SELF-CONTAINED APPRAISAL REPORT

of

NEWBERRY HILL EXCHANGE
DNR PROPERTY

KITSAP COUNTY, WASHINGTON

as of

March 19th, 2009

Prepared for:

Gregory Richards, Chief Appraiser
Washington State Department of Natural Resources
1111 Washington Street
Olympia, WA 98504-7014

Prepared by:

Stephen Shapiro, MAI

RE◆SOLVE
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Real Estate Appraisal & Counseling and Mediation
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Ref. 9061

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March 30th, 2009

Gregory Richards
Washington State DNR
1111 Washington Street
Olympia, WA 98504-7014

RE: 522 Acre DNR Property to be Exchanged with Kitsap County
Kitsap County, Washington

Dear Mr. Richards,

At your request, I have prepared an appraisal of the above-referenced property, which is described in the attached *self-contained* report. This is a joint appraisal assignment with both the Washington State Department of Natural Resources and Kitsap County as co-clients that is being administered by the former. As directed, I have estimated the market value of the fee simple interest in the subject real estate that is owned by DNR and under a separate report I have provided an estimate of the market value of the fee simple interest in the property defined as the Kitsap County subject. My conclusion of value includes timber on the subject, and I have relied upon a conclusion of the property's component of timber value as provided by the firm of S.A. Newman, Forest Engineers, Inc.

Per your instructions I have also considered whether any boundary adjustment to either property would be necessary to result in an equal value of the respective properties. My analysis indicates that the DNR and Kitsap County properties are more or less of equal value and therefore no adjustment is warranted.

This report has been prepared in conformance with the current Uniform Standards of Professional Appraisal Practice (USPAP), as formulated by the Appraisal Foundation. The report also conforms to the standards of Washington State Recreation and Conservation Office as well as the written instructions to the appraiser provided by DNR that are included in the addenda of this report.

As a result of my investigation and analysis, I have concluded that the market value of the entire subject as of March 19th, 2009, which is the most recent date of inspection, amounts to:

TWO MILLION & THREE HUNDRED & TWENTY-FIVE THOUSAND DOLLARS..... $2,325,000.

Respectfully submitted,

Stephen Shapiro, MAI

Ref: 9061

Certification & Limiting Conditions

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

- The statements of fact contained in this appraisal are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conclusions, and are my personal, unbiased professional analyses, opinions, and conclusions;
- I have no present or prospective interest in the property that is the subject of this appraisal, and I have no personal interest or bias with respect to the parties involved;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the obtainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- My analyses, opinions, and conclusions were developed, and this appraisal has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and the WA State Recreation and Conservation Office;
- I have made a personal inspection of the property that is the subject of this report.
- I have afforded the owner or a designated representative of the property that is the subject of this appraisal the opportunity to accompany me on the inspection of the property.
- Persons providing significant professional assistance to the persons signing this report are identified herein.
- This appraisal has been made in conformity with the appropriate State and Federal laws and requirements, and complies with the contract between the agency and the appraiser;
- I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by authorized representatives.
- As of the date of this report, I have completed the requirements under the continuing education program of the Appraisal Institute.

RESTRICTION UPON DISCLOSURE & USE:
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 appraiser or the firm with which (s)he is 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 appraiser.

The property has been appraised for its fair market value as though owned in fee simple, or as encumbered only by the existing easements as described in the title report in the addenda.

The opinion of value expressed below is the result of, and is subject to the data and conditions described in detail in this report.

I made a personal inspection of the property that is the subject of this report from the ground on March 19th, 2009. I provided Brad Pruitt of the Washington State Department of Natural Resources the opportunity to accompany me on this inspection. Mr. Pruitt accompanied me on an inspection of the gun club lease area but declined to accompany me on an inspection of the rest of the property.

The **Date of Value** for the property that is the subject of this appraisal is March 19th, 2009, which is the most recent date of inspection.

Per the MARKET VALUE definition herein, the value conclusions for the property that is the subject of this appraisal are on a cash basis and are:

FEE SIMPLE MARKET VALUE OF ENTIRE SUBJECT PROPERTY $2,325,000.

Name: Stephen Shapiro, MAI
WS Cert # 1101561

Signature: _____

Date Signed: March 30th, 2009

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SUMMARY OF APPRAISAL

SUMMARY OF APPRAISAL

Identification of Subject Property

The subject of this analysis is 522 contiguous acres of land under the ownership of the Washington State Department of Natural Resources that is situated in Section 36 Township 25 Range 1W, and Section 25 Township 25 Range 1W. This property primarily consists of unimproved forestland; however a small area is minimally improved as the Kitsap Rifle and Revolver Club.

Summary of Appraisal Problem

The Washington Department of Natural Resources is considering a land exchange of the 522 acre subject property for land owned by Kitsap County near Wildcat Lake that consists of 542.5 contiguous acres in Sections 1, 2, 11 and 12 in Township 24N Range 1W. The appraiser has been directed to determine the appropriate larger parcel for both subject properties and provide an opinion of the fee simple market value of each. In the event that the resulting values are not identical, the appraiser has then been directed to provide an opinion of possible changes to boundaries in the respective properties that would result in an exchange of land that is more or less of equal value. The contributory value of timber on both subject properties is to be considered as if privately owned, under current Forest Practice regulations and as if available to an unrestricted market.

Location

The subject property is located in central Kitsap County on the Seabeck Highway near its intersection with Holly Road. While the area immediately surrounding the subject is rural, the property is located only about 10 miles west of Bremerton, the most populous city in Kitsap County and about a dozen miles from Port Orchard, which is the county seat. About seven miles to the northeast is Silverdale, which has the greatest concentration of retail shops and malls in the county.

Property Description

The subject property consists of approximately 522 acres that have long been held as designated forestland and utilized for forest practices. My inspection of the property as of the date of appraisal, as well as a timber report provided by S.A. Newman, indicate that approximately 70% of the trees are Douglas fir with less than 30% other species intermixed. The age class of the fir trees ranges from 14-45 years according to the Newman report.

An unnamed creek traverses the subject property from north to south and runs into Wildcat Creek about a half mile south of the subject. This creek on the subject is classified as fish habitat by Kitsap County and is also associated with significant wetlands areas on the subject property. Elevation on the subject property ranges between 400’ and 500’, with generally level to rolling terrain. The highest elevation is along the eastern portion of the property. There are gravel logging roads on the property but no significant improvements.

The surrounding neighborhood is rural with a mix of rural residential development and forestland. In general, lots in this area are quite large, being measured in multiple acres. However, there is an exception

to this in the area immediately to the southwest of the subject surrounding Wildcat Lake, where much smaller lots have been platted. The subject includes two large parcels that are zoned as Rural Wooded (RW) with 20 acre minimum lot size, and a five acre portion of another parcel also zoned Rural Wooded.

Highest & Best Use

In the valuation analysis of this appraisal I have considered the utilization of the subject under both a Class III and Class IV-G timber harvest. As will be illustrated, the scenario of a Class IV-G conversion harvest with associated use of the residual land for rural residential development is determined to be the highest and best use of the subject.

Final Value Estimate

522 Acres $2,325,000 ($4,454/ac)

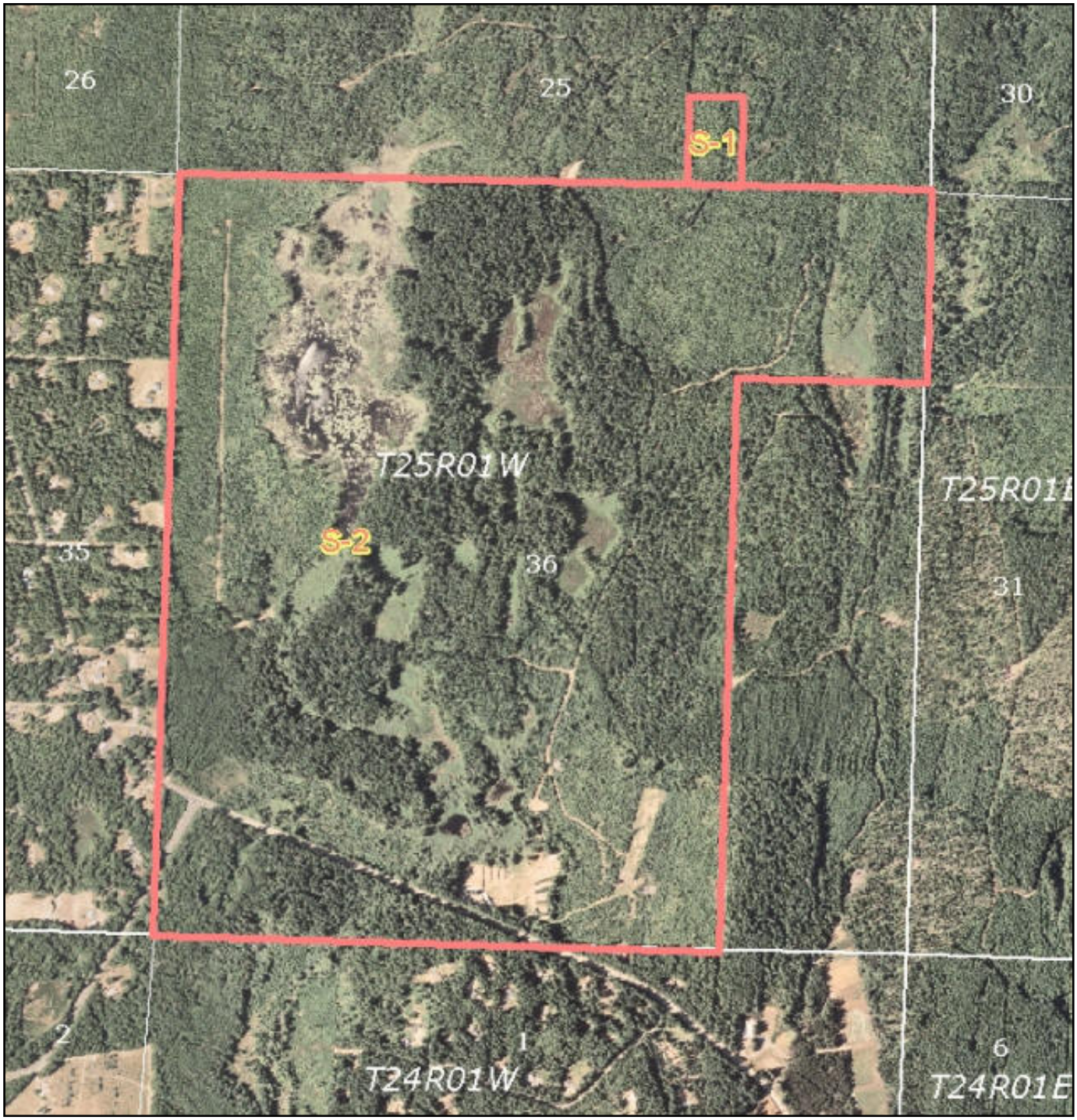
Date of Valuation

March 19th, 2009**.**

Date of Appraisal

This appraisal was performed in March of 2009.

SUBJECT PHOTOGRAPHS



AERIAL PHOTOGRAPH

The subject has access and frontage along both sides of the Seabeck Highway.

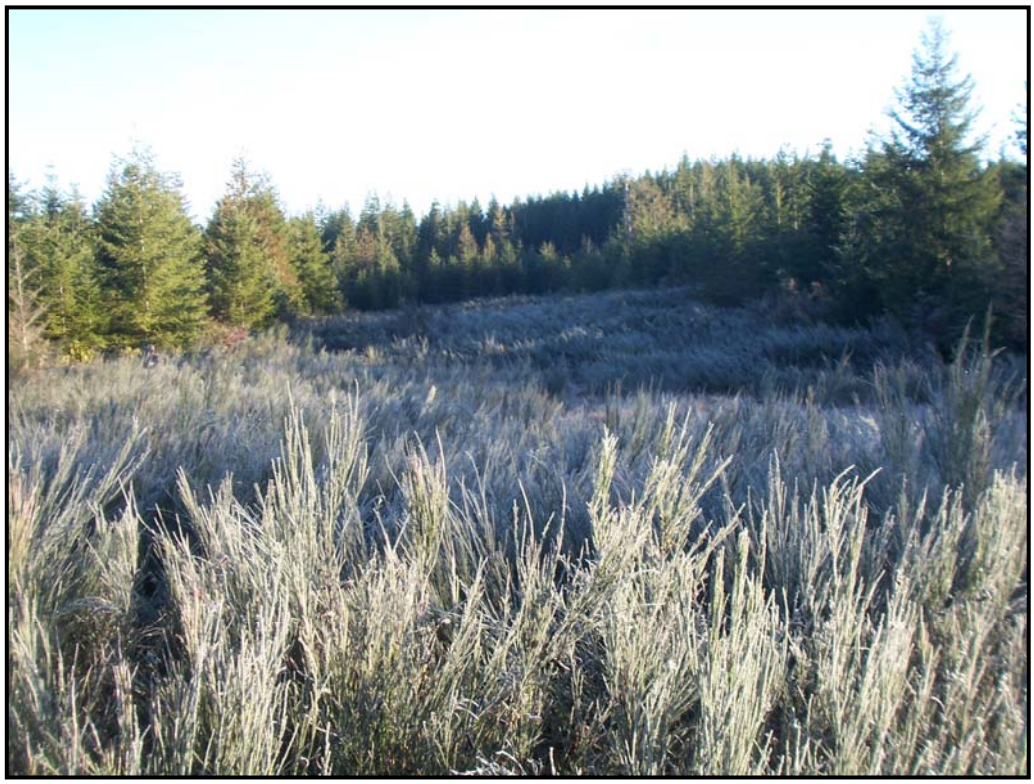
There is a gated entry near the southwest corner of the property.

There are some extensive wetland areas (above) and several creeks (below).

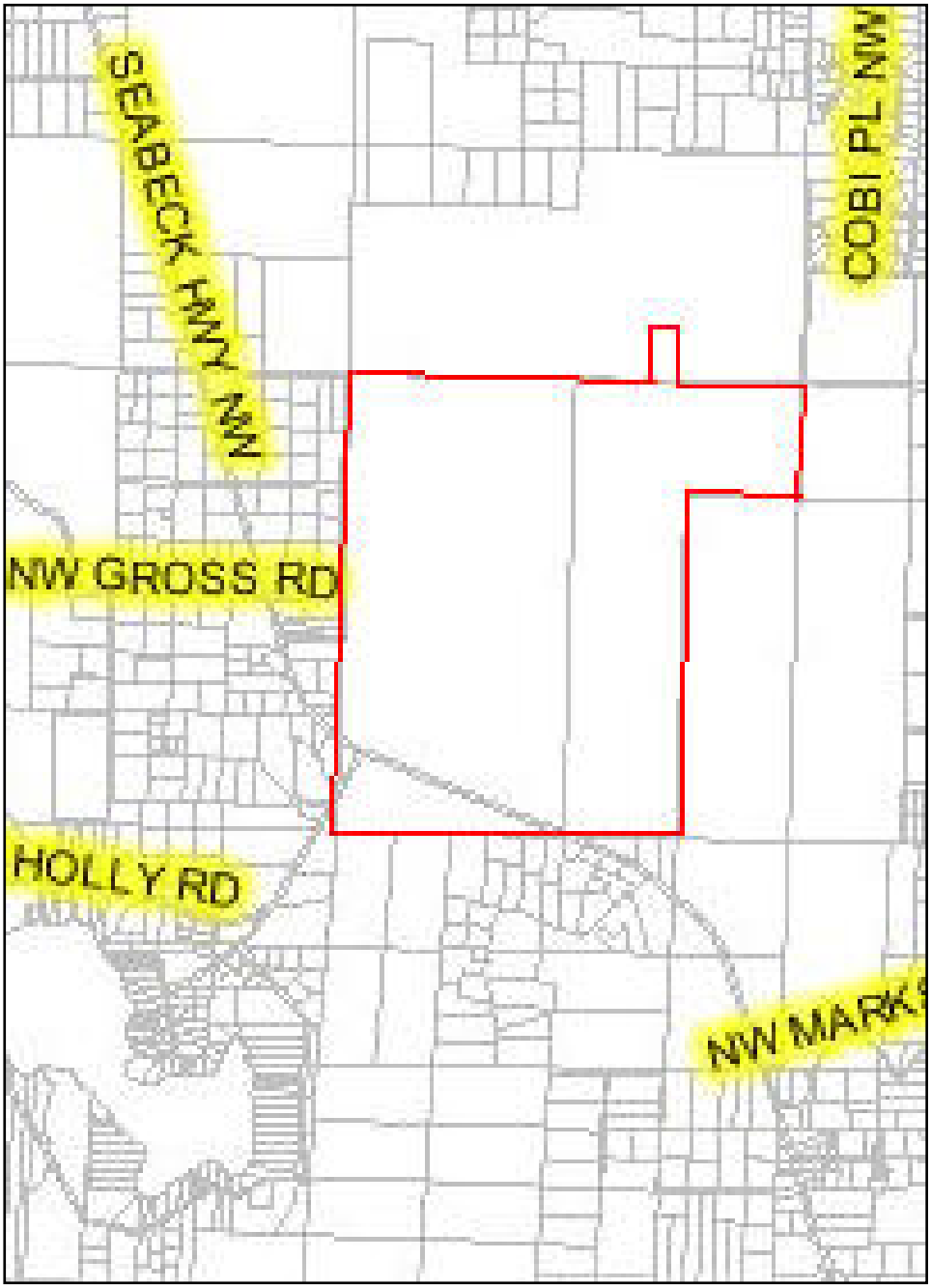
As shown above there areas of mature timber on the site.

The elevated eastern area of the property could have territorial views with clearing.

The Kitsap Rifle and Revolver Club leases about 8 acres as a firing range (above) and about 64 acres around the range as a protective buffer. This is not the highest and best use of the property.



INTRODUCTION



PLAT MAP

INTRODUCTION

Identity of Property and Legal Description

The subject property includes approximately 522 acres of unimproved land located in Central Kitsap County. As shown on the Kitsap County Assessor's Plat Map on the previous page, it consists of 2 tax parcels and a portion of a third parcel adjacent to the north. The title documents provided in the addenda provides legal descriptions. The table below indicates details for each of the component subject parcels.

DNR Candidate Exchange Land Parcels

Parcel Number	Area	Zoning
362501-1-001-1003	200 ac	RW 1/20
362501-2-001-1001	317 ac	RW 1/20
Portion 252501-3-011-1000	5 ac	RW 1/20

Property Rights Appraised

This is an appraisal of the fee simple interest in the subject real estate.

Purpose of Appraisal

The purpose of this appraisal is to determine the market value of the entire subject property in order to facilitate an exchange between the DNR and Kitsap County. Concurrently in a separate appraisal report I have determined the market value of the Kitsap County property to be traded. In the event the two tracts are determined to have different values, a boundary line adjustment will be proposed to balance the value of the two tracts and to identify suitable exchange candidate configurations. The term "market value" is defined as:

> *"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; and*

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

Source: Office of the Comptroller of the Currency under 12 CFR, Part 34, Subpart C-Appraisals, 34.42 Definitions [f].

Intended Use/User of Appraisal

This is a joint appraisal assignment to value land held by Kitsap County and the DNR in order to facilitate a land exchange between the two agencies. Kitsap County and DNR are both named as clients, but the appraisal contract will be held and administered by the DNR. Intended users of this report include the clients as well as their authorized associates, employees, representatives or agents.

Scope of Appraisal

Appraisal Content

The scope of work performed in this appraisal is in compliance with the specific guidelines of the Uniform Standards of Professional Appraisal Practice (USPAP) to produce a credible value opinion that meets the expectations of parties who are regularly intended users of similar appraisal assignments and is also in accord with the analysis that the appraiser's peers would perform in a similar appraisal assignment. Additionally, it complies with the requirements of the Washington State Recreation and Conservation Office (RCO).

The subject has been valued through the direct sales comparison approach. The subject and all sales comparisons were inspected by the appraiser. Additionally, I have provided a subdivision analysis approach that consists of a discounted cash flow projection. This is warranted given that the subject's rural wooded zone allows for this alternate use and the property is located in a transition zone between traditional forestland and rural residential development.

No cost approach is provided as this is not appropriate for unimproved land.

Appraisal Format

This appraisal is presented as a *self-contained* report that meets or exceeds the standard for such a report and complies with the reporting requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) for such a report. It is also in compliance with the requirements of the Washington State Recreation and Conservation Office as well as the appraisal instructions provided by the Washington State Department of Natural Resources.

