaza, Anchorage AK

Frontier Building Rental Analysis, Anchorage AK

Signature Building, Anchorage AK

Proposed ANTHC Office Building, Anchorage AK

Proposed US Federal Courthouse, Pocatello ID

Proposed Cook Inlet Tribal Council Bldg., Anchorage, AK

US Post Office, Soldotna AK

Alaska Airlines Building, SeaTac WA

Stewart Title Building, Anchorage AK

Grand Northern Building, Anchorage AK

Port of Tacoma Administration Bldg., Tacoma WA

Weyerhaeuser Campus Center I & II, Federal Way WA

Proposed Interbay High Tech Bldg., Seattle WA

Automobile Dealerships

Mercedes Dealership, Anchorage AK

Lexus Toyota Dealership, Anchorage, AK

Tony Chevrolet, Anchorage AK

Tony Chevrolet, Wasilla AK

Nye Frontier Ford & Body Shop, Wasilla AK

Lincoln Mercury Dealership, Anchorage AK

Alaska Sales & Service, Anchorage AK

44110 Sterling Highway, Soldotna AK

37661 Kenai Spur Highway, Soldotna AK

GMC Automobile Dealership Portfolio, Puget Sound WA

Bob Bridge Pontiac GMC, Renton WA

Everett Chevrolet, Everett WA

Carco Automobile Dealership, Renton WA

Millennium Ford, Burien WA

Sound Ford, Seattle WA

Vacant Land

Tikahtnu Commons Vacant Land, Anchorage AK

Providence Alaska Midtown Land, Anchorage AK

8th Ave. & F St. Parking Lot, Anchorage AK

Fred Meyer S. Anchorage Site, Anchorage AK

Lowe's S. Anchorage Site, Anchorage AK

Midtown Calais Subdivision, Anchorage AK

First Hill PID, Seattle WA

Leo Walsh Property, Midtown, Anchorage AK

Tickner DNR Parcel, Tukwila WA

Lots 11 & 12 Arctic Ind. Subdv., Anchorage AK

Stout Property, Palmer AK

Glenn Square Addition parcels, Anchorage AK

Glenn Heights Tract A-1, Anchorage AK

Numerous Others

800 E. Dimond Blvd., Ste 3-310
Anchorage AK, 99515
P: 907.341.2222 F: 907.929.2260 Email: per@reliantadvisory.com

Maritime Industry Related Assets

White Pass Docks, Tidelands & Uplands, Skagway AK

Proposed Ketchikan Cruise Ship Dock Berth IV, Ketchikan AK

Waterfront Storage Property, Ketchikan AK

Graving Docks, Piers & Wharfs, Puget Sound Naval Shipyard, Bremerton WA

Walashek Shipyards / Seafood Plant, Unalaska AK

Westward Seafood Processing Plant, Unalaska AK

National Ocean and Aeronautic Administration Property (NOAA), Seattle WA

Goldbelt Float & Seadrome Bld., Juneau AK

Rayonier Mill Site Dock, Port Angeles WA

Delta Yachts Docks & Tidelands, Seattle WA

Sound Oil Refinery Tidelands, Tacoma WA

Samson Tug & Barge, Sitka AK

USCG Facilities Maintenance Bldg., Valdez AK

Historic Buildings

Milwaukee Hotel, Seattle WA

Kong Yick Hotel, Seattle WA

Cadillac Hotel, Seattle WA

Other

Ground Leases, Numerous Assignments

Partial Interest Valuations

Subdivision Valuation, Numerous Assignments

Machinery & Equipment, Various Types, Numerous Assignments

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- Truck Stops & Travel Centers
- Seafood Processing Plants
- Industrial
- Ground Leases
- Office
- Retail
- Bio-Tech
- Athletic Clubs
- High-Tech
- Vacant Land
- Parking Garages
- Movie Theatres
- Wetland Banking/Mitigation

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HORAN & COMPANY

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Phone: (907)747-6666 Fax: (907)747-7417 commercial@horanappraisals.com

August 9, 2012

Carl Uchytil, PE Port Director
City and Borough of Juneau Docks and Harbors
155 S. Seward St.
Juneau, Alaska

RE: Review of Appraisal Prepared by Per E. Bjorn-Roli, MAI, on the Mount Roberts Tram Ground Lease Rent Renewal, Our File # 12-038

Dear Mr. Uchytil,

At your request, I have reviewed the appraisal of the Mount Roberts Tram terminal site prepared by Per E. Bjorn-Roli, dated July 10, 2012, effective date July 1, 2012, for Mr. Derek Duncan, Goldbelt Incorporated. The purpose of this review is to summarize the appraisal in a brief understandable manner and to contrast some of the differences in my appraisal which you may want to address prior to negotiations with the lessee. As we discussed earlier, you did not want a complete technical review of the work at this time. This review is intended to identify the issues which may be germane to your further negotiations. The scope of the review is confined to reading and summarizing the reviewed appraisal and making brief distinguishing references to my work.