Extraordinary Assumptions/Hypothetical Conditions

The conclusions drawn by this appraisal have been arrived at with the following extraordinary assumption in place:

The subject acreage is known to include creeks and wetlands that present challenges to development. Meanwhile, I have not been provided with a specific inventory regarding the extent of these sensitive areas, nor am I a critical areas specialist capable of making such a determination. With this in mind, my assessment of the impact of sensitive areas upon the subject is predicated upon existing preliminary sensitive areas maps provided by the Kitsap County Department of Community Development and discussions with officials at that agency. It is an extraordinary assumption of this report that the critical areas information available to me provides the basis for a credible determination of highest and best use and valuation of the subject. In the event information comes to light indicating that this is not the case I reserve the right to reconsider the opinions expressed in this report.

Ownership History

The subject property has been under the ownership of the Washington State Department of Natural Resources for considerably longer than three years. The 5 acre area on the north side of the parcel was deeded to the state by Steven Wilson in 1982. I am not aware of any price associated with this transaction. The remaining 517 acres was deeded to the state by the federal government in 1889 as part of a larger land grant. To the best of my knowledge, the subject is not presently listed for sale. However, it is known that it is a candidate for a potential land exchange with Kitsap County.

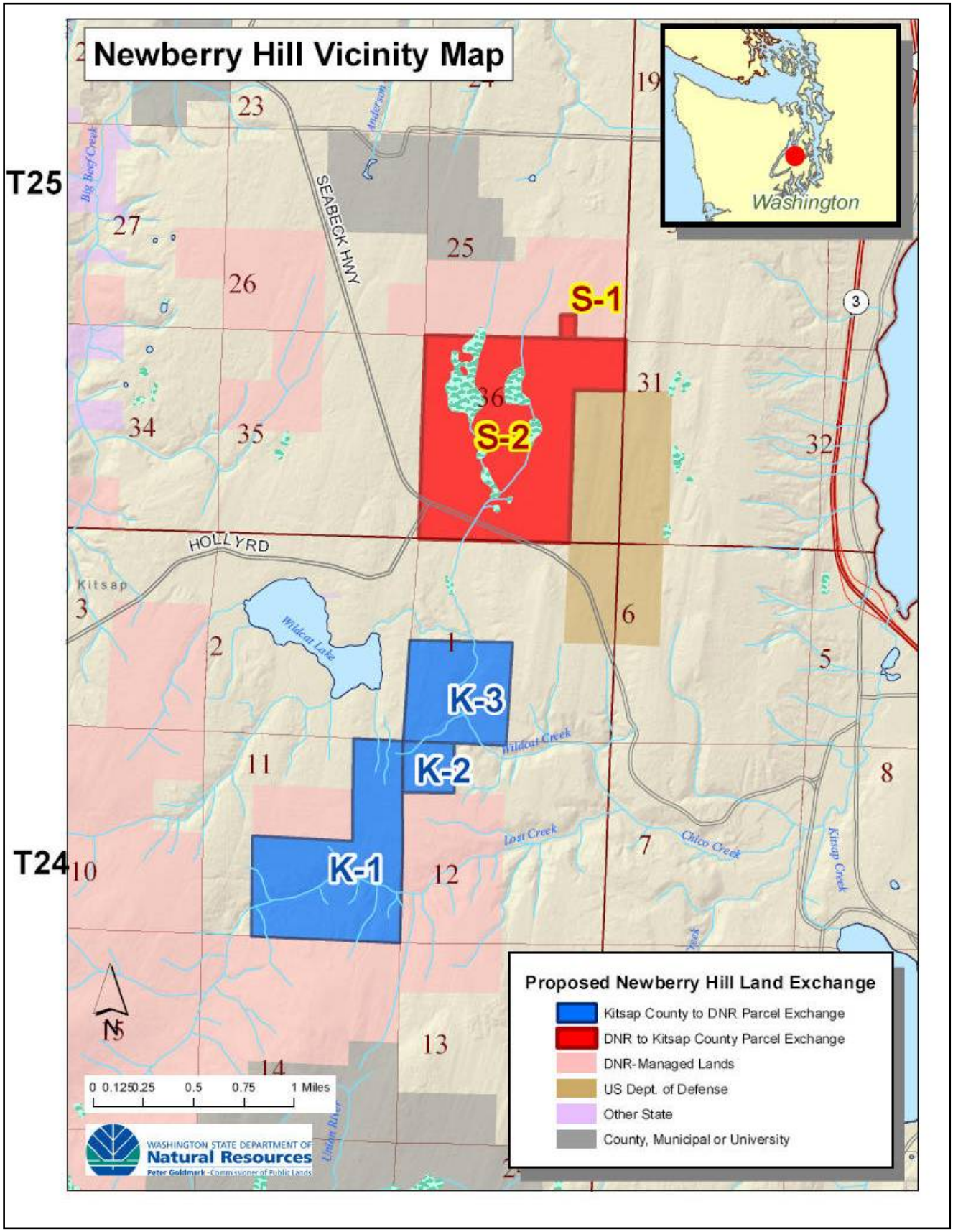
Date of Value

This appraisal has an effective date of valuation of March 19th, 2009, which is the date of the appraiser's latest inspection.

Date of Appraisal

This appraisal was prepared in March of 2009.

MARKET ANALYSIS
&
NEIGHBORHOOD DATA



NEIGHBORHOOD MAP

Seabeck
Seabeck Hwy NW
Silverdale
NW Bucklin Hill Rd
303
Central Valley Rd NW
NW Newberry Hill Rd
Chico Way NW
Dyes Inlet
Camp Wesley Harris Naval Res
Tracyton
Erlands Point
Jackson Park Naval Reservation
Kitsap Way
Ivy Green Cemetery
Camp McKean Naval Rec Camp
Forest Lawn Cemetery
11th St
310
WASHINGTON
Green Mountain
KITSAP
304
Pendergast Regional Park
3
Gold Mountain
16
Port Orchard Blvd

AREA MAP

MARKET ANALYSIS & NEIGHBORHOOD DATA

Introduction

The subject property is situated in the central portion of the Kitsap Peninsula. Along with the pull of its diverse geographic features and rural characteristics, this area is attractive to residents owing to its location near Hood Canal to the west and within easy commuting distance to Kitsap County's most populated area that includes Bremerton, Port Orchard and Silverdale. Additionally, regular ferry service to the eastern Puget Sound mainland is available from Bremerton to downtown Seattle, and from Southworth east of Port Orchard to West Seattle.

Although the subject is relatively near to a densely populated area, it is actually quite rural with surrounding land uses that include both rural residential development as well as timberland management. The Kitsap County Comprehensive Plan evolved through a contentious process during the latter half of the 1990s and attempted to strike a balance between the county's rural characteristics as well as its advantageous proximity to the state's commercial epicenter in eastern Puget Sound. First adopted in 1994 by the Board of County Commissioners, the plan was subsequently appealed to the Central Puget Sound Growth Management Hearings Board, which declared it invalid. Parts of a subsequent plan were also rejected owing to definitions of some Urban Growth Areas that were deemed excessively large as well as permitting high densities on Rural Area lands that the Board felt were in violation of the state's Growth Management Act.

The question of maintaining the county's rural character was a dominant discussion point throughout the revision process. In essence, the Board's determination was that the initial versions of the Comprehensive Plan perpetuated historic patterns of urban sprawl in rural areas contrary to the intent of the GMA. In the two decades between 1970-1990, the population in Kitsap County grew by 87%. Throughout that time, the rate of population growth into unincorporated parts of the county consistently more than doubled the growth into incorporated areas. With the advent of the process leading to the Kitsap County Comprehensive Plan, protection of the rural character of the county leapt into the forefront of land use issues. Stipulations under the final plan were ultimately approved to address those issues. However, amendments to the Plan are ongoing, and an amendment was approved by the county commissioners that would potentially allow for a higher degree of development density on land such as the subject that was zoned interim rural forest through conversion to the rural wooded (RW) zoning designation. (This will be more thoroughly discussed in the Site Data section of this report.)

Access

Access from the subject to cities elsewhere in Kitsap County is via good local arterial roads and highways. The subject is accessed from Seabeck Highway, a paved two-lane arterial that provides access to State Route 3 about four miles southeast of the subject. This four-lane highway provides direct access to Silverdale to the north, and Bremerton and Port Orchard to the south. Further to the south it provides access to Tacoma, where it links with Interstate 5, the premier highway along the entire west coast.

Population

The estimated population of Washington State as of April 2008 was 6,587,600. About 50% of the total population was made up by just three of the state's 39 counties. King County was by far the most populous county with 1,884,200 residents. This is followed by Pierce County with 805,400 residents and Snohomish County with 696,600. By contrast, Kitsap County had 246,800 residents in 2008.

Population

	2003	2004	2005	2006	2007	2008
Kitsap Co	237,000	239,500	240,400	243,400	244,800	246,800
WA State	6,098,300	6,167,800	6,256,400	6,375,600	6,488,000	6,587,600

Source: State of WA Office of Financial Management, April 2008

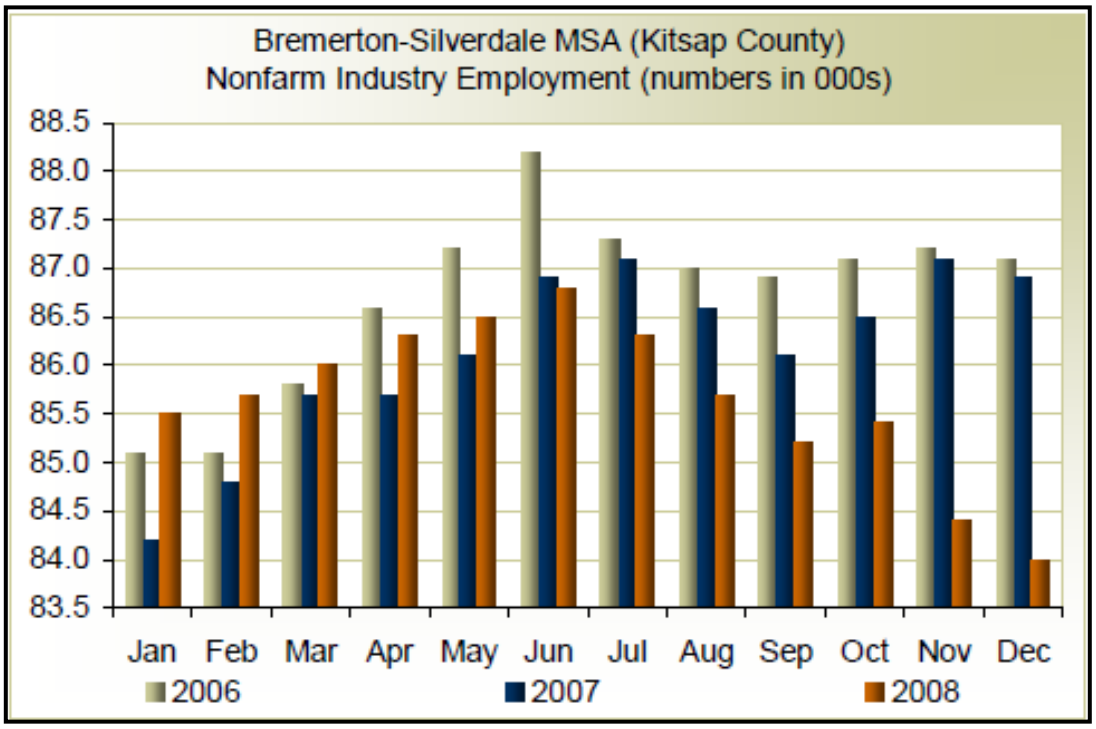
The nearest incorporated cities to the subject are Port Orchard, with a population of 7,840 and Bremerton, with a population of 36,860. Additionally, the unincorporated town of Silverdale, which has an estimated population of over 10,000, is also nearby. All of these towns and cities provide the subject area with good proximity to stores, services and jobs, considering that it is situated in a quite rural area. Port Orchard is the seat of government for Kitsap County, Bremerton is by far the largest city in the county, and Silverdale is the center of the largest center for retail shopping.

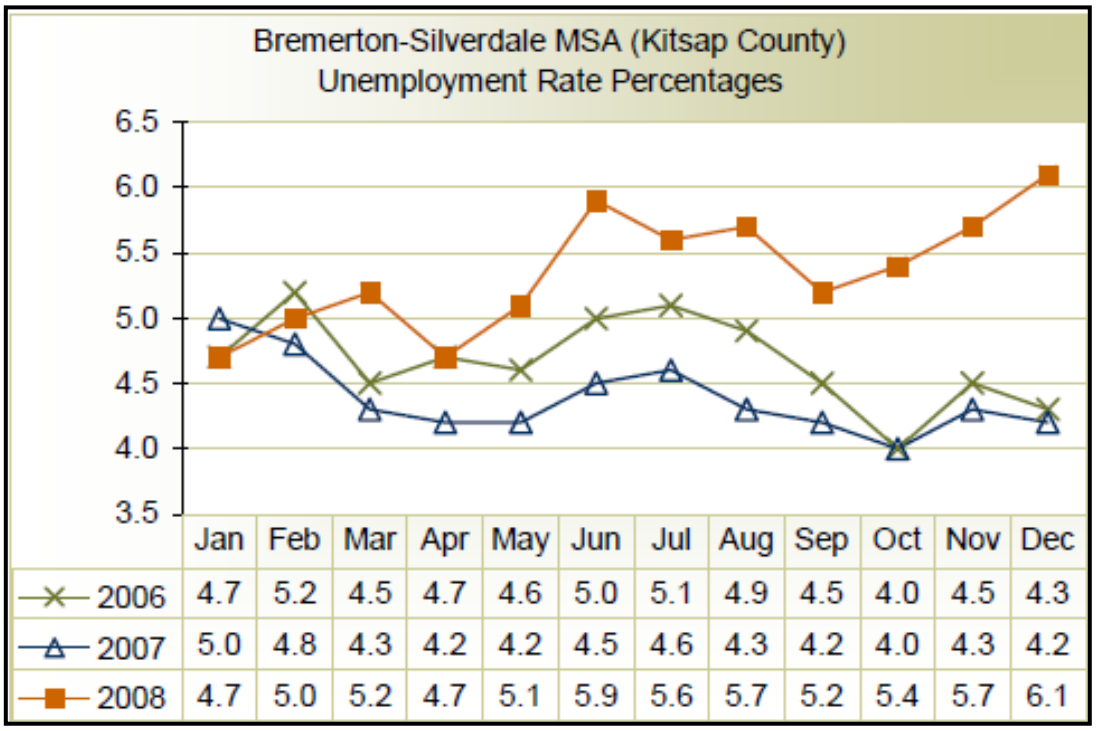
In terms of earning potential, Kitsap County ranks 8th among Washington's 39 counties with a median family household income (2008 data) of $57,186. This is slightly below the statewide median of $60,010. Not surprisingly, the highest household income is in King County, with a median income of $68,832. In general, the income demographic for Kitsap will be skewed with areas in the north of the county that have good links to the ferry having household income more similar to King County, while areas in south Kitsap fall below the median level.

Economic Conditions

A December 2008 report by the Washington State Employment Security Department indicates that stress in the economy has taken a toll in the Bremerton-Silverdale Metropolitan Statistical Area as 400 jobs were lost in December and unemployment claims are on the rise. In terms of total estimated nonfarm employment, the December numbers showed declines reflected in most employment sectors. Job losses have occurred in the professional and business services sector, retail, leisure and hospitality and government. Total nonfarm employment was pegged at 84,000, which is down 2,900 from one year earlier. This amounts to a 3.3% reduction in the work force over the year.

The civilian labor force numbers show an increase in the number of residents seeking employment, from 5,300 in December 2007 to 7,800 for December 2008. This reflected a very significant 47.2% increase for the period. The total number of gainfully employed residents, likewise, dropped by 570 for a negative 0.5%. All this led to an unemployment rate of 6.1%, which is slightly higher (0.4 percent) compared to



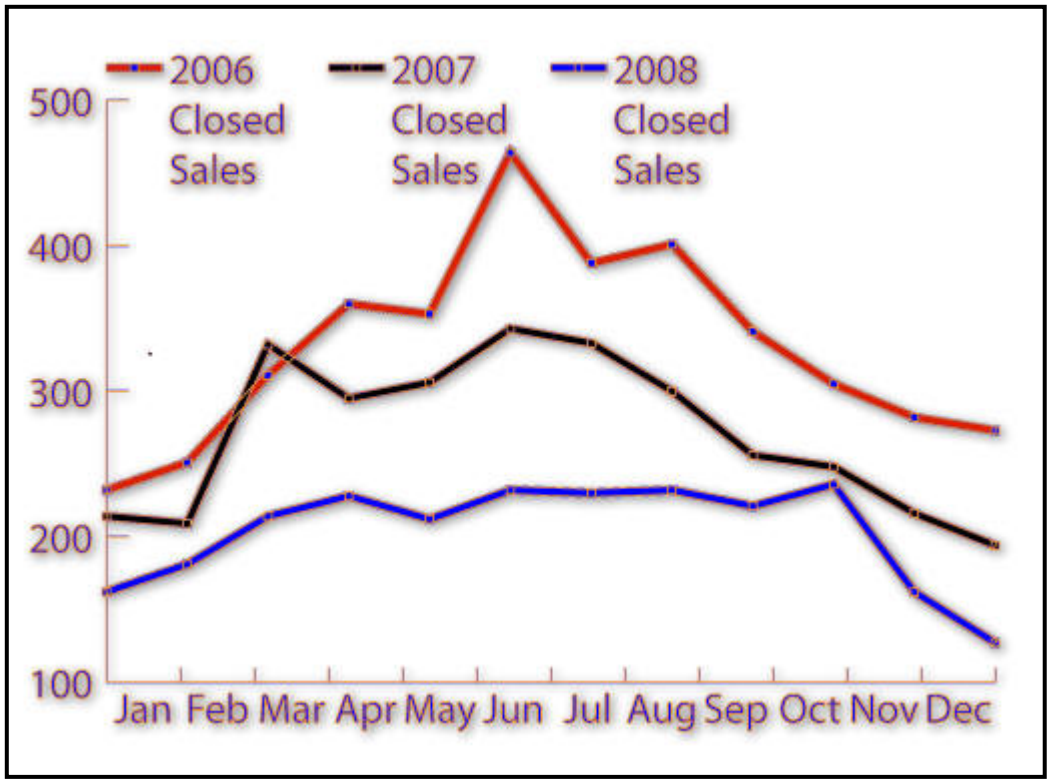


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2006	4.7	5.2	4.5	4.7	4.6	5.0	5.1	4.9	4.5	4.0	4.5	4.3
2007	5.0	4.8	4.3	4.2	4.2	4.5	4.6	4.3	4.2	4.0	4.3	4.2
2008	4.7	5.0	5.2	4.7	5.1	5.9	5.6	5.7	5.2	5.4	5.7	6.1

the previous month's rate of 5.7 percent, but a 1.9 percent increase over the year. The Bremerton-Silverdale unemployment rate was still a whole point below the statewide rate of 7.1 percent.

Housing Market

The housing market in Kitsap County, along with the rest of Washington State and the country as a whole, experienced a downturn as a result of the credit crisis and recessionary forces. According to the most recent Kitsap County Trends Report of August 2008, although Kitsap County has done better than the national average in terms of price, days on market, and total transactions, the median price of single family homes fell almost 8% between August of 2007 and August of 2008, to $271,000. At that point, there was over a twelve months supply of homes in all price ranges except for the very lowest, ($80,000-$159,000). In general, higher priced homes are moving much more slowly than homes in the lower price ranges, and there is significant seller resistance to lowering prices.



Within Kitsap County there is a fairly significant difference in home prices between the northern and southern portions of the county. The average home price in the county in 2008 was $323,835. However, sales on Bainbridge Island, which are more than double the countywide average, tend to skew this significantly. Absent sales on Bainbridge the county average falls to $308,279. Home prices in North Kitsap are usually higher than those in South Kitsap; they averaged $386,906 in 2008. The premium placed upon residential property in North Kitsap results from its convenient location with access to two ferry terminals providing good commuter access to the Seattle-Everett metropolitan corridor. This has

Average House Price Trend Analysis

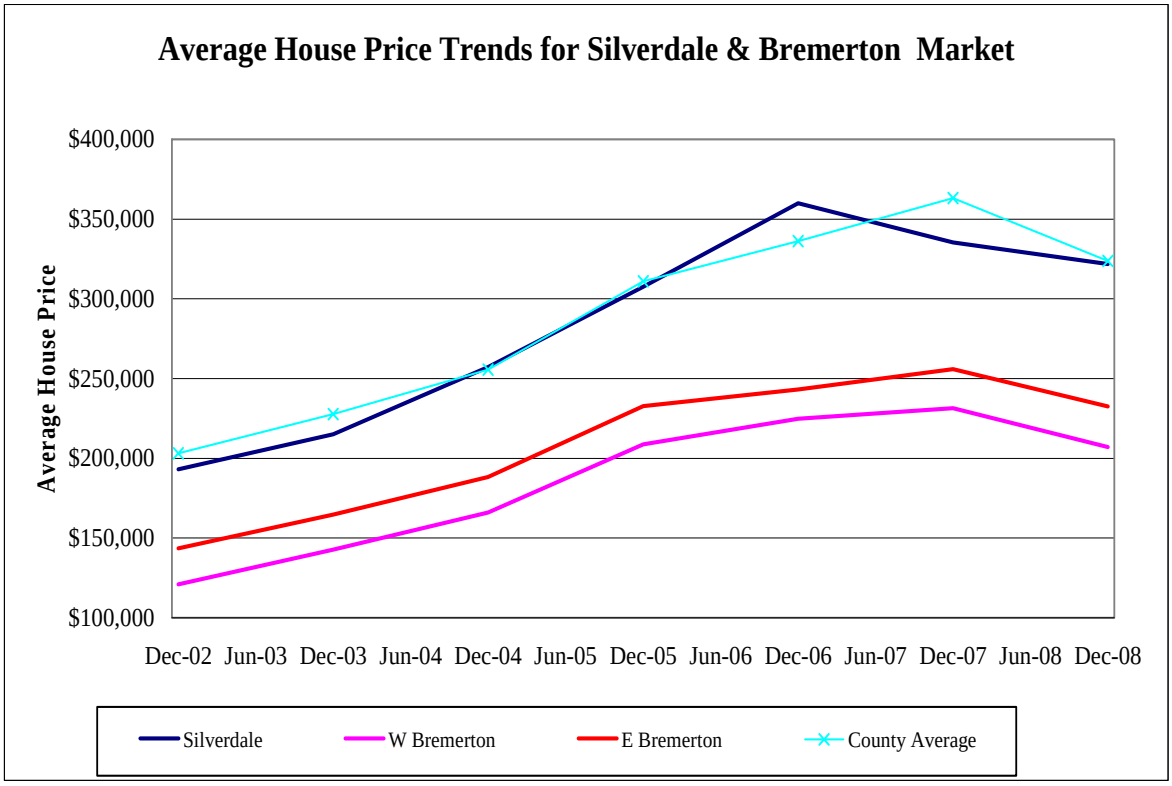
Silverdale and Bremerton Markets

Average House Prices

Area	Name	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
147	Silverdale	$193,237	$215,177	$257,239	$307,631	$359,949	$335,469	$321,799
148	W Bremerton	$120,920	$142,763	$166,108	$208,769	$224,822	$231,471	$207,017
149	E Bremerton	$143,652	$164,760	$188,362	$232,728	$243,235	$255,997	$232,484
	County Average	$203,134	$227,661	$255,662	$310,997	$336,299	$363,192	$323,835

Increases in value

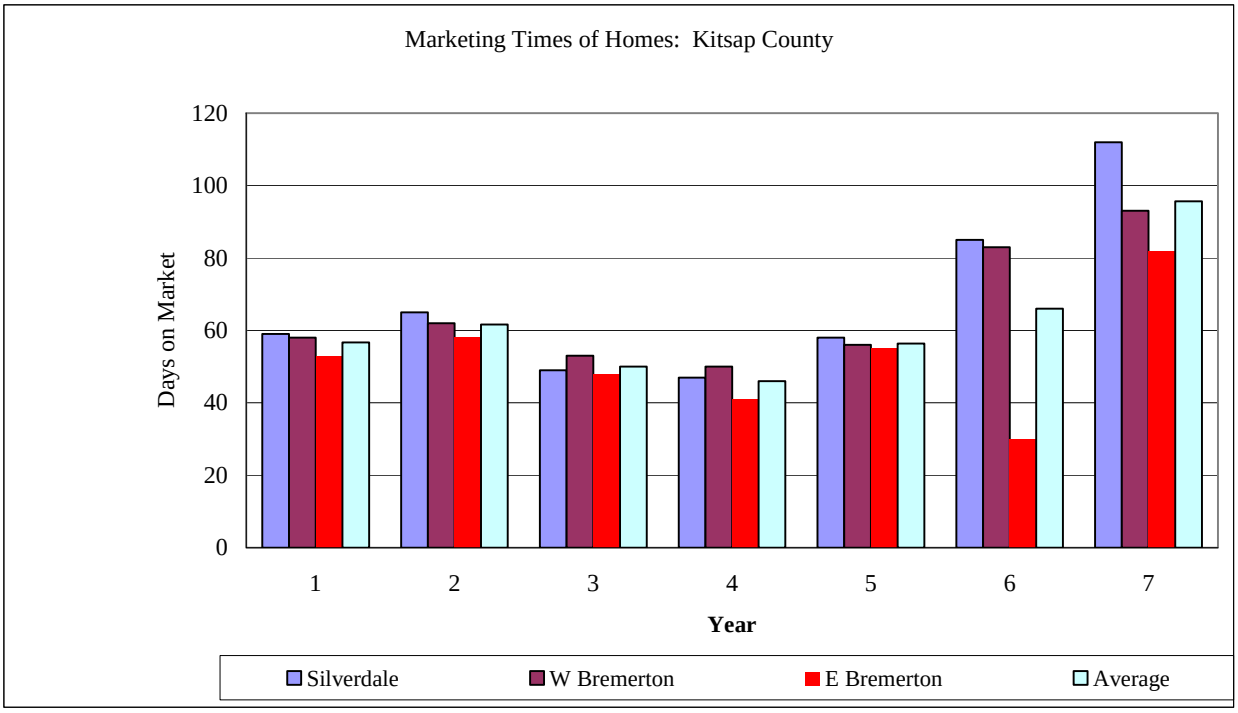
Area	Name	"02-03	"03-04	"04-05	"05-06	"06-07	"07-08	Over 5 years	
147	Silverdale	11.4%	19.5%	19.6%	17.0%	-6.8%	-4.1%	8.9%/yr	or 67% total
148	W Bremerton	18.1%	16.4%	25.7%	7.7%	3.0%	-10.6%	9.4%/yr	or 71% total
149	E Bremerton	14.7%	14.3%	23.6%	4.5%	5.2%	-9.2%	8.3%/yr	or 62% total
	County average	12.1%	12.3%	21.6%	8.1%	8.0%	-10.8%	8.1%/yr	or 59% total



Trend in Required Marketing Time

Silverdale and Bremerton Markets

Average Time on Market	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07	Dec-08
147 Silverdale	59	65	49	47	58	85	112
148 W Bremerton	58	62	53	50	56	83	93
149 E Bremerton	53	58	48	41	55	30	82
Average	57	62	50	46	56	66	96



spurred faster growth and generally supported higher values than in the south county, as is evident on the table. North Kitsap is also the primary beneficiary of spillover growth and value from Bainbridge Island and has been growing faster than the southern part of the county. Homes in the south county, which is the market area of the subject, averaged $281,359 in 2008.

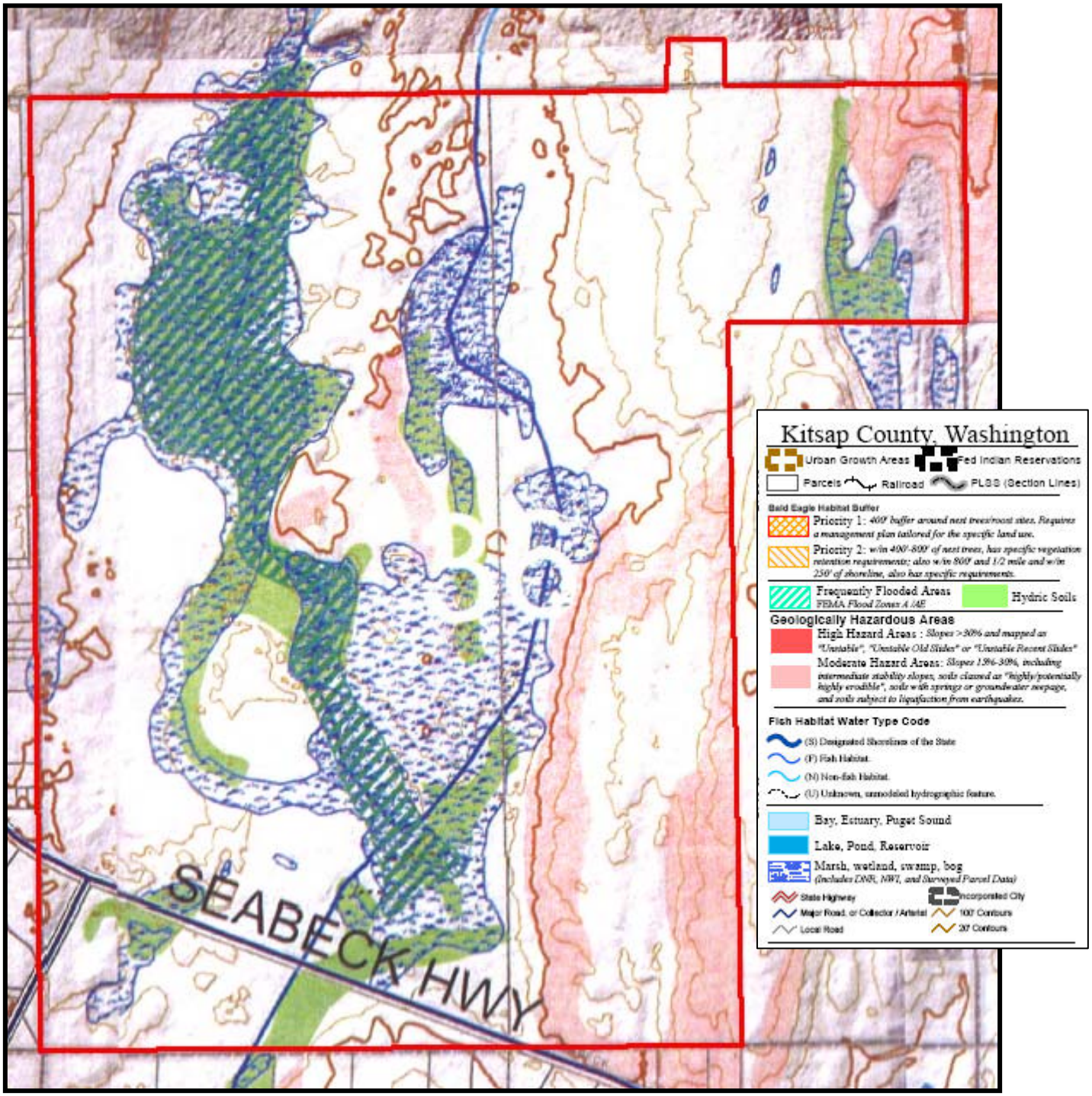
Kitsap County's residential home inventory in January 2009 was 1807 listings, which is only 1% less than in December 2008. Total inventory is down 14% from a year earlier, although that appears to be the result of disappointed sellers pulling their homes off the market rather than an increase in sales volume since the total countywide sales volume dropped 23% from a year earlier. However, there is some indication that the climate for sales is improving as prices continue to fall with the result that bank owned sales are on the rise. It is estimated that the number of distressed residential homes on the market in Kitsap County has increased from 6% to 11% of the active NWMLS listings and from 18% to 27% of the pending NWMLS sales since October 2008. The recent fall in interest rates has made a great difference in affordability for conforming conventional, VA, and FHA buyers. This is good news as it will be

necessary for foreclosed inventory to clear out in order to restore buyers' interest in the rest of the residential market. However, at the current rate of sales activity it will still be some time before the housing market returns to anywhere near equilibrium between buyers and sellers.

Summary and Conclusion

Although Kitsap County is the third most densely populated county in Washington, it nevertheless has large rural and forestland areas. The subject itself is forestland that is situated at the edge of the most populous area in Kitsap County with access to paved county roads. Development of the subject as rural residential lots would have appeal to people who prefer a highly rural lifestyle and still provide them the opportunity to jobs, schools and stores that are located in nearby urban centers. Although the current market for home sales in the subject market is down, over the long term the lower cost of homes and residential land in south Kitsap County compared to more expensive areas in north Kitsap and eastern Puget Sound will provide attractive opportunities for a niche of residential users.

SITE DATA



SITE/SENSITIVE AREAS MAP

SITE DATA

Land Area

The general configuration and layout of the entire subject may be visualized from the Site Map on the previous page. As shown, the overall shape of the property is a rectangle with a smaller square extending from the northeast corner, and an even smaller rectangle extending into the parcel adjacent to the north. Based upon records and maps of the Kitsap County Assessor, as well as the site description provided by DNR, the overall area amounts to approximately 522 acres. This includes 2 large parcels, as well as a five acre portion of an adjacent parcel to the north. It should be noted that this differs slightly from the Kitsap County Assessor's data that estimates the overall area at 525 acres. I have relied upon the DNR estimate; however, the discrepancy is quite small and is not considered to have any material impact upon the value of the subject.

Critical Areas

The critical areas map on the previous page shows two unnamed creeks running through the middle of the property from north to south that converge and flow into Wildcat Creek about a half mile to the south. Wildcat Creek is the largest tributary of the Chico Creek system, which has the highest natural production of chum and coho salmon in East Kitsap County and also produces significant steelhead and cutthroat trout runs. The creeks in this system are important spawning and rearing habitat for these fish. The creeks on the subject are noted as providing fish habitat and therefore would be regulated as critical areas by Kitsap County. Additionally, they flow through an area of extensive wetlands that are also noted on the map.

The Kitsap County Critical Areas Ordinance (CAO) regulates areas impacted wetlands, streams and other environmentally sensitive areas such as steep slopes. Development is typically not permitted within such areas or in associated buffers that may be designated to protect them.

Kitsap County uses the Washington Department of Ecology Wetland Rating System for purposes of establishing wetland uses and buffers. The table below shows the base buffer widths. At the high end is a 200' base buffer that would be associated with a pristine wetland and at the low end is a 30' base buffer that would be associated with a degraded wetland.

Category of Wetland	Base Buffer Width
Category I	200 Feet
Category II	100 Feet
Category III	50 Feet
Category IV	30 Feet

The base buffer widths are then adjusted according to a determination of the anticipated intensity of land use. High intensity uses would include typical commercial, retail and industrial use, residential subdivisions with more than one unit per acre, agriculture and high intensity recreation such as golf. Moderate intensity uses would include single family residential development on one acre or less, open

space/parks and moderate intensity agriculture. Low intensity uses would include forestry, open space/recreation with lot impacts and natural resource preservation.

Depending upon the type of use the base buffer could either increase or decrease. Ultimately a determination would require a wetland delineation and classification by a qualified specialist as well as consideration by the Kitsap County Planning Department in the permitting process. Since no such analysis or permit application has been performed for the subject it is not possible to definitively determine the appropriate wetland buffer.

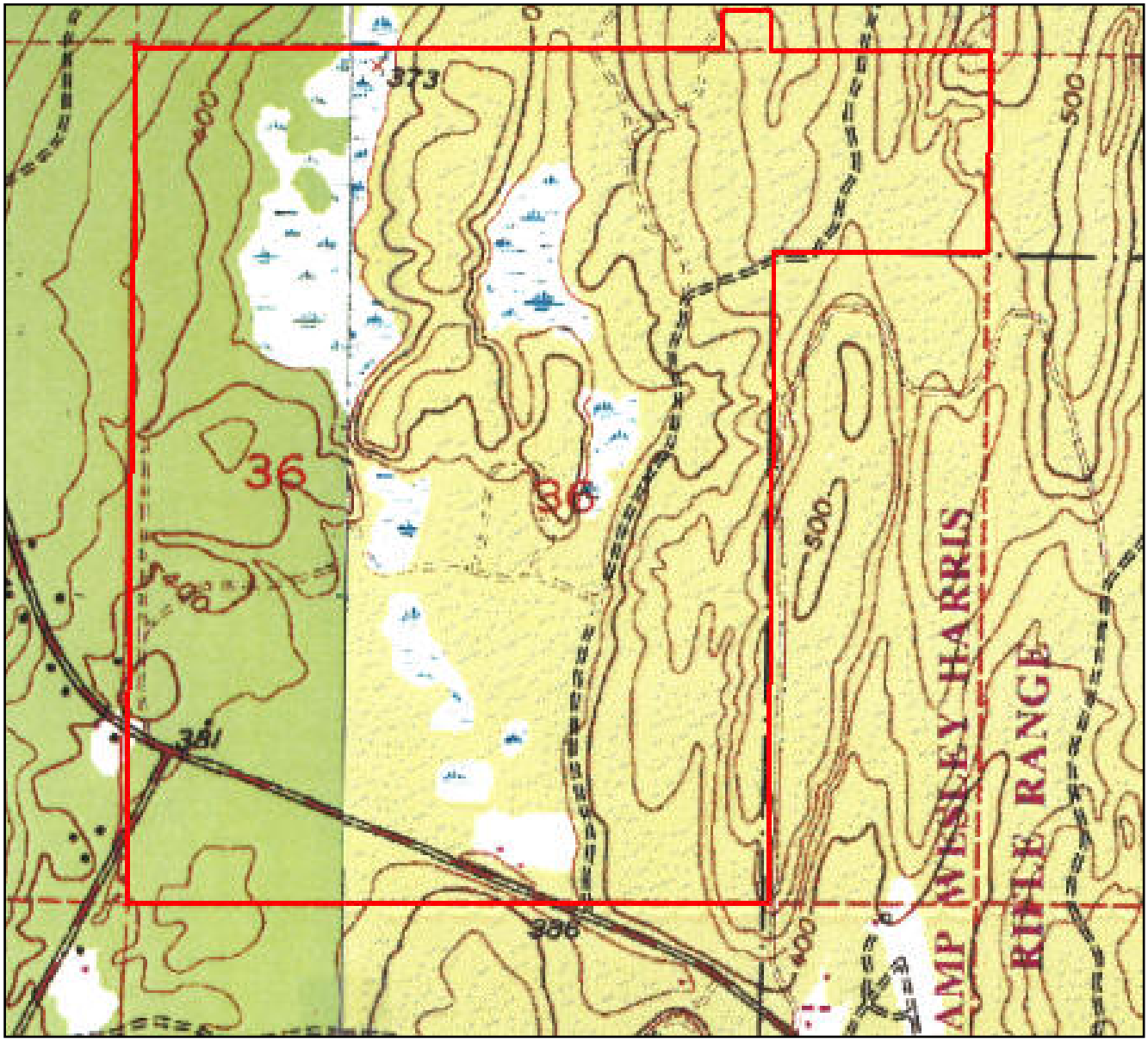
Discussion with Dave Greetham, an environmental review specialist with Kitsap County indicated that most wetland buffers in Kitsap County fall between 50'-110'. Based upon Mr. Greetham's perusal of county critical areas maps and his knowledge of the area, he suggested that this would be a good general estimate for the subject. However, it should be noted that Mr. Greetham did not inspect the property and this is to be considered an informal opinion only. While a wetland buffer of 100' is considered to be a credible estimate for the subject with respect to valuing the property there is no guarantee that this would actually be approved. As has previously been discussed in this report, reliance upon the information at hand is subject to an extraordinary assumption that the concluded critical areas buffers are reasonable.

The existence of a fish bearing creeks on the property requires consideration of buffers that would most likely be 150' buffer with an additional 15' setback from any improvements according to the Critical Areas Ordinance. Thus, the effective buffer would likely be 165'. A further potential buffer requirement would result from areas with slopes of 30% or more that have been mapped as unstable by Kitsap County based upon a geotechnical survey. According to the CAO the minimum buffer requirement for steep slopes is 25' beyond the top of the slope. Moderate slope hazard requires a minium 40' buffer from the top of the slope. Areas of high geologic hazard require a minimum setback equal to the height of the slope plus the greater of one-third of the vertical slope height or 25'.

In applying the buffers to the subject's critical areas it is important to note that they are overlapping rather than cumulative. Thus, for example, where the creek runs through the wetland the buffer would be the greater of the two requirements but not both added together. Analysis of the impact of critical areas upon the potential development of the subject is discussed in greater depth in the highest and best use section of this report.

Topography

The topographic map on the following page provides an indication of the grade of the land extending over the subject. Most of the land is gently rolling terrain at between about 400'-475' above sea level. Although small portions of the subject fall within moderate geologically hazardous areas, these are not likely to present any significant constraints to residential development. The highest elevation on the subject is along the eastern portion of the property and this provides the potential for territorial views to the west that may include partial views of the Olympic Mountains with clearing of trees.



TOPOGRAPHIC MAP

Soils

The subject property is comprised of primarily of Alderwood very gravelly sandy loam that covers most of the moderately sloped terrain. Alderwood soil is commonly utilized for woodland and is well suited to growth of Douglas fir, western hemlock, red cedar, and red alder. The soil is also suited to urban development, recognizing limitations to high-density development owing to the shallow depth to the hardpan, which constrains the use of septic systems in areas of dense population. However, given the rural nature of the subject with very low density zoning, this is not seen as a constraint upon the highest and best use of the property.