This brief summary report is intended for your use to provide the Docks and Harbors Board guidance on how to proceed in negotiations with lessee, Goldbelt Incorporated, for the new base rent pursuant to its lease with the City and Borough of Juneau (CBJ) per City Ordnance (Serial No 94-42) referred to as the Lease. As you are aware, I prepared an appraisal of the property for the same intended purpose dated March 9, 2012.

Abbreviated Highlights of the Bjorn-Roli Appraisal and Comments on Contrast with Horan Appraisal

Issues	Bjorn-Roli Report	Horan Report
Identification of Property appraised:	Mount Roberts Tram, terminal site at 490 S. Franklin St., Juneau, AK. This is a 10,000 SF site plus air rights subject to the 1995 ground lease with the City/Borough of Juneau. It's appraised in the hypothetical condition as though it's vacant and unimproved.	Similar to Horan
Property rights appraised:	The appraisal describes this as the fee simple interest subject to the terms of the CBJ lease.	Horan appraised in fee simple not constrained by the terms of the lease.
Extraordinary Assumptions:	1. Based on Spitzfaden legal opinion that renewal date should be July 1, 2012. 2. Based on the appraiser's belief and	None

	the Spitzfaden legal opinion the only legally permissible use of the site is a tram and therefore the highest and best use of the site for establishing the market value/rent is limited to tram use.	
Hypothetical conditions:	The subject is unimproved land.	Similar. No value to the improvements on the land.
Valuation date:	July 1, 2012, based on an extraordinary assumption the Spitzfaden legal opinion.	Horan effective date January 1, 2011, per lease document.
Highest and best use of the land unimproved:	Hold on a long-term basis for future long-term speculative tram development. The appraisal further concludes "as an uneconomic parcel, the subject has no identifiable source of demand or probable buyer."[1]	Develop as allowed by zoning and indicated by development of similarly situated properties such as retail buildings oriented towards the visitor industry.
Highest and best use determination methodology:	Citing the Spitzfaden legal opinion and other sources, the appraiser presumes that the unimproved land valuation is to be constrained by the terms of the lease, narrowing the allowable use to the tram operation only.[2] The appraiser further notes "...in absence of the aerial tram use restrictions, the subject's highest and best use would be cruise-ship dependent retail, whose economies would justify a higher value of the site, assuming that is a legal use."[3] The appraiser notes: The highest and best use is constrained by the financial feasibility analysis.[4] The table on Page 64 shows replacement cost new and negative cash flows presumably to land.	Horan comments- The Feasibility Analysis outlined on page 64 does not reflect market thinking that the land owner would expect no income. It is merely a test for whether the development would be feasible if built new. This analysis ignores the fact that two other parties are getting annual land lease income from the tram owners (DNR air space lease and the AJT on the top terminal) in excess of $72,000 a year. (page 70 table). Even with that expense the tram enterprise has a positive going concern operating income (nearly $1.6 million per year) which indicates its constituent parts (land, building, machinery, furnishing, etc.) contribute to the value. The land owner would expect a share of that income. This highest and best use conclusion is questionable even if one were to assume that the land value should be considered constrained by the lease terms because of the incomplete or incorrect application of methodology used.

[1] Page 65 Reliant Appraisal
[2] Page 6 Extraordinary Assumption number 2
[3] Page 9, Extraordinary Assumption number 2, used in the Reliant Appraisal.
[4] Page 64 Reliant Appraisal which presumes the "going concern replacement cost would be the value an investor would put on the property to determine a feasible value or its component parts".

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Valuation technique:

Land Residual Technique was used in this appraisal whereby the net operating income generated by the property was estimated.[5] A replacement cost for the entire tram enterprise was estimated and depreciated for physical deterioration only.[6] This concluded a deprecated cost value of over $21 million without consideration for the economic constraints of the market place.