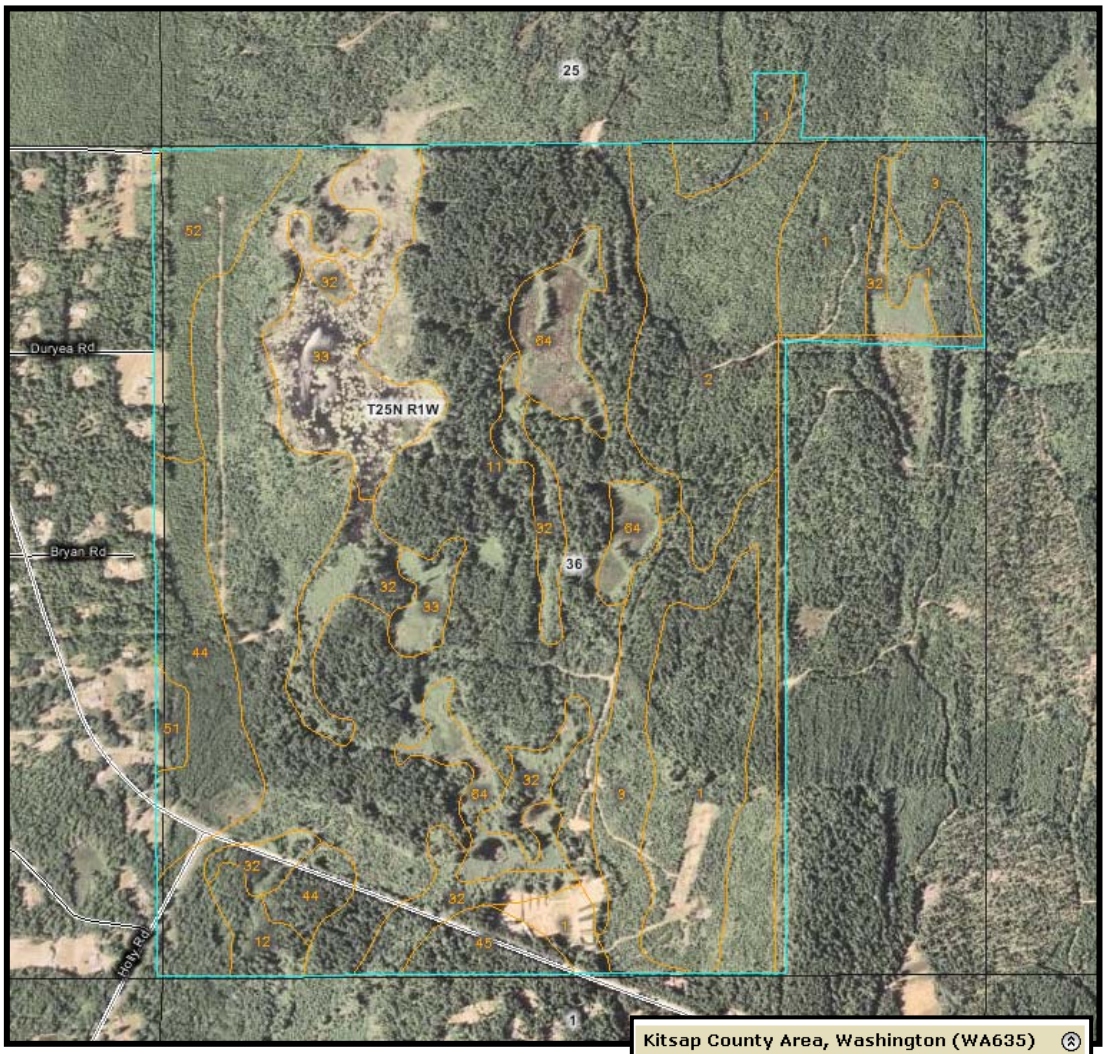
Soils on the more steeply sloped areas consist of dystric xerorthents. These deep, moderately well drained soils are typically on the sidewalls of rivers and streams, as is the case on the subject. Vegetation includes both conifers and deciduous hardwoods. Erosion of these soils can be excessive when developed, and therefore they are typically used to support watersheds, wildlife habitat and forest.

Streets and Access

The subject has road access along a portion of Sea beck Highway that cuts across the southwestern area. (There is also a very short section of Holly Road on the subject where it intersects with the Seabeck Highway.) The area to the north of the highway is accessed through a gate near the southwest corner of the property and via the gated entrance to the Kitsap Rifle and Revolver Club in the south central area along the highway. The small triangular area in the southwest portion of the property has frontage all along the highway. The Seabeck Highway is a paved two lane arterial that links the subject to State Route 3, the premier highway running through the Kitsap Peninsula, about 5 miles to the southeast of the subject. State Route 3 provides good access to Silverdale, Bremerton, Port Orchards, as well as points beyond to the north and south.

Regarding access within the property, the subject includes gravel logging roads accessible from the gate on the Seabeck Highway near its intersection with Holly Road. With respect to the conditions of the interior roads I have been provided information pertinent to the property's Road Maintenance and Abandonment Plan (RMAP)

Washington State forest practices regulations include the road maintenance and abandonment program as a means to prevent sediment and hydrology-related impacts to public resources such as fish and fish habitat. Forest practices rules require large forest landowners (as defined in WAC 222-16-010 under "Forest Landowner" and in Section 3 of the Forest Practices Board Manual) to develop and implement a RMAP for roads within their ownership. In an effort to minimize the economic hardship on small forest landowners, the 2003 Washington Legislature passed an RMAP bill (HB1095) that modified the definition of "small forest landowner" and clarified how the RMAP requirements applied to small forest landowners. Small forest landowners have the option to submit a "checklist" RMAP with each forest practices application or notification, rather than to provide a plan for their entire ownership. DNR, in consultation with WDFW, will submit a report to the Board in 2008 and 2013 on the effectiveness of the checklist RMAP.



Kitsap County Area, Washington (WA635)

Map Unit Symbol	Map Unit Name	Acres in AOI	Percent of AOI
1	Alderwood very gravelly sandy loam, 0 to 6 percent slopes	64.8	12.3%
2	Alderwood very gravelly sandy loam, 6 to 15 percent slopes	47.6	9.0%
3	Alderwood very gravelly sandy loam, 15 to 30 percent slopes	45.6	8.6%
11	Grove very gravelly sandy loam, 0 to 3 percent slopes	198.9	37.7%
12	Grove very gravelly sandy loam, 3 to 15 percent slopes	5.6	1.1%
32	McKenna gravelly loam	40.5	7.7%
33	Mukilteo peat	33.5	6.3%
44	Ragnar fine sandy loam, 0 to 6 percent slopes	29.1	5.5%
45	Ragnar fine sandy loam, 6 to 15 percent slopes	7.3	1.4%
51	Shelton very gravelly sandy loam, 0 to 6 percent slopes	2.8	0.5%
52	Shelton very gravelly sandy loam, 6 to 15 percent slopes	20.1	3.8%
64	Water	24.9	4.7%
Subtotals for Soil Survey Area		**520.7**	**98.7%**
Totals for Area of Interest		**527.3**	**100.0%**

SOILS MAP

Large forest landowners were required, by July 1, 2006, to have all roads within their ownership covered under a DNR-approved RMAP (WAC 222-24-051) and to bring all roads into compliance with forest practices standards by July 1, 2016. This includes all roads that were constructed or used for forest practices after 1974. An inventory and assessment of orphaned roads (i.e., forest roads and railroad grades not used for forest practices since 1974) must also be included in the RMAP. Forest practices rules allow large forest landowners to distribute the planning workload over a five-year period by submitting annual plans to DNR that cover 20 percent of their roads or ownership. In areas where watershed analysis has been conducted and approved, large forest landowners may elect to follow the watershed administrative unit-road maintenance plan rather than developing an RMAP under WAC 222-24-051.

The following RMAP information pertaining to the subject was provided by Susan Seaberg of DNR.

Forest Practice water type shows two F crossings (though one is definitely in the wrong location), having not been out there in years and the Fish Passage Assessment team (back in 2000) did not inventory this area we will have to do some guessing.

- One of the two crossings I place a high likelihood of potential fish passage needed. The current structure is a 24" pipe that has accumulated sediment. Since I do not have the data from the Fish Passage Team, I can't determine what an estimated size for a fish structure would be and therefore I can't give you any costing.

- The other crossing is less likely to be a fish passage need but is currently an undersized 15" pipe.

Both of these structures could be removed with some minor road/trail building to bypass these locations and avoid the cost of upgrading. The bypass will route folks through the property that DNR is proposing to reconvey (and includes one or two potential fish passage upgrade along this route in the proposed reconveyance property). Removal of these structures + some road, depending on level of standard desired, could be as low $2000-$3000.

- There are a few other minor drainage structure replacements needed and some additional cross drains (road segment shown in green hatch on the map). Three undersized pipes should be replaced with minimum 24" structures with five to six 18" cross drains (assume 30' length for each pipe).

Based upon the information provided it appears that there are no significant road maintenance issues associated with the property. With regard to any costs to cross the fish bearing streams it is important to note that given the long frontage with the Seabeck Highway interior roads could conceivably be constructed that did not require such crossings (as has been drawn on the subdivision scenario map on page 111).

In general, the subject is considered to have very good access to paved public roads and highways that would be more typical of a rural residential neighborhood than a large tract of forestland. Commute times to Silverdale, Port Orchard and Bremerton would be around half an hour to forty-five minutes, which is considered to be well within the norm for a rural commuter.

With regard to the subject's interior roads, these are private roads outside the county's jurisdiction and there is no specific standard for construction of roads for such use. The existing roads are suitable for logging trucks; however, potential residential users would have the expectation of having reasonable

access to their property. This could be accomplished with the construction of gravel roads that were 20' wide to accommodate two lanes of local traffic.

A further issue with respect to roads is how they would be maintained after development of the subject for residential use. It is typical for developers to build roads at their expense and then dedicate them to the local counties, which would become responsible for future maintenance. However, discussion with the Kitsap County Department of Public Works indicates that this jurisdiction would only take over roads developed on the subject if they were constructed to county standards that require paved roads with 60' right of way that area engineered with adequate grade and ditches for drainage. Given the very low development density potential of the subject this would be prohibitively expensive. As a result, the subject's interior roads would almost certainly be gravel and constructed at the expense of the developer but maintained through ownership agreements by the eventual home owners.

Utilities

The issue of utilities is very similar to roads in that most users of rural residential property require water, septic, electrical power and phone service at a standard that allows them to engage in typical residential activities. Where this is not possible the potential niche of users for such land becomes much smaller or is relegated to recreational use. Water supplies to the subject's lots would be delivered from private or shared wells, which is typical in rural areas. Water rights to new developments in Kitsap County may be restricted by the state Department of Ecology. However, it is very unusual for the Department of Ecology to actually deny water rights to rural residential areas such as the subject.

Waste disposal would be handled by community drain fields or septic systems. This is also typical for rural property and it is unlikely that such a requirement would pose any barrier to the development of these parcels. While septic fields may not be situated in critical areas or buffers, given that the minimum allowable lot size is 20 acres this would likely provide ample area suitable for septic systems.

Provision of electricity and phone service is obviously more difficult in areas where transmission lines are not nearby and need to be extended. In Kitsap County a franchise for such development has been granted to Puget Sound Energy. Discussion with engineers from Puget Sound Energy provided information that allows for a reasonable estimate of the costs to extend electrical power and phone service to the subject. (Phone lines would be placed in the electrical trenches.) This is considered an estimate only since the actual cost would depend upon the type of terrain being crossed and the distances covered.

The cost of electrical cable was estimated at $4.25/lf. Phone cable would add about $2.50/lf. The cost of trenching was estimated at $2-$4/af. The cost of vaults was estimated at about $10,000/vault. A vault would be required approximately every 800 linear feet and also coincident with the driveway to each residence. Each residence would also require a transformer at an estimated cost of $3,500. For purposes of estimated the cost of providing power and phone service I have estimated that each driveway for 20-acre lots would be about 430' apart (based upon the subdivision scenario discussed in greater depth in the valuation section of this report). I have assumed an average trenching cost of $3/lf. The resulting cost per 20-acre lot is detailed below and amounts to approximately $18,000.

Item	Unit	Unit Cost	Cost
Power Cable	430 lf	$4.25	$1,828
Phone Cable	430 lf	$2.50	$1,075
Trenching	430 lf	$3.00	$1,290
Vault	1 per 20 ac	$10,000	$10,000
Transformer	1 per 20 ac	$3,500	$3,500
TOTAL COST PER 20 ACRE LOT			**$17,693**

Where provision of electrical power from an established grid is not economically feasible, it is appropriate to consider an alternate source such as an on-site generator. Small gas powered generators capable of providing electricity for minimal use (typically one or two appliances at a time) can be obtained for several hundred dollars and run on several gallons of gas daily. However, the means to power the electrical needs of a single family residence requires much heavier equipment. A diesel generator capable of providing adequate power to a large modern home would cost about $20,000 and burn several gallons of fuel an hour. This cost is not considered to be more economically feasible than developing infrastructure based upon the cost estimate above.

Minerals

The following data pertaining to minerals on the subject was provided by Raymond Lasmanis, who is a licensed geologist. Mr. Lasmanis noted that "none means no sand/gravel or rock potential and no subsurface oil/gas, coal, or metal potential."

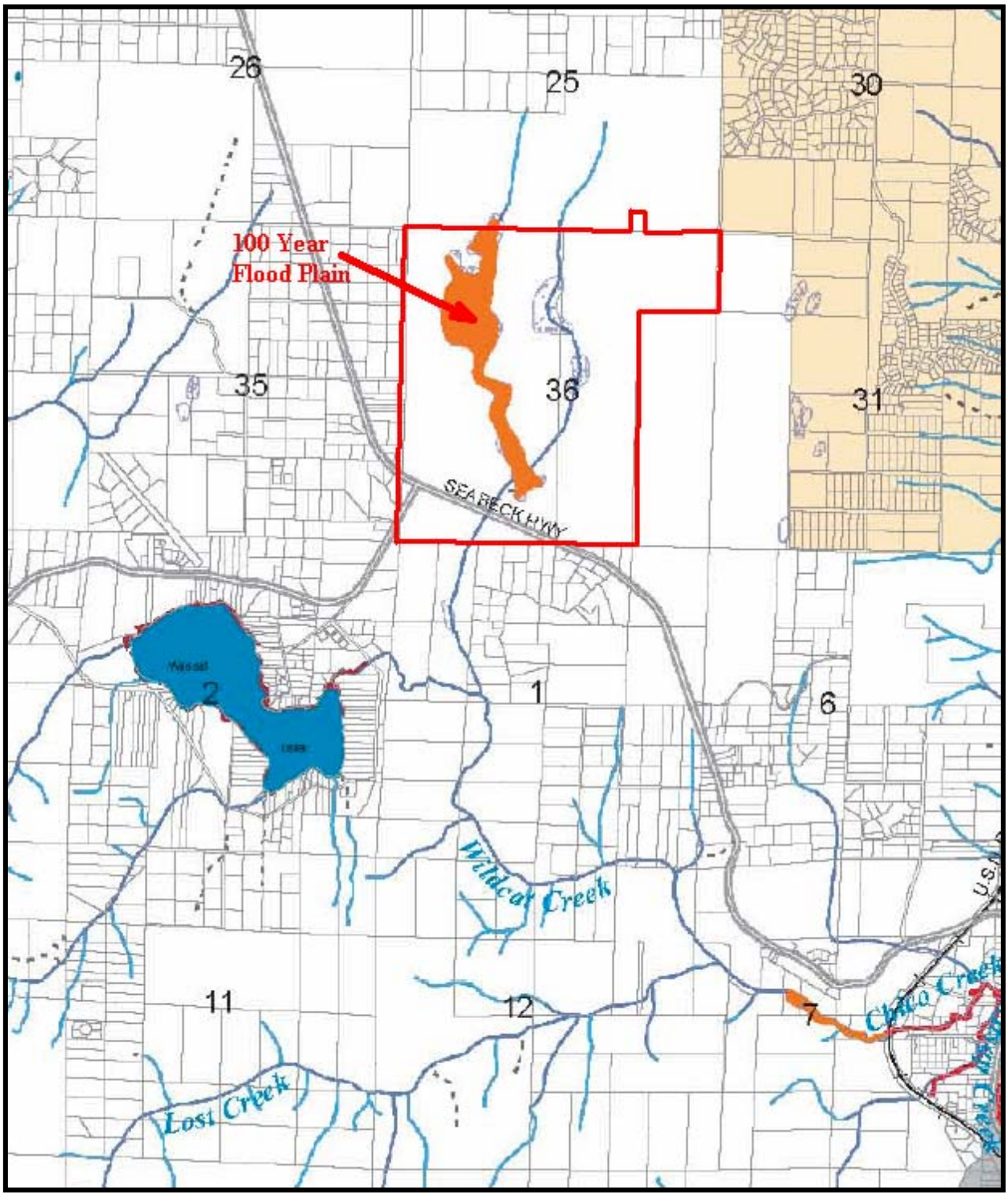
Parcel No.	Approx. Acres	**MINERAL POTENTIAL**	Approximate Subdivision	Section	Township	Range
S-1	5	**None**	E1/2SE1/4SW1/4SE1/4	25	25	01W
S-2	517	**None**	NE1/4NE1/4 and W1/2E1/2 and W1/2	36	25	01W

Flood Plain

The FEMA flood map on the following page shows an area of the subject that falls within the hundred year flood plain. While it may be permissible to develop improvements within the hundred year flood plain, in this instance the area overlaps wetlands in which no development would be permitted (as is shown on the critical areas map on page 26).

Hazardous Materials

I am aware that a portion of the subject has been in use as a firing range and that there is material in this area that may be hazardous. I am not aware of any hazardous materials on other portions of the subject. The State's existing lease with the Kitsap Rifle and Gun Club requires the lessee to return the leased area in a clean condition upon termination of the lease. With this in mind, it is an extraordinary assumption of this report that all areas of the subject are either free of hazardous materials or would be cleaned of all such materials in the event of a sale of the property. However**, RE◆SOLVE** provides no warranty to that effect.



FEMA FLOOD MAP

Zoning

The subject's 522 acres are comprised of 2 parcels plus a portion of a third parcel adjoining to the north. These are all designated Rural Wooded (RW) in the Kitsap County zoning code. General specifications associated with this zone are as follows:

Rural Wooded Zone (RW)

Minimum Lot Size	20 Acres
Setbacks	50' Front, 20' Side/Rear
Building Height	35'
Primary Permitted Uses	Preservation of forest use while allowing for some rural residential use

The Kitsap County Zoning Ordinance describes the purpose of this zone as follows:

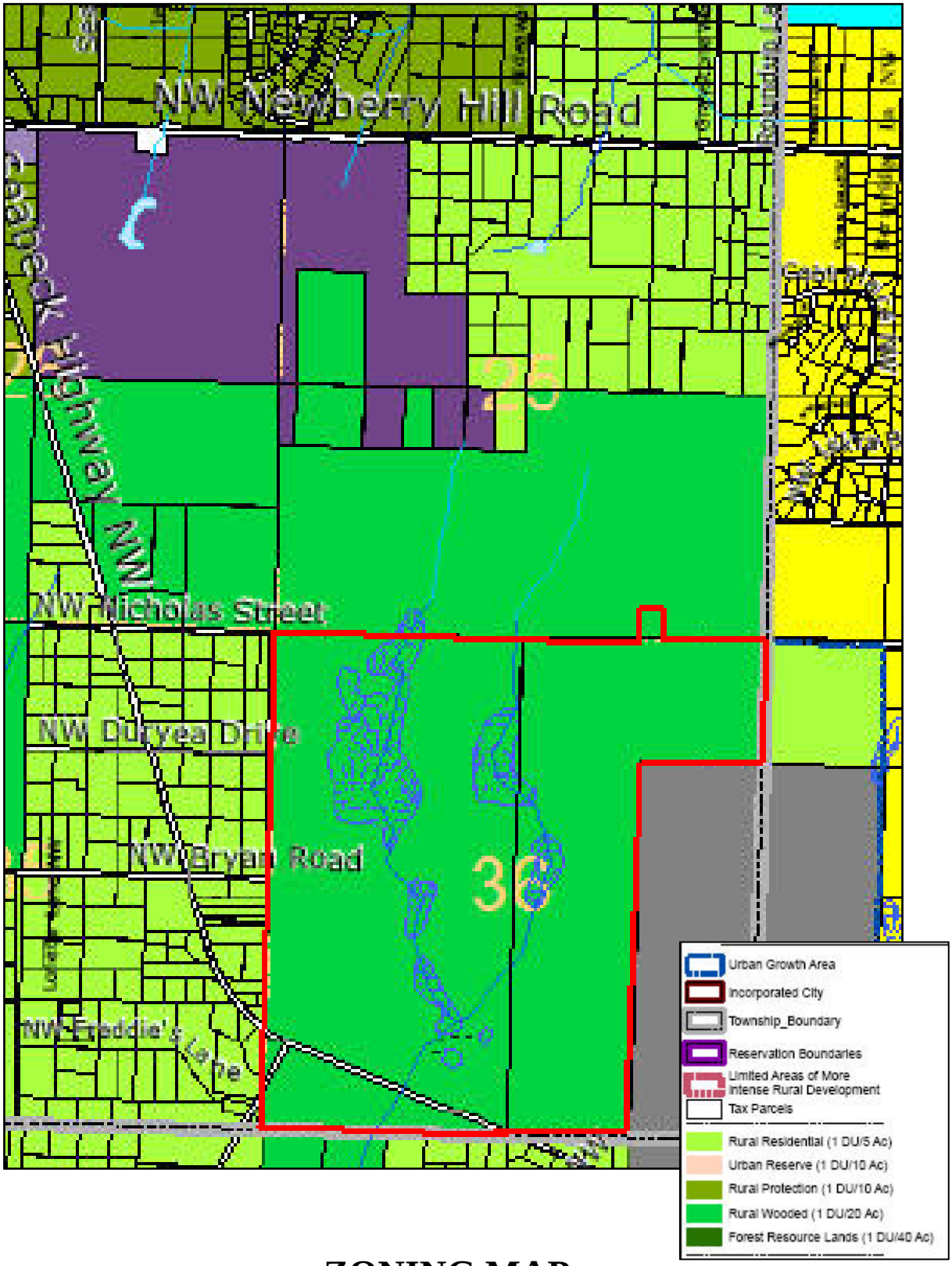
> *This zone is intended encourage the preservation of forest uses, retain an area's rural character and conserve the natural resources while providing for some rural residential use. This zone is further intended to discourage activities and facilities that can be considered detrimental to the maintenance of timber production.*

The tenor of this definition suggests that rural residential development is secondary to timber production.

The Kitsap County zoning designation Rural Wooded (RW) has replaced the County's designation of Interim Rural Forest (IRF). The base density allowed within the RW zone is one dwelling unit per twenty acres. However, additional density may be allowed based upon the designation of a portion of the development as "wooded reserve" and a portion of the development acreage as "permanent open space" under one of four development options outlined in the County's Municipal Code. Depending upon the option selected, the development density could increase to as much as one dwelling unit per five acres.

The rationale behind the zoning change is that the "interim" status of the IRF zone indicates that the county never intended the present requirements of this zone to prevail into the future. Clearly, the possibility of greater development density for than one dwelling unit per 20 acres allowed under the IRF zone has a potential impact upon the valuation of the subject, since it is a basic tenet of real estate development that the ability of any given parcel to withstand a more intensive use will tend to increase its value. In areas of Kitsap County that are not located conveniently to urban areas, high volume traffic corridors or ferries, the potential to realize higher development density will be undermined by the lack of market demand. By contrast, the subject is located within commuting distance of Belfair, Port Orchard, Bremerton and Silverdale.

These factors suggest that the subject is an excellent candidate to benefit from the change to the RW zone. However, as of the date of this appraisal the necessary amendment to the Kitsap County Comprehensive Plan had not been approved by county commissioners in order to enact these zoning changes. According


NW Newberry Hill Road
Highway NW
NW Nicholas Street
NW Duryea Drive
NW Bryan Road
NW Freddie's Lane
25
36
Urban Growth Area
Incorporated City
Township_Boundary
Reservation Boundaries
Limited Areas of More Intense Rural Development
Tax Parcels
Rural Residential (1 DU/5 Ac)
Urban Reserve (1 DU/10 Ac)
Rural Protection (1 DU/10 Ac)
Rural Wooded (1 DU/20 Ac)
Forest Resource Lands (1 DU/40 Ac)

ZONING MAP

to James Weaver of the Kitsap County Department of Community Development the Growth Management Board made a determination in October 2007 that the RW zoning regulation is invalid. One reason is that the provision that open space could revert to residential use after 40 years is not consistent with the Growth Management Act. The other reason is that the Board does not want to encourage residential clusters developed in close proximity to land used for forest practices. As of March 2008 this issue has not been settled, and the Incentive Program that would enable more intensive development under the RW designation is under a moratorium. In addition, according to Scott Dina of the Planning Department, this moratorium is likely to be extended as legislative language has not yet been agreed upon to address the concerns of Commissioners, landowners, and the public.

Based upon these factors it is not appropriate to ascribe any additional benefit from the RW zone relative to the previous IRF zone. Given the uncertainty associated with the likelihood and timing of a zoning change any potential upside to the subject from such a zoning change must be tempered by the risk that finalizing such a change may be waylaid or overturned in the appeals/permitting process. Further, there does not appear to be any market recognition that the RW zone will actually result in a development density greater than one unit per 20 acres.

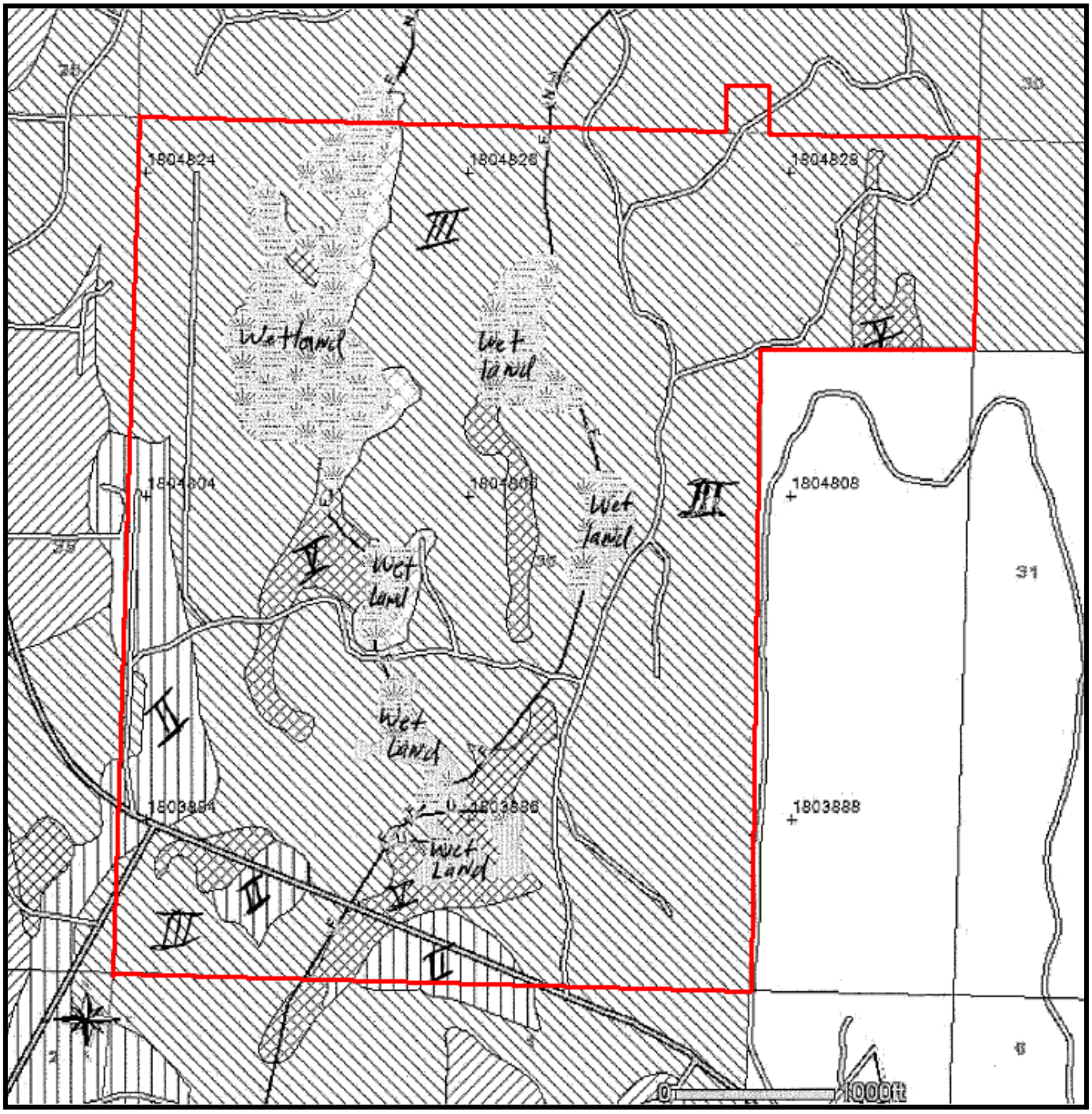
An additional zoning regulation that has particular relevance to the subject falls under the "Large Lot Subdivision" process in the Kitsap County Code. Regarding land parcels that are at least 20 acres in size and outside all urban growth boundaries, Kitsap County allows entitlement by simply providing a recorded survey of the property. Thus, any 20 acre parcel can effectively be platted through this process rather than undergoing the significantly more onerous and risky subdivision process. As is discussed in greater depth in the highest and best use and valuation sections of this report, the subject is a good candidate for utilization of this process.

Merchantable Timber/Site Class Productivity Index

Vegetation on the subject areas includes heavy timber cover that is primarily Douglas fir. The firm of S.A. Newman has provided a timber appraisal of the subject as of March 10th, 2009 (that is considered to be an addendum of this report but has been provided under separate cover owing to its size). It was noted that "the largest merchantable timber type is generally well stocked natural origin 110+ year old Douglas fir stands with less than 30% other species intermixed. This parcel also supports moderate to well stocked 14-20 year old Douglas fir plantations, and with some 35-45 year old Douglas fir stands interspersed."

The S.A. Newman update stipulates timber values for both a Class III and Class IV-G harvest. A Class III harvest allows for clear cutting of the subject but would also result in a 6-year moratorium on residential development, whereas a Class IV-G harvest allows for the immediate conversion of the land to residential use but requires selective cutting that would typically leave 40%-60% of the trees standing. The timber values derived by S.A. Newman are noted below.

No Land Use Conversion/Class III		Land Use Conversion Class IV-General
Merchantable Timber	Premerchantable Timber	Merchantable Timber Only
$1,258,000	$91,000	$696,000



SITE CLASS INDEX MAP

522 Acres: 5% Type II, 5% Type IV, 20% Wetlands/Creeks, 70% Type III

In addition to the value of the existing trees on a property, the value of forestland is also strongly influenced by the ability of the property to grow merchantable timber. The site class index is a measure of forestland productivity that considers such factors as soils conditions, topography, elevation and rainfall. In western Washington the index is based upon a 50 year growing cycle with Class I growing trees to at least 137', Class II growing trees to 119'-136', Class III growing trees to 97'-118', Class IV growing trees to 76-'-96' and class V growing trees from 1'-75'. On the previous page is a Washington State DNR Forest Practices Site Class index map for the entire subject. Site class productivity is an important element of comparison between the subject and sales comparables, and this issue is addressed in greater depth in the highest and best use and valuation sections of this report.

Title Report/Easements

I have been provided title information for the subject by the property owner that is included in the Addenda of this report. This was in the form of individual documents rather than an actual report from a title company. The various documents are summarized as follows:

- An easement over 5.74 acres recorded in December 1929 in favor of Kitsap County for purposes of constructing a public road.

- The conveyance of 6,180 acres that included a portion of the subject from Kitsap County to the Washington State Forest Board in October 1940.

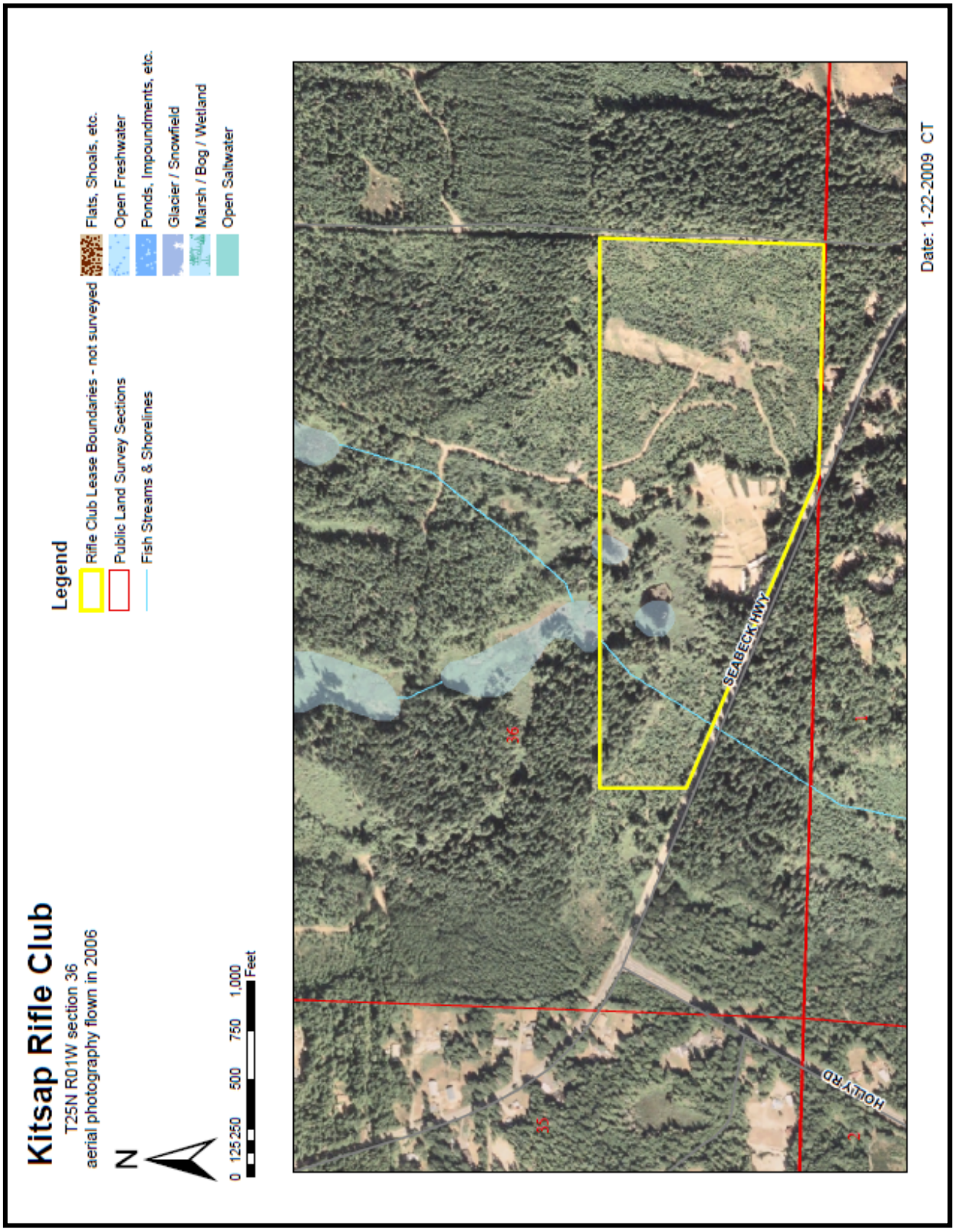
- A water rights claim in favor of the Washington State Department of Natural Resources dated April 1941.

- The conveyance of 2,996 acres that included a portion of the subject from Kitsap County to the Washington State Forest Board in January 1944.

- The conveyance of a 5 acre portion of the subject from Steven C. Wilson to the State of Washington in March 1982.

- An access easement over the subject granted by the State of Washington in favor of Ernest F. Howerton. Perusal of this document as well as discussion with Daniel Eide, a title specialist with the DNR, indicates that this easement affords the grantee access over the subject land from the Seabeck Highway to Section 25 where the roughly 10 acre beneficiary property is located. The intent of the easement appears to be for purposes of providing the lessee with access to transport logs or cut ferns or boughs. The easement runs with the land. In Mr. Eide's opinion this is a somewhat limited entitlement of access that would not result in significant traffic over the subject. With this in mind, it appears that the easement would not have any significant negative impact on the subject's highest and best use.

To the best of my knowledge the entitlements noted above would be considered typical for property such as the subject and are not considered to be constraining upon the subject's highest and best use. Further, I was not provided with any documentation regarding moratoria on land use restrictions subsequent to



KITSAP RIFLE CLUB LEASE AREA

timber harvests and therefore assume that none are currently impacting the property. These are underlying assumptions that affect the value conclusions stated in this report.

Kitsap Rifle and Revolver Lease/Improvements

There is a lease over a portion of the subject between the State of Washington as lessor and the Kitsap Rifle and Revolver Club as lessee. The area includes 8 acres containing the lessee's improvements, roads, parking areas, open shooting range, targets and associated infrastructure. An additional 64.41 acres of timberlands, wetlands and resource lands are passively used by the lessee to provide buffer and safety zones for lessee's shooting range. The total 72.41 acres lease area is depicted on the photograph on the previous page.

The lease commenced in March of 2003 and has a termination date of February 27, 2018. This is a net lease with a current rate of $7,200 per year, although there is a scheduled increase that has not been applied. As is discussed in greater depth in the highest and best use section of this report the lease does not provide the maximally productive economic return to this portion of the subject. However, it should be noted that section 4.03 of the lease stipulates the following caveat:

> *State reserves the right to terminate this agreement upon sixty (60) days written notice in the event the State includes the premises in a plan for higher and better use, land exchange or sale.*

The complete lease agreement has been included in the addenda to this report. Of particular note is that section 8.02(a) requires the lessee to remove all "deleterious material" at the termination of the lease or the State will do so at the lessee's expense. This effectively requires the lessee to clean the site of any material impacts that would undermine the highest and best use of the property resulting from its use as a firing range.

Wesley-Harris Sale

There is a sale agreement between the Washington State Department of Natural Resources as seller and Bob Smith as buyer in an area known as the Wesley-Harris property that encompasses 840 acres that includes the entire subject. The terms of the sale entitle the buyer to harvest salal and huckleberry plants off the prescribed sale area from January 12, 2009 through December 31, 2009. The sale document does not allow for any extensions to the harvest period. The purchase price for the right to harvest these products for this time period was $1,680. It should also be noted that the terms of the transaction allows the State to cancel the sale agreement with a minimum of 7 days notice to the purchaser should the parcel be sold or exchanged during the authorized operating period. Given the minimal impact of use under this agreement as well as the right of DNR to terminate it, this sale agreement is not considered to impose any constraint upon the highest and best use of the subject. The sale agreement is included in the addenda to this report.

Real Estate Taxes and Assessments

Washington State has a taxation law calling for assessments at 100% of market value. However, the subject is exempt from such tax as it is under the ownership of a governmental agency.

Parcel #	2009 Assessed Value	2009 Total Taxes
362501-1-001-1003	$1,853,690	$0
362501-2-001-1001	$1,755,540	$0
252502-3-011-1000 5-Acre Portion	$49,550	$0
TOTAL	$3,658,780	$0

As shown above the assessed value of the subject is extremely low owing to the fact that the property is held as designated forestland. According to the Kitsap County Assessor's office in the event the subject were to be sold to a private individual who removed the property from that status compensating back taxes would be due for up to the preceding ten years. This would be the case even though a governmental agency has owned the property and no taxes have been paid for the past five years. The subject is zoned at a density of only one unit per 20 acres. On a parcel of such size the county would allow one acre to be removed from forestland status in order to support a residence and the remaining nineteen acres could remain in forestland status. In this event the taxes due would be calculated as follows:

$10,000/ac	Current Market Value
-$150/ac	Timber Value
$9,850/ac	Value Per Acre Taxed
x	
0.0100985	Current Levy Rate
$99.47/ac	
10 yrs	
$995/ac	Total Taxes Due Per Lot
26	Developable Lots
$25,862.26	**Total Compensating Tax Due**

HIGHEST & BEST USE

HIGHEST AND BEST USE

"Highest & Best Use" is defined by The Appraisal Institute 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 four criteria the highest and best use must meet are: legal permissibility, physical possibility, financial feasibility and maximum profitability."*

Source: The Dictionary of Real Estate Appraisal, Third Edition, Copyright 1993, published by the Appraisal Institute.

The highest and best use analysis provides the foundation for a value conclusion by identifying the specific market position of a subject and thereby specifying appropriate market comparisons for it, as well as the relevant approaches to value. It is governed by consideration of the property's legal, physical and economic potential. If the property is improved the process requires separate analysis of the land as though vacant and the land as improved. This provides the basis for a conclusion as to whether the improvements adequately contribute to overall value as to continue to be the preferred use, or whether an alternate use would better support the land value. In this case the subject has improvements associated with the lease of approximately 72 acres of the total area.

Larger Parcel

Another consideration in highest and best use pertains to the concept of the larger parcel. Although this is typically applied in valuations involving partial condemnation through the power of eminent domain; it may also be useful in the appraisal of any property. The larger parcel is defined as that portion of a property that has unity of ownership, contiguity and unity of use.