The appraisal describes on page 67, when the Land Residual Technique method is appropriate, by quoting the 13th Edition of the Appraisal of Real Estate, published by the Appraisal Institute. It states:

"*Techniques like Extraction and Allocation have superseded the Land Residual Technique in Land Valuation because these other techniques rely on fewer variables subject to the appraiser's judgment and expertise and thus are more persuasive. In current practice the Land Residual Technique is used almost exclusively in highest and best use analysis to test the productivity of alternate uses of the site as though vacant.*"

This was clearly not the case portrayed in the report, based on the appraiser's own admission that good comparables were not available.

However, the appraiser was able to develop a net operating income which was subject to three land leases in the past, the CBJ lease, a DNR air rights lease and the AJT lease for the mountain top tram terminal. Historically there has been income to the land paying their land leases.

Horan relies on the allocation techniques whereby through interviews with buyers and sellers and analysis of several market transactions, an allocation is made between the land and building components of sales of properties with similar Highest and Best uses.

Horan comments-

1. The proper use of this technique requires an estimate of the building **value** not just a theoretical partly depreciated replacement cost. Due to the extensive economic obsolescence not estimated, page 66-67, the suggested **improvement value is overstated at $21,365,000.** (Page 81)

2. Since Bjorn-Roli concluded a different highest and best use it may be reasonable to use different land value techniques. Some that may be applicable in this analysis would be Allocation, Extraction, and Ground Rent Capitalization. For instance, the appraiser was aware of two land rents that he could have capitalized for tram use for the subject project; the DNR air space lease and the AJT on the top terminal. Together they are renting for over $72,000 a year.[7] If capitalized at 8% to 10% would suggest the mountaintop site and air rights might be worth $720,000 to $900,000.

   It is beyond the scope of this review to demonstrate how these other techniques would apply but the Land Residual is admitted to be one of the least reliable as indicated the Bjorn-Roli report itself. - see adjacent excerpt from page 67.

In summary, the land residual technique is not reliable, was applied incorrectly, and other more reliable techniques for which data was readily available were not used. I could elaborate further if need be but it is a moot point if highest and best use is incorrect.

[5] See table and conclusion page 70 Reliant report, going concern NOI $1,597,972.
[6] See conclusion page 81, $35,609,800 RCN less $14,243,920 Physical Depreciation only.
[7] See Table on page 70, Ground Lease Payments.

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Value conclusion:	$ 0	$3,330,000

Comment on Legal Opinions Used in the Appraisal

One of the foundational issues is the appraiser's reliance on the Extraordinary Assumption that the highest and best use value of the land is constrained by the terms of the lease itself and must be valued as an encumbered aerial tram site. I am not an attorney and am not qualified to render legal opinions; however, as an appraiser I must read and understand legal documents to ensure proper understanding of various property rights, appraisal instructions, etc. In this case, I would advise the CBJ to seek an attorney's advice on these issues to determine whether or not the appraisal was responsive to the requirements of the lease. For your consideration I make the following observations.

The lease specifies that the appraiser is to estimate "the fair market value of the unimproved land of the Leased Premises including the Air Rights Easement at its highest and best use."(Sec 5 (d) (3) of the Lease). The lease document contains a formula for calculating rent which includes among other things a percentage calculation of the "fair market value" of the unimproved land of the leased premises plus other considerations. Even if the CBJ modified the rent calculation formula through the John Stone April 2006 letter, the lease instructions for estimating the fair market value of the unimproved land of the leased premises has not changed. The appraiser is never instructed by the original lease or its modifications to estimate "market rent".

Goldbelt's appraiser relies on his extraordinary assumption in part due to the legal opinion produced by Goldbelt Inc's attorney, Robert Spitzfaden, which among other things suggests that the CBJ's conditional use permit, which was granted to the property developer, limits the allowable uses of the land rather than permits a conditional use in addition to all the generally allowable uses under the existing zone code. The lease document itself may contain a variety of agreements and obligations that specify a more limited use than the general fee simple unimproved value of the land as it would be available for its highest and best use. The opinion says the actual use as an aerial tramway is the highest best use due to lease and zoning restrictions.[8] He goes on to cite examples where courts have indicated such may be the case for whole properties for estimating fair market rent such as medical facilities and hotels. The subject lease never requires an appraisal of the value of the whole property. The lease does not require an appraisal to estimate the market rent of the property for the use to which the Lessee desired to put in, an aerial tram. However, the legal opinion appears to address these issues as if that were the case.