The map on page 16 shows that the Department of Natural Resources owns property contiguous to the north of the subject that has a similar use as forestland. Thus, it is necessary to consider whether the total DNR land holding constitutes the larger parcel. I am aware that the DNR manages the subject and the neighboring land as separate management units. Further, the instructions provided by the joint clients (DNR and Kitsap County) have directed me to consider the 522 area subject area described in this appraisal as a discrete economic unit for purposes of the potential exchange of land with Kitsap County. With this in mind, I have concluded that the subject constitutes it own larger parcel.

Highest and Best Use as if Vacant

The highest and best use of the subject is governed first by what is legally feasible. As discussed in the zoning section of this report, legally permissible uses include single family residential development at a density of one dwelling unit per 20 acres, as well as forestland management.

The next consideration is physical feasibility. Although the subject property has long been utilized for timber management, it is within easy commuting distance Silverdale, Bremerton and Port Orchard. The property is proximate to several paved county roads and there are good interior gravel forest roads extending through much of the property. Most of the property is at an elevation of around 500'and therefore year round access is available without the threat of snow. Finally, although the property does

have some critical areas there are nevertheless substantial portions that are outside these areas. The overall physical characteristics suggest that the subject has good potential for both forestland management and rural residential development.

With regard to economic feasibility, the subject has an integrated historic use as forestland that continues to be a viable use. The other potential use of the land for residential purposes also appears to be economically viable. This conclusion is based upon research performed by the appraiser that is discussed below indicating that there is a market for 20 acre residential lots in southern Kitsap County.

With regard to the question of which use constitutes the maximally productive use of the subject, both forest practices and residential development need to be considered as potential highest and best uses of the land. With this in mind, a significant consideration is to weigh the relative economic benefits of timber harvest on the land versus any additional value that might result from utilization of the land for residential development.

Timber harvests in Washington State are guided by the Forest Practices Act, which allows individual counties in the state to impose particular conditions on harvesting timber. This regulation notes that conversion to a use other than commercial forest operations within six years after approval of the forest practices application shall constitute a violation of the Act and result in a moratorium that authorizes the prevailing jurisdiction (in this case Kitsap County) to deny all development permits, including building permit and subdivision applications during the six year moratorium period.

However, state law allows the county to provide a process by which the moratorium can be waived or removed if the property owner wishes to maintain the option of conversion to a use other than commercial timber growing within the six year period. This entails the permitting of a Conversion Option Harvest Plan, which is typically an agreement between the landowner and the county that a harvest plan will be adopted that is significantly less intensive than a clear-cut.

A typical highest and best use analysis for land with potential use for both timber and residential purposes begins with a timber cruise to derive the merchantable timber value on the property. An appropriate determination would then be made as to whether the value of a non-conversion timber harvest (typically a Class III clear-cut) leaving residual land that could not be put to an alternate use other than forestland for six years is a higher and better use than minimizing the timber harvest under a conversion option harvest plan (typically a Class IV-G harvest) in order to capitalize on the immediate development of the underlying land for residential purposes.

Where the timber value is determined to be high and the potential value of the land for an alternate use is perceived to be low, the prudent use of the land would allow for a more intensive harvest even if it resulted in a six year moratorium from conversion to residential use. Conversely, if the land has potentially higher value under immediate conversion to an alternate use then it may be reasonable to apply a less intensive timber harvest. Making such a determination begins with the recognition that forest management is not a very efficient land use. The reason is that even under the best of circumstances it requires 45-50 years to turn over a crop of fir trees in western Washington. Such a long holding period necessitates the use of land that is unlikely to convert to a higher valued use over that time. This is the reason that forestland tends to be located in remote areas that do not have higher valued competing land uses.

Where alternate land uses to forest practices do occur, it is typically the result of the pressure of growth expanding into areas that were previously very rural or even wilderness areas. The subject area appears have potential for future growth as it is situated within a few miles of several cities and towns in Kitsap County. In such circumstances it is appropriate to analyze whether the value of the land under a less intensive timber harvest with immediate conversion to residential use supersedes the value of a more intensive harvest. Implicit in such an analysis is the consideration that apart from their commercial value when cut, trees also impart an amenity value when left standing that is a benefit to land slated for residential development.

In coming to a conclusion as to which harvest scenario yields the highest return to the land the first consideration is the use to which the land would be put after the harvest. Under a Class III harvest the use of the residual land could either be continued forestland management or residential development after a 6 year moratorium. As discussed above, forestland management is a very low value use of land because it requires about 50 years before another harvest can occur. This extremely inefficient use of land results in residual land values (i.e. timber value excluded) of no more than around $1,500/acre in western Washington even under the most optimal circumstances (such as good low elevation growing conditions and access to good roads, which exists on the subject).

By contrast, the valuation analysis performed in the following section of this report shows that the subject land used for a higher use such as residential development would sell for around $3,200/ac (timber value excluded). Deducting $1,500/ac from $3,200/ac indicates that the benefit of converting the land from forest practices to residential development is around $1,700/ac. Multiplying this by the subject's 522 acres amounts to $887,400 and clearly indicates that the present value of converting the land to residential use after harvest exceeds any benefit of continued forestland use that would not reap any economic benefit until the next harvest in around 35 years.

Having determined that the subject is more valuable as residential development land than under use for timberland management the more difficult question is whether a Class III or Class IV harvest prior to conversion to development land would result in the maximally productive use of the property. According to the timber appraisal provided by S.A. Newman, Forest Engineers, Inc. the value of the subject's timber under a Class III non-conversion harvest in the before condition is $1,258,000. The value of a Class IV conversion harvest was estimated at $696,000. Thus, in order to merit the latter harvest scenario the residual land value would need to exceed $562,000 (i.e. $1,258,000 minus $696,000). In order to address this issue I have performed the following feasibility analysis.

CLASS III vs. CLASS IV FEASIBILITY ANALYSIS

Timber Harvest Scenario	Present Land Value		Land Area		Land Value	Present Timber Value	Total Present Value
Class IV	$3,200/ac	x	522 ac	=	$1,670,400 +	$696,000 =	**$2,366,400**
Class III	Present Land Value						
	$3,200/ac						
6 Year Moratorium	Land Value in Yr 6						
3% Annual Land Appreciation	$3,821/ac						
80% of Class IV Loss of Tree Amenity	$3,057/ac	x	522 ac	=	$1,595,636		
NPV @ 10% IRR					$900,695 +	$1,258,000 =	**$2,158,695**

The table above compares the estimates of total value that would result from a Class III versus a Class IV timber harvest. As shown, the latter harvest valuation is rather straight forward. It begins with an estimate of the $/ac unit value of the land after a Class IV timber harvest that allows for immediate conversion to residential development lots and leaves ample amenity and buffer trees on the land. The value of $3,200/ac is derived from the valuation analysis that follows. Applying this to the total 522 acres results in a present value for the residual land of $1,670,400. Adding the $696,000 Class IV timber value yields a total present property value estimate of $2,366,400 under this scenario.

Under the Class III harvest the land cannot be used for development for 6 years. Applying a 3% annualized rate of appreciation to the $3,200/ac present land value suggests a value in year 6 of $3,821/ac. However, under this harvest scenario the land will have been clear cut and thus there will be only extremely immature trees on the land at that time. Thus, I have applied a 20% discount to account for the lack of amenity trees, which reduces the land value in year 6 to $3,057/ac. Multiplying this value by 522 acres gives a land value of $1,595,636. However, this is the value estimate at the end of year 6 and therefore needs to be discounted back to present value. Referring the Korpacz Real Estate Investor Survey for development land as of the end of 2008 discount rates ranged from 10%-25%. For purposes of this feasibility analysis I have applied the low end of the range which results in a present land value estimate of $900,695. To this is added the present value of the timber under of $1,258,000 under a Class III harvest for a total of $2,158,695 under this scenario.

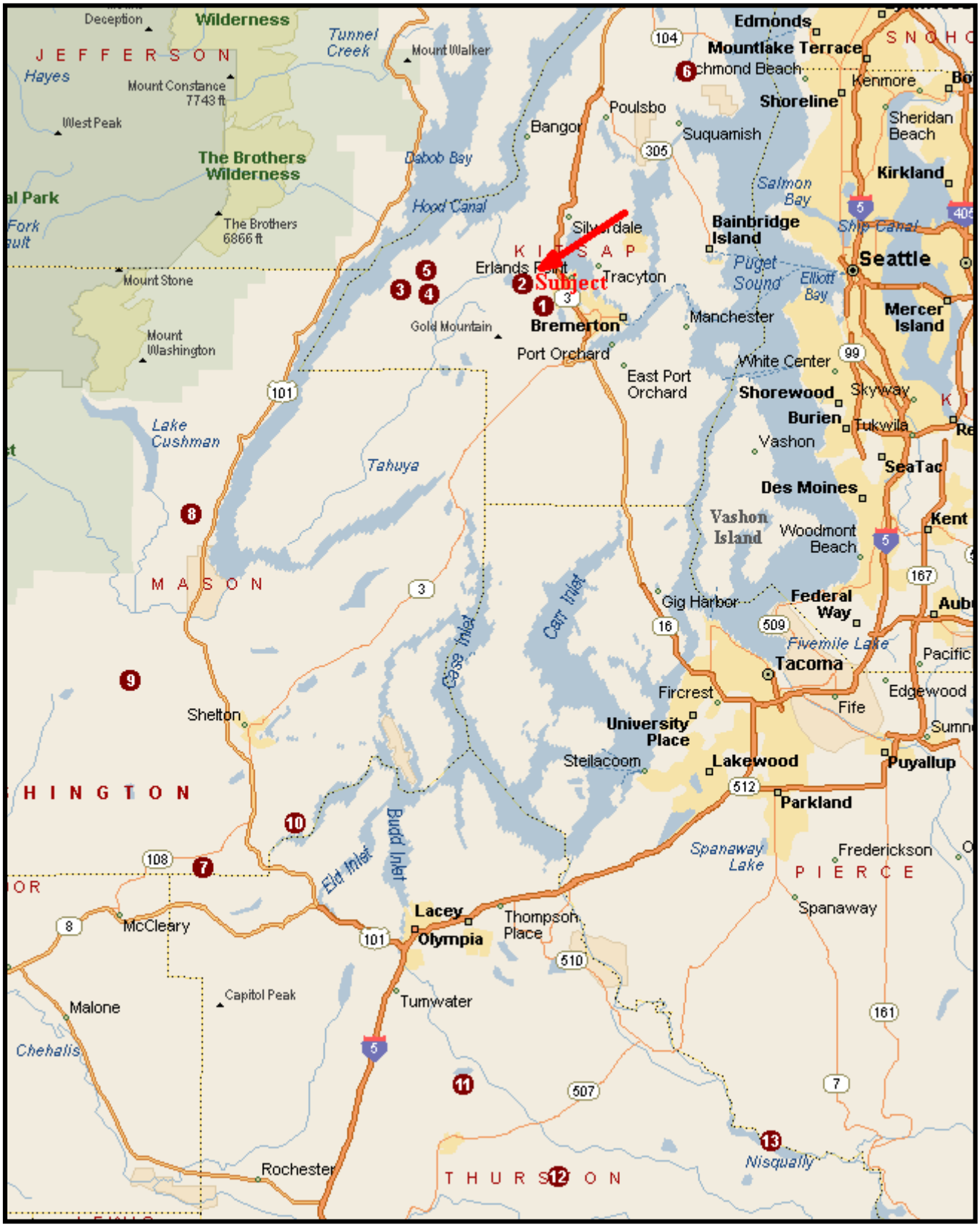
Comparing the total present value of the subject under a Class III versus a Class IV timber harvest shows the latter to be about $210,000 higher than the former. Thus, the highest and best use of the property is a less intensive harvest that allows immediate conversion to residential development rather than the more intensive harvest that results in a 6 year moratorium on conversion to residential development.

A final consideration is that 72 acre portion of the subject is presently encumbered with a lease in favor of the Kitsap Rifle and Revolver Club. There are a number of associated improvements including several portable structures, coverings over shooting areas and earthen berms demarcating the firing ranges. All are of very low value and could easily be removed. A further encumbrance is the residue from years of use as a firing range. However, the lease expressly requires the lessee to return the property to the lessor in a clean condition on termination of the lease at the lessee's expense. Therefore, it is reasonable to assume that this area could readily be converted to a vacant condition without any cost to the present owner or a prospective buyer. Therefore no site penalty is warranted to account for this.

Highest and Best Use as Improved

As noted above, a 72 acre portion of the subject is presently encumbered with a lease in favor of the Kitsap Rifle and Revolver Club. The question arises as to whether this constitutes that maximally productive use of this area. The contributory value of the lease area can be estimated through capitalization of the net income, which is $7,200 per year. For purposes of this feasibility analysis I have applied an aggressive rate of return at 5%. Dividing the net annual income by this factor gives a value of $144,000. This amounts to $2,000/ac for this 72 acre area, which is substantially below the market value in its highest and best use for rural residential development (which is concluded in the valuation section of the report that follows to be around $3,200/acre excluding merchantable timber.) Thus, the maximally productive use of the subject is to terminate the lease and remove the improvements, which is permissible under the terms of the lease.

LAND VALUATION



SALES COMPARISON MAP

SALES COMPARISON SUMMARY TABLE

No.	Buyer Location	Sale Date	Land Area	Access	RMAP Road Conditions	Forestland Site Class	Critical Areas	Timber Description Appraised Merch Timber @ Sale	Zoning	Total Price Land & Timber	Analysis Value Land & Pre-Merch
	Kitsap County										
1	Ueland Tree Farm 4 mi W of Bremerton	Apr-04	1,709ac	Paved public roads & gravel FS roads	No issues reported Good	3.07	2%	Significant merchantable $1,927,000 Class IV-G	RW 1du:20ac	$4,600,000 **$2,692/ac**	$2,673,000 **$1,564/ac**
2	Kitsap County 6 mi NW of Bremerton	Apr-04	623ac	Paved public roads & gravel FS roads	No issues reported Good	3.17	2%	Limited merch, mostly under 20 yrs $486,000 Class IV-G	RW 1du:20ac	$2,200,000 **$3,534/ac**	$1,714,000 **$2,753/ac**
3	Seibu Hawaii 12 mi W of Bremerton	Sep-06	315ac	Near paved public road Gated thru DNR Land	No issues reported Good	4.05	8%	Mix of merchantable & pre-merch $300,000 Class IV-G	RW 1du:20ac	$1,083,000 **$3,438/ac**	$783,000 **$2,486/ac**
4	Nagley 11 mi W of Bremerton	Dec-06	160ac	Near paved public road Interior gravel roads	No issues reported Good	2.84	0%	Significant merchantable $716,000 Class IV-G	RW 1du:20ac	$1,415,000 **$8,844/ac**	$699,000 **$4,369/ac**
5	Courtright 11 mi W of Bremerton	May-07	76ac	Near paved public road Interior gravel roads	No issues reported Good	3.06	3%	Premerchantable less than 20 yrs	RW 1du:20ac	$340,000 **$4,472/ac**	$340,000 **$4,472/ac**
6	Heritage Park 5.5 mi NE of Poulsbo	Jun-04	350ac	Near paved public road Interior gravel roads	No issues reported Good	2.60	5%	Premerchantable mostly 15-25 yrs	RW 1du:20ac	$1,870,623 **$5,345/ac**	$1,870,623 **$5,345/ac**
	Mason County										
7	Port Blakely Tree Farm 9 mi S of Shelton	Sep-07	646ac	Somewhat Remote Interior gravel roads	No issues reported Good	2.95	1%	All premerchantable less than 20 yrs	LTCF 1du:80ac	$971,000 **$1,503/ac**	$971,000 **$1,503/ac**
8	The Ridge at Hoodsport 1.5 mi SW of Hoodsport	Jul-07	654ac	Paved public roads & gravel FS roads	No issues reported Good	3.00	0%	All premerchantable less than 20 yrs	R-5, R-10, R-20 1du: 5, 10, 20ac	$3,200,000 **$4,892/ac**	$3,200,000 **$4,892/ac**
9	Hunter 4.5 mi NW of Shelton	Oct-04	840ac	Paved public roads & gravel FS roads	Unable to confirm Good	3.85	2%	All premerchantable less than 20 yrs	R-10 & R-20 1du:10, 20ac	$1,320,000 **$1,572/ac**	$1,320,000 **$1,572/ac**
10	Squaxin Tribe 6 mi SE of Shelton	Mar-05	240ac	Paved public roads & gravel FS roads	No issues reported Good	3.00	18%	All premerchantable less than 20 yrs	R-10 & R-20 1du:10, 20ac	$772,000 **$3,215/ac**	$772,000 **$3,215/ac**
	Thurston County										
11	Boe 8.5 mi S of Olympia	Oct-06	323ac	Paved public roads & gravel FS roads	No issues reported Good	3.10	4%	All premerchantable less than 20 yrs	R-5 1du:5ac	$2,100,000 **$6,502/ac**	$2,100,000 **$6,502/ac**
12	Weyerhaeuser-Rainier 16 mi S of Olympia	May-08	400ac	Somewhat Remote Interior gravel roads	No issues reported Good	3.20	0%	All premerchantable less than 30 yrs	LTF 1du:80ac	$812,000 **$2,030/ac**	$812,000 **$2,030/ac**
13	Nisqually 9.5 mi SE of Yelm	Jun-06	240ac	Paved public roads & gravel FS roads	No issues reported Good	3.25	25%	Mix of merchantable & pre-merch $430,000 Class IV-G	R-5 1du:5ac	$1,200,000 **$5,000/ac**	$770,000 **$3,208/ac**
	Subject 6 mi NW of Bremerton	Appraisal Mar-09	522ac	Paved public roads & gravel FS roads	No issues reported Good	3.40	20%	Mix of merchantable & pre-merch $696,000 Class IV-G	RW 1du:20ac	**$2,366,400** **$4,533/ac**	$1,670,400 $3,200/ac
									ROUNDED	**$2,370,000** **$4,540/ac**	

MARKET DATA – SALE COMPARABLE 1

(1) ADDRESS or LOCATION: 5 miles west of Bremerton, Kitsap County

(2) PROPERTY DETAILS

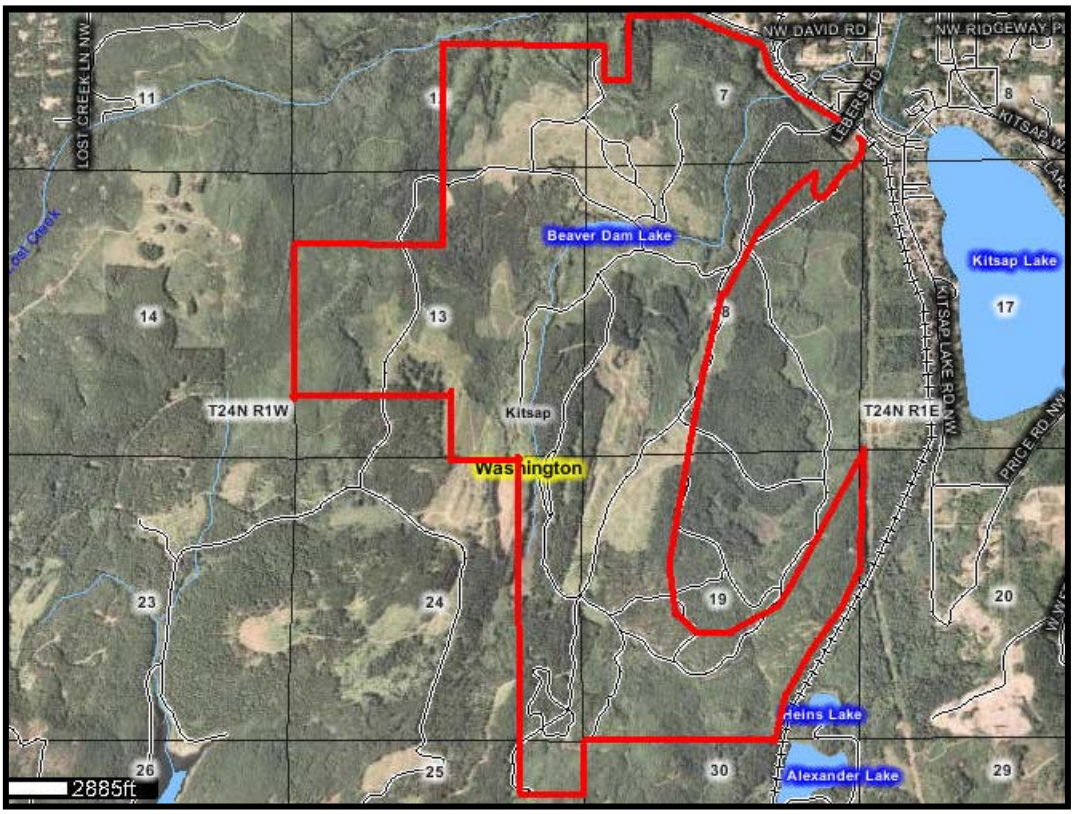
a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: Rural Wooded
e. Area: 1709ac
f. Sale Date: April 15, 2004
g. Price: $4,600,000
h. Instrument Type: Special Warranty Deed
i. Terms: Cash
j. Ex.Tax#: 2004EX03242
k. Seller: Port Blakely Tree Farms LP
l. Buyer: Ueland Tree Farm LLC
m. Confirmed with: Craig Ueland, (253) 591-3555
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