In addition to the Spitzfaden opinion, Goldbelt's appraiser cites an article from the Appraisal Journal Fall 2011 entitled *Ground Leases: Rent Reset Valuation Issues,* as additional backup for concluding a highest and best use that is constraint by the lease. This article makes a clear distinction between leases which instruct the appraiser to estimate "market value" of the land at its highest and best use for the purpose of a rent recalculation and a lease which instructs the appraiser to estimate "market rent". This article affirms through various court opinions citing instructions to the appraiser that when **fair market rent** is estimated, the use of the property for which it is leased is to be considered. When the lease instructs the appraiser to estimate highest and best use **fair market value** of the land as though vacant for the application of a rental adjustment formula, it is appropriate to estimate the fair market value at its highest and best use not constrain by the lease terms. This latter situation is our case. Please see page 319 of the article attachment to the Bjorn-Roli appraisal.

To me, a reading of the lease seemed plain enough; that the intent had been to recapture the highest and best use market value of the land as an adjustment to the base rent every three years as the lease term continued on. This

[8] Splitzfadan opinion Section IV Page 7.

appears to have been the case from the beginning of the lease. The rental calculations made in 2006 was based on the assessed fee simple market value of the land at its highest and best use. This has been my experience with the numerous other leases which we have appraised with similar clauses for the city and other private and public agencies throughout Alaska for the last 30 years.

This review summarizes and comments on materials that I assume readers and reviewers of this report would be familiar with and include the following:

1. Retrospective Market Value Appraisal Mount Roberts Tramway Lands Leased from CBJ, by Charles Horan, MAI, report date March 9, 2012. Among other things this report includes a copy of the Lease and the April 3, 2006 John Stone rent adjustment letter.
2. 490 S. Franklin St. CBJ Ground lease appraisal by Bjorn-Roli, MAI, report date July 2012. Among other things this report includes a copy of the Robert S Spitzfaden legal opinion and the Fall 2011 Appraisal Journal article titled "Ground Leases: Rent Reset Valuation Issues"

This summary review is based on the definitions of market value and other terms cited in the above referenced appraisals. Please see the attached Certification and Assumptions and Limiting Conditions.

Please call if you have any questions or comments.

Respectfully submitted,

Charles Horan

Charles E. Horan, MAI
Horan & Company, LLC

CEH/sa

General Assumptions and Limiting Conditions

1. It is assumed the data, maps and descriptive data furnished by the client or his representative are accurate and correct.
2. The opinions are based on information and data from sources believed reliable, correct and accurately reported. No responsibility is assumed for false data provided by others.
3. No responsibility is assumed for building permits, zone changes, engineering or any other services or duty connected with legally utilizing the subject property.
4. This appraisal was made on the premise that there are no encumbrances prohibiting utilization of the property under the appraisers' estimate of the highest and best use.
5. It is assumed the title to the property is marketable. No investigation to this fact has been made by the appraisers.
6. No responsibility is assumed for matters of law or legal interpretation.
7. The value estimates are made subject to the purpose, date and definition of value.
8. The report is to be considered in its entirety and in light of the appraisals cited; the use of only a portion thereof will render this appraisal review invalid.
9. The signatory of this appraisal report is a member of the Appraisal Institute. The bylaws and regulations of the Institute require each member and candidate to control the use and distribution of each appraisal report signed by such member. Therefore, except as hereinafter provided, the party for whom this appraisal report was prepared may distribute copies of this appraisal report in its entirety to such third parties as selected by the party for whom this appraisal report was prepared; however, selected portions of this appraisal report shall not be given to third parties without the prior written consent of the signatories of this appraisal report. Further, neither all nor any part of this appraisal report shall be disseminated to the general public by the use of advertising media, public relations media, news media, sales media or other media for public communication without the prior written consent of signatories of this appraisal report.

CERTIFICATION OF APPRAISAL REVIEW

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

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of the work under review and no personal interest with respect to the parties involved.
- I have performed an appraisal of the property that is the subject of the work under review within the three-year period immediately preceding acceptance of this assignment. This work is cited in the report.
- I have no bias with respect to the property that is the subject of the work under review or to the parties involved with this assignment.
- My engagement in this assignment was not contingent upon developing or reporting predetermined results.
- My compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in this review or from its use.
- My compensation for completing this assignment is not contingent upon the development or reporting of predetermined assignment results or assignment results that favors the cause of the client, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal review.
- My analyses, opinions, and conclusions were developed and this review report was prepared in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the subject of the work under review.
- No one provided significant appraisal, appraisal review, or appraisal consulting assistance to the person signing this certification.

Charles Horan

8/9/2012

Charles E. Horan, MAI

Date of Report