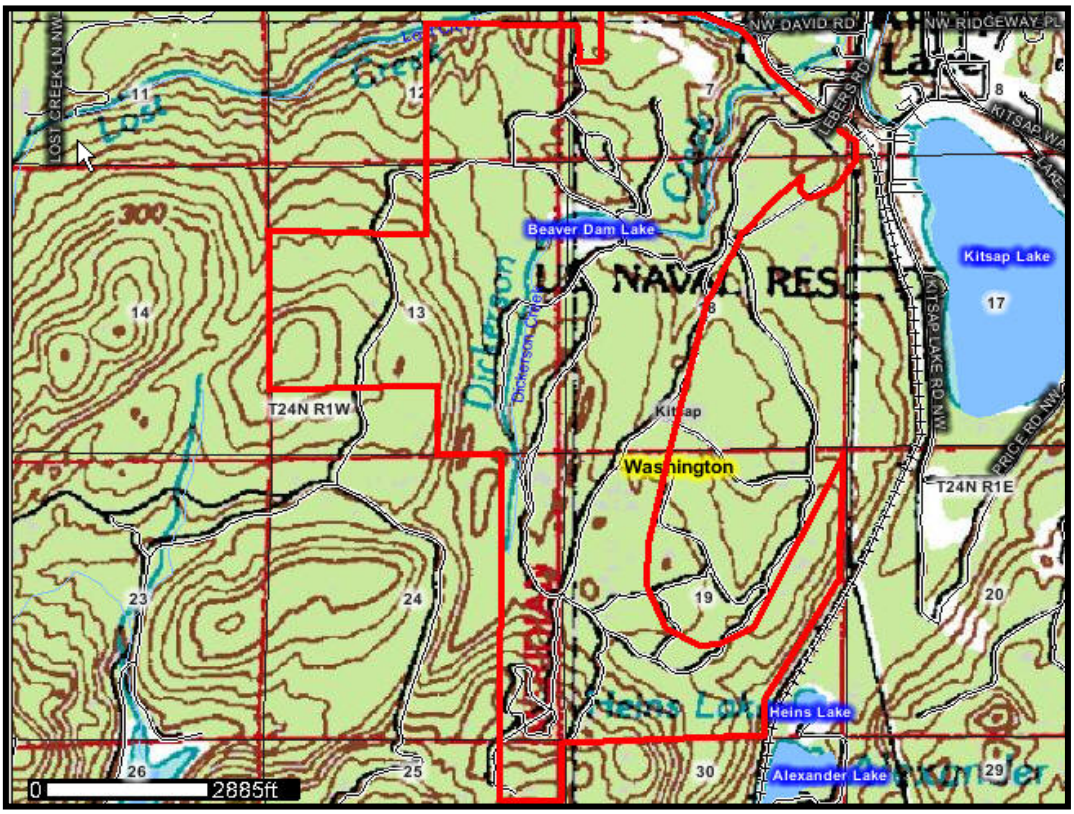
(3) TAX PARCEL NUMBER: 0724 013 002 2002 (and multiple others that are contiguous)

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Bremerton and Port Orchard. The northeastern corner of the property borders the Seabeck Highway, a paved two-land county arterial road. The eastern portion is relatively level. The western portion is hilly but not steep and generally not over around 600' in elevation. There are streams on the property but no major water bodies. There are private gravel forest roads that are in good condition.

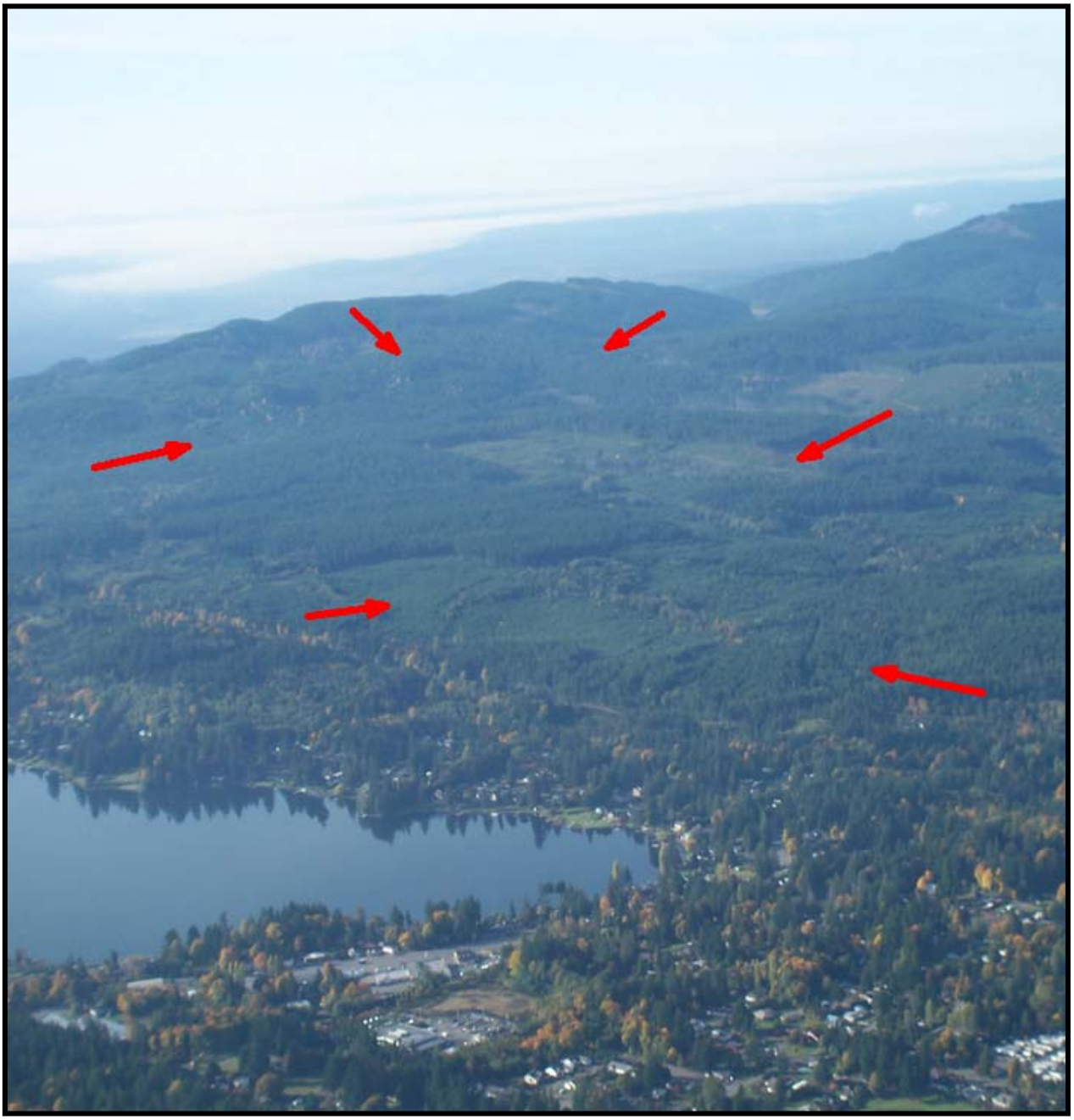
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$1,927,000	$2,673,000	$ $1,564/ac





Land Sale Comparison #1



General Overview of Land Sale Comparison #1
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 2

(1) ADDRESS or LOCATION: 6.5 miles northwest of Bremerton, Kitsap County

(2)PROPERTY DETAILS:

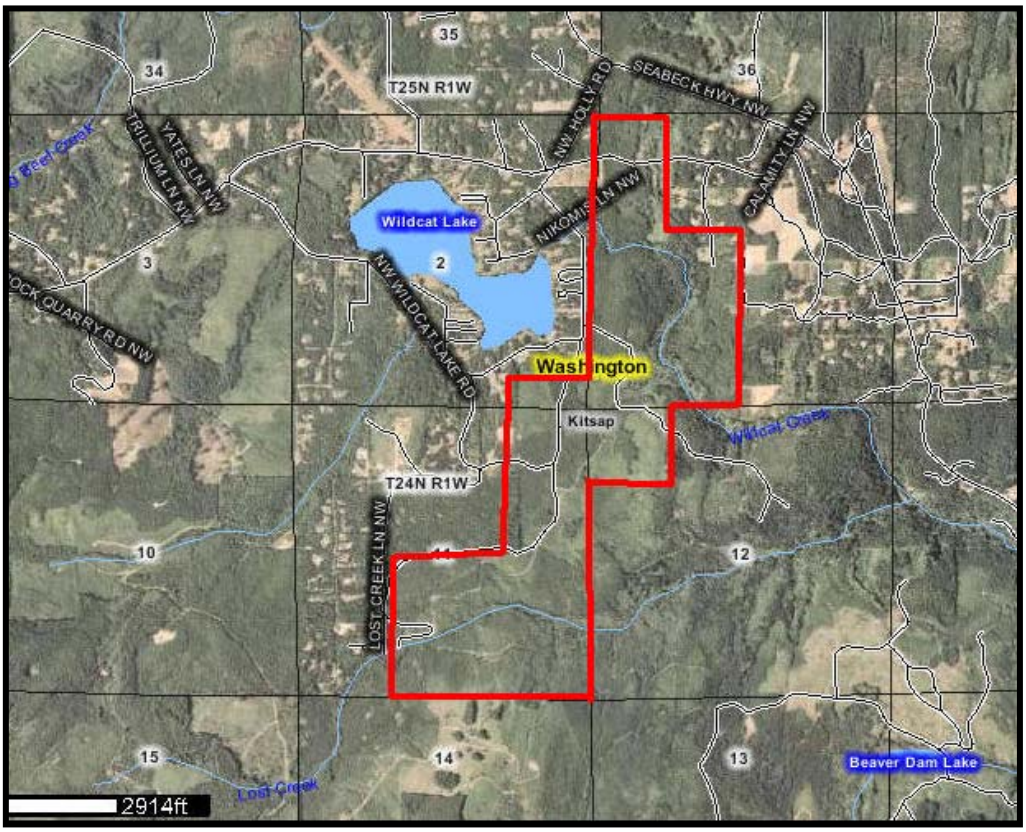
a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: Rural Wooded
e. Area: 623ac
f. Sale Date: April 19, 2004
g. Price: $2,200,000
h. Instrument Type: Special Warranty Deed
i. Terms: Cash
j. Ex.Tax#: 2004EX03359
k. Seller: Port Blakely Tree Farm Lp
l. Buyer: Kitsap County
m. Confirmed with: Joseph Coppo, formerly with Kitsap County Dept of Parks & Recreation
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

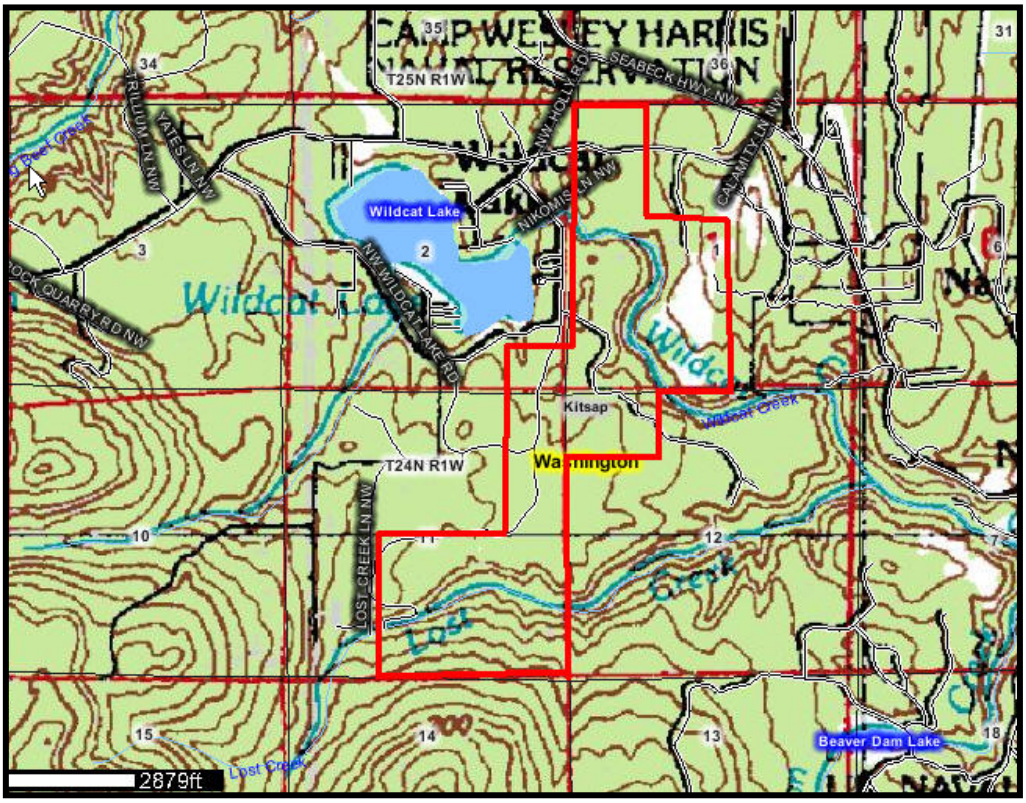
(3) TAX PARCEL NUMBER: 0124 012 033 1005(and multiple others that are contiguous)

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Bremerton and Port Orchard. The northwestern area of the property borders Lakeview Ave and Wildcat Lake Road, which are paved local streets. The northern portion is relatively level. The extreme southern area rises steeply from Lost Creek to about 300' elevation. A portion is hilly but not steep and generally not over around 600' in elevation. There are streams on the property but no major water bodies. There are private gravel forest roads that are in good condition.

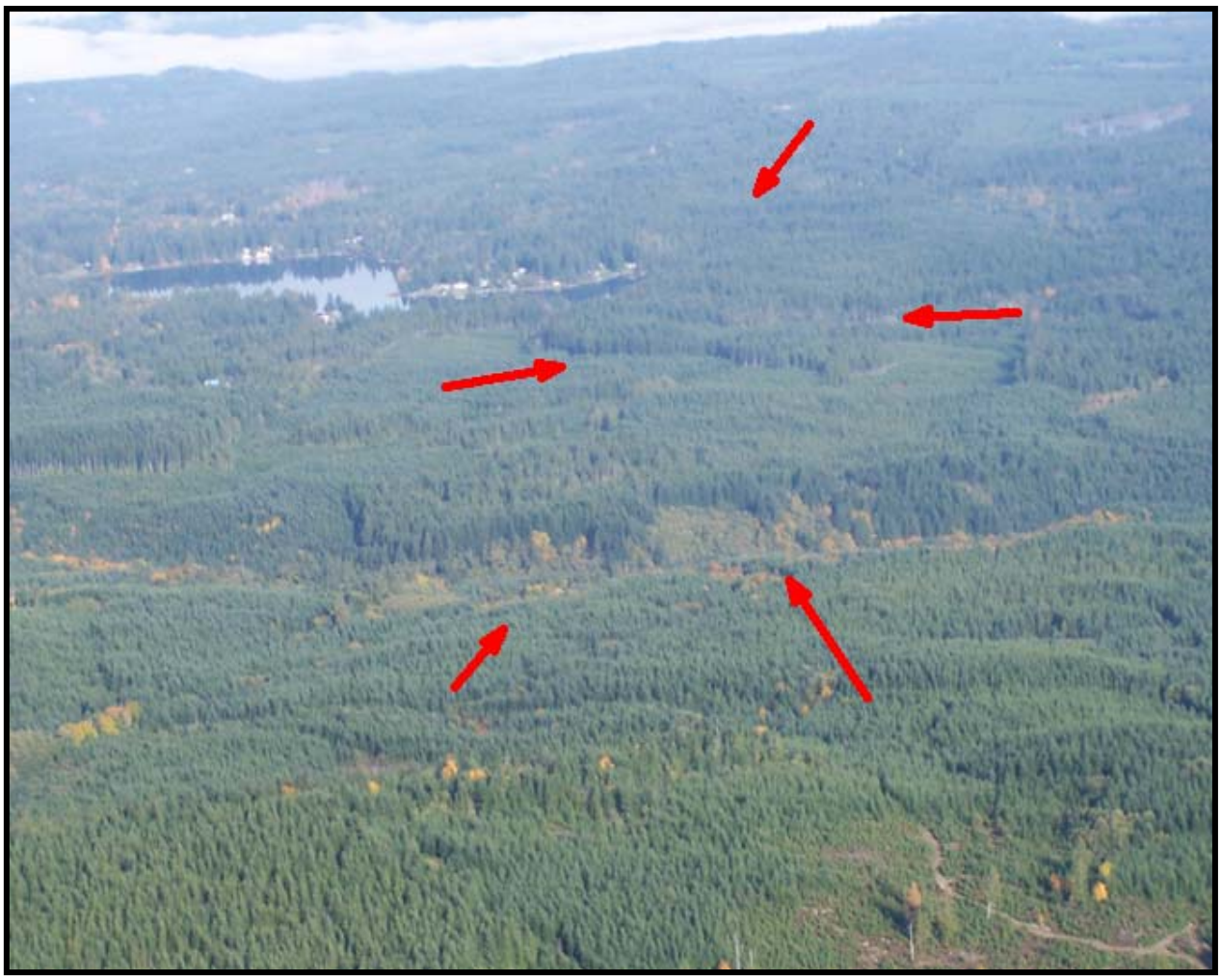
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$486,000	$1,714,000	$2,571/ac





Land Sale Comparison #2



General Overview of Land Sale Comparison #2
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 3

(1) ADDRESS or LOCATION: 12.5 miles west of Bremerton, Kitsap County

(2) PROPERTY DETAILS:

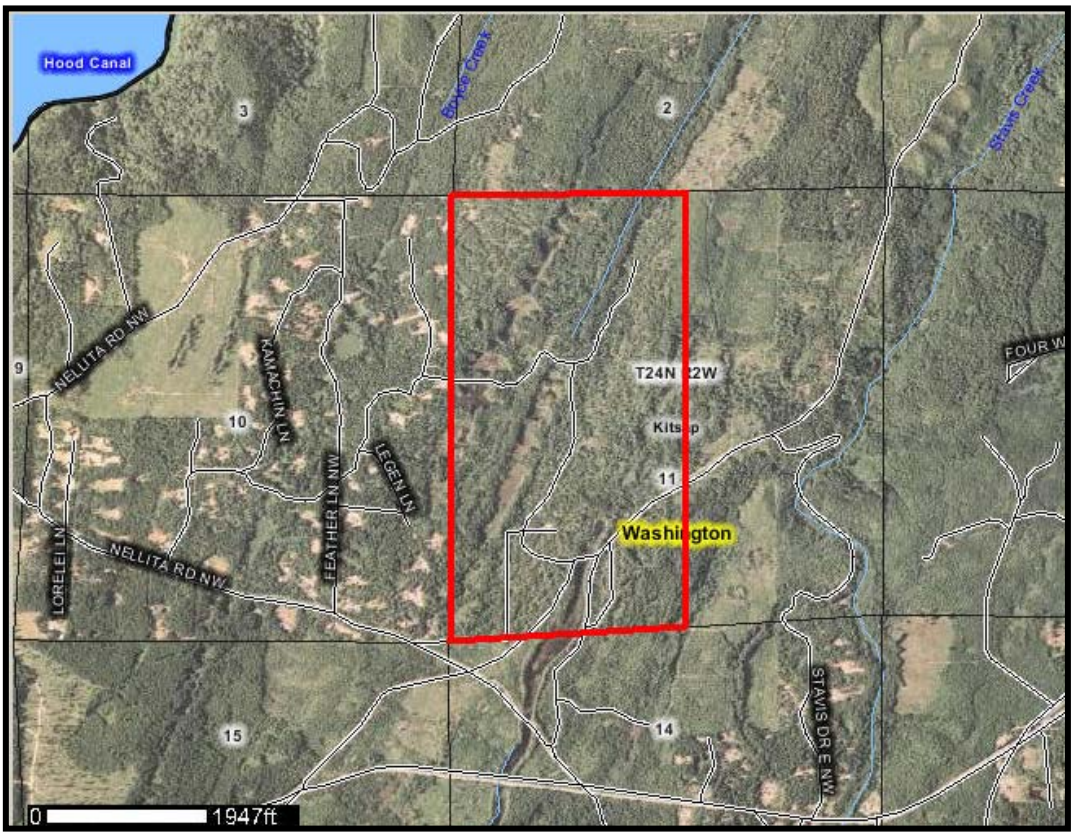
a. Access: Near paved public road, gated thru DNR land
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: Rural Wooded
e. Area: 315ac
f. Sale Date: September 21, 2006
g. Price: $1,083,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Tax #: 2006EX08582
k. Seller: Seibu Hawaii Inc
l. Buyer: State of Washington.
m. Confirmed with: Craig Calhoun, DNR, (360) 902-1619
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

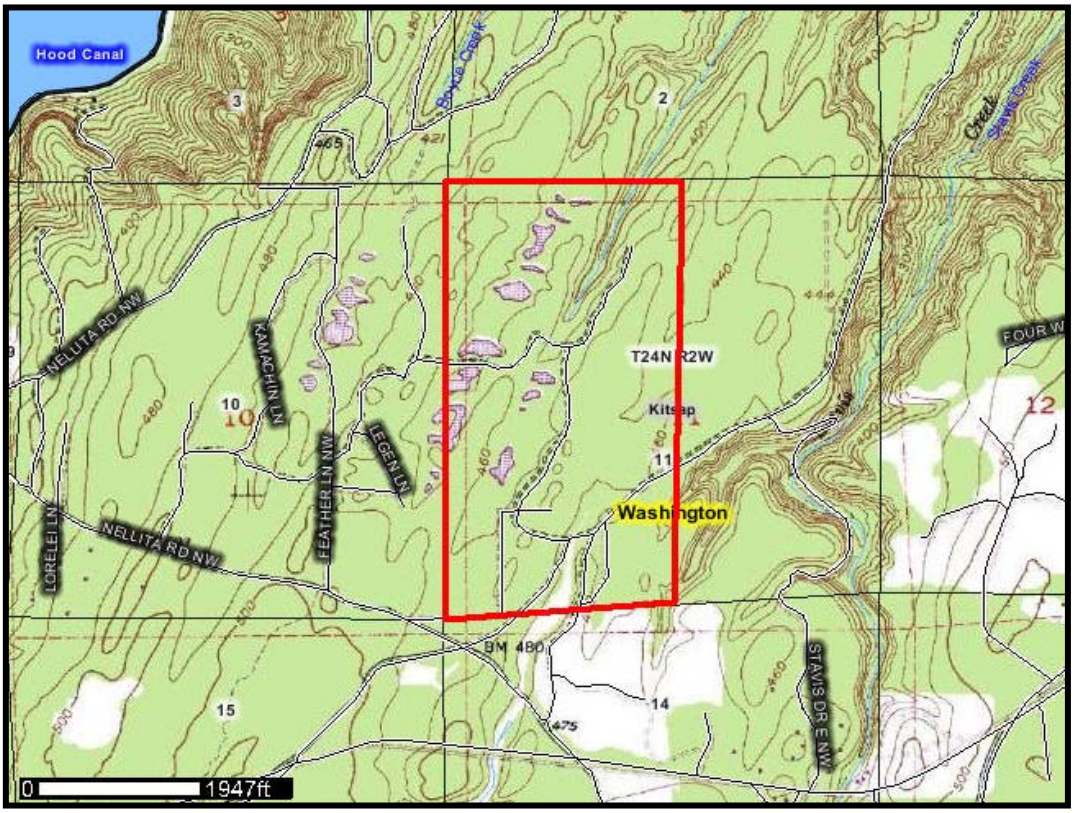
(3) TAX PARCEL NUMBER: 1124 022 001 1000

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Bremerton and Port Orchard. The southwestern corner of the property is within a couple of hundred feet of Nelita Road, which is a paved local street. However, access is currently through a locked gate over land owned by Washington State. There are a number of small lakes on the property and associated wetlands. The northern portion is quite level at an elevation of around 400'. There are private gravel forest roads that are in good condition.

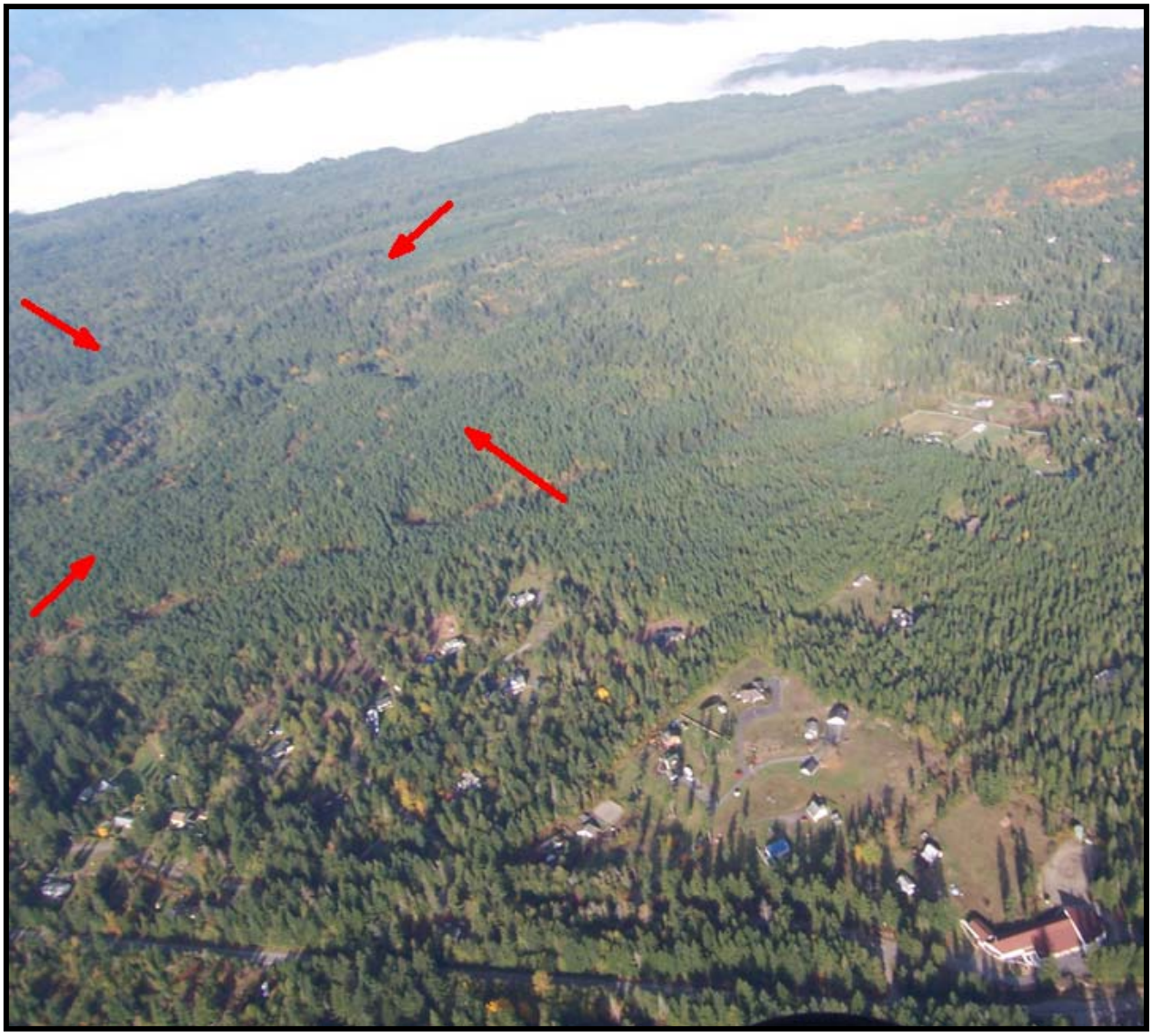
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$300,000	$783,000	$2,486/ac





Land Sale Comparison #3



General Overview of Land Sale Comparison #3
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 4

(1) ADDRESS or LOCATION: 11.5 miles west of Bremerton, Kitsap County

(2). PROPERTY DETAILS:

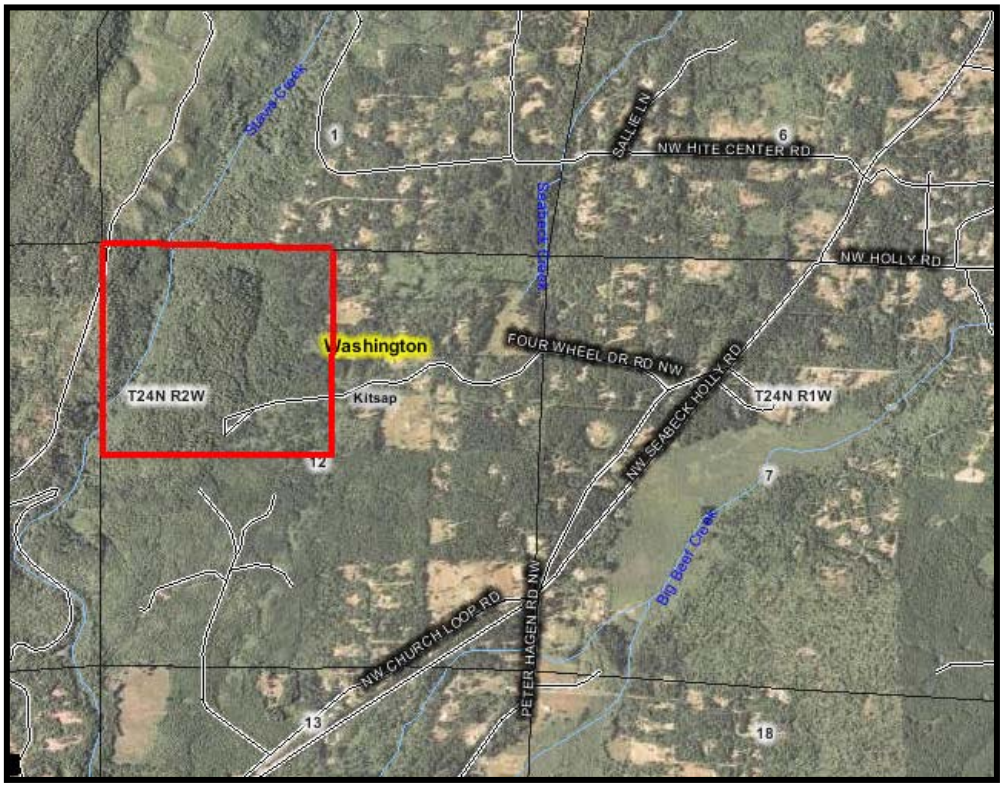
a. Access: Near paved public road, interior gravel roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: Rural Wooded
e. Area: 160 acres
f. Sale Date: December 21, 2006
g. Price: $1,415,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Ex.Tax#: 200612210107
k. Seller: Willard H Nagley II
l. Buyer: State of Washington DNR
m. Confirmed with: Craig Calhoun, DNR, (360) 902-1619
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

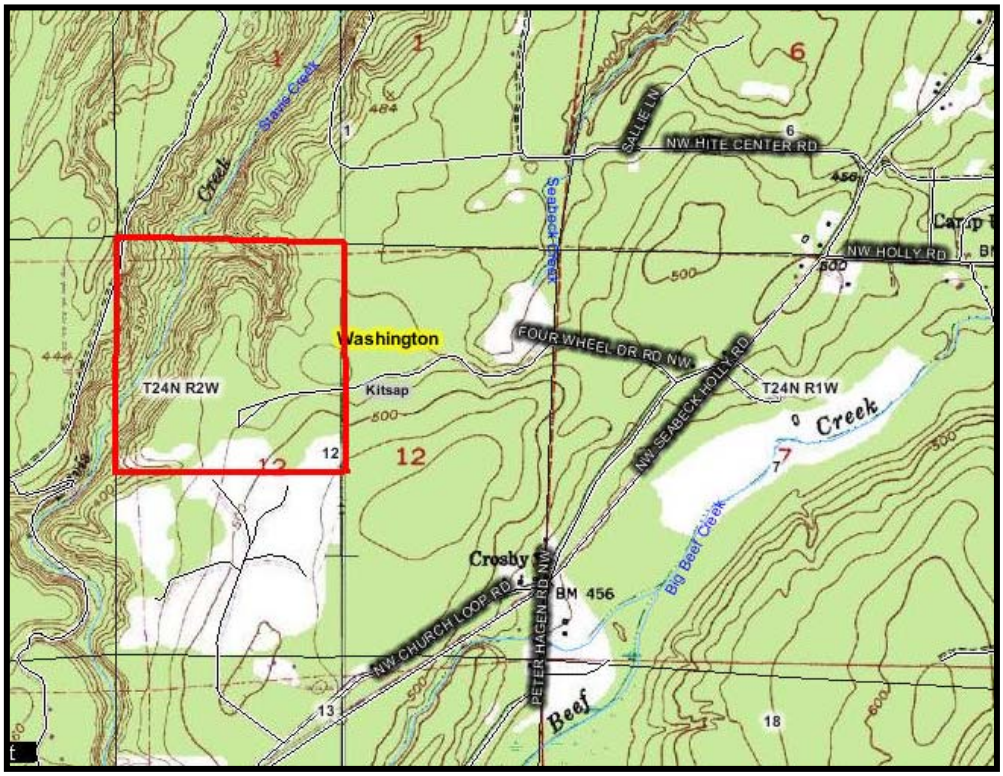
(3) TAX PARCEL NUMBER: 1224 022 001 1009

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Bremerton and Port Orchard. It is located about a quarter mile from pave Seabeck Holly Road, and has access to that road from Hite Center Road, which is gravel. The eastern portion of the property is quite level, while the western area has steep banks associated with Stavis Creek. There are several private gravel forest roads on the property that are in good condition.

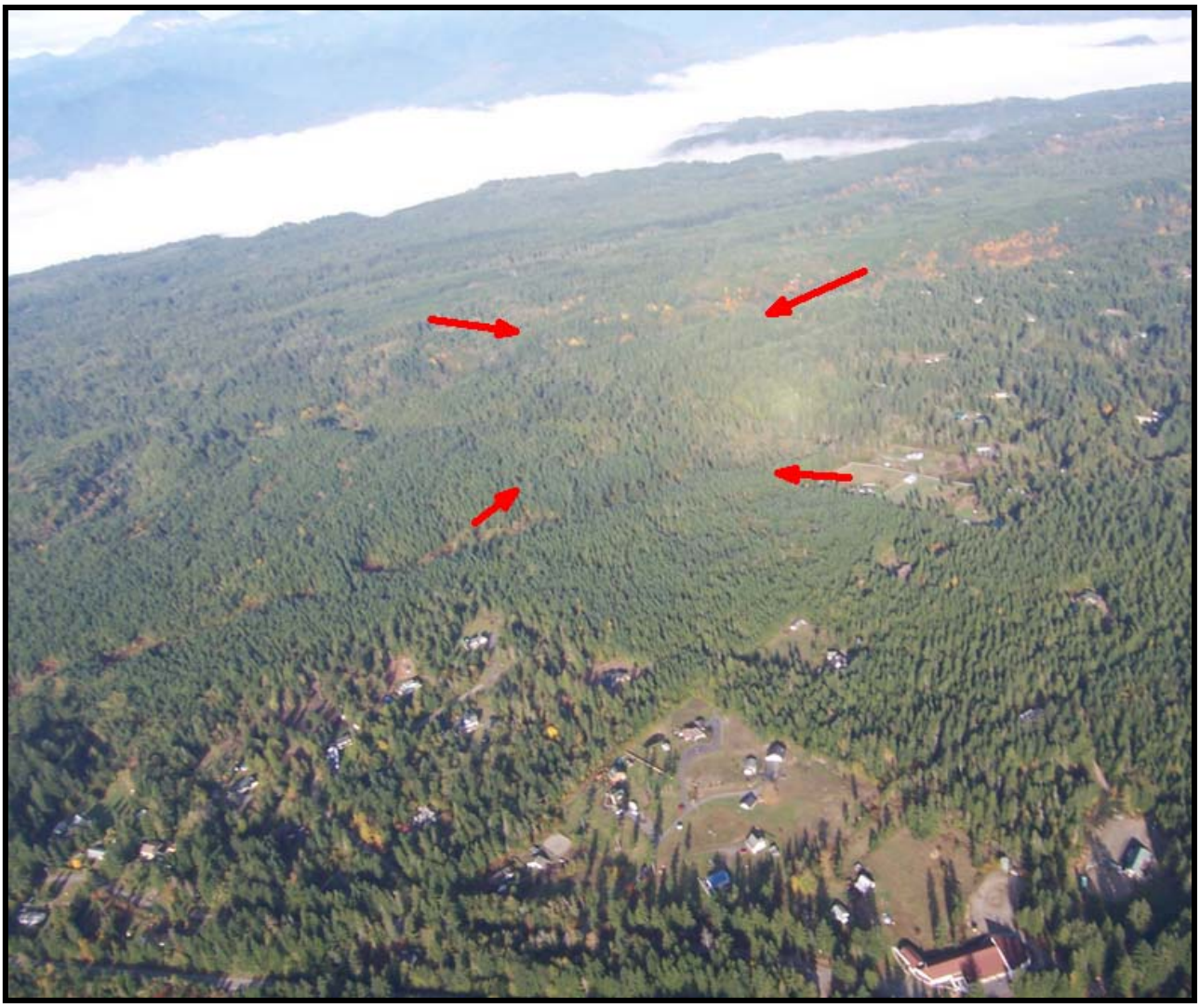
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$716,000	$699,000	$4,369/ac





Land Sale Comparison #4



General Overview of Land Sale Comparison #4
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 5

(1) ADDRESS or LOCATION: 11 mi W of Bremerton in Kitsap County

(2). PROPERTY DETAILS:

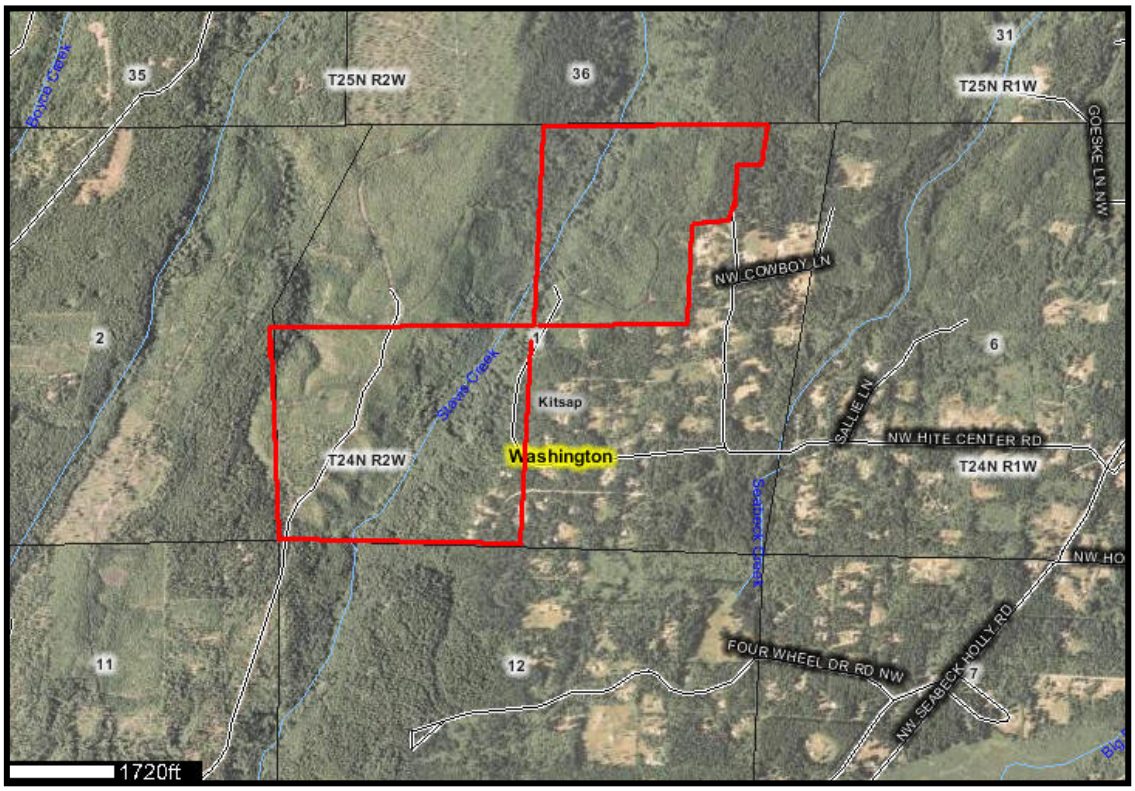
a. Access: Near paved public road, interior gravel roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: Rural Wooded
e. Area: 76 acres
f. Sale Date: May 24, 2007
g. Price: $340,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Ex.Tax#: 2007EX03816
k. Seller: Rosemary Courtright Credit Shelter Trust
l. Buyer: State of Washington (DNR)
m. Confirmed with: Craig Calhoun, DNR, (360) 902-1619
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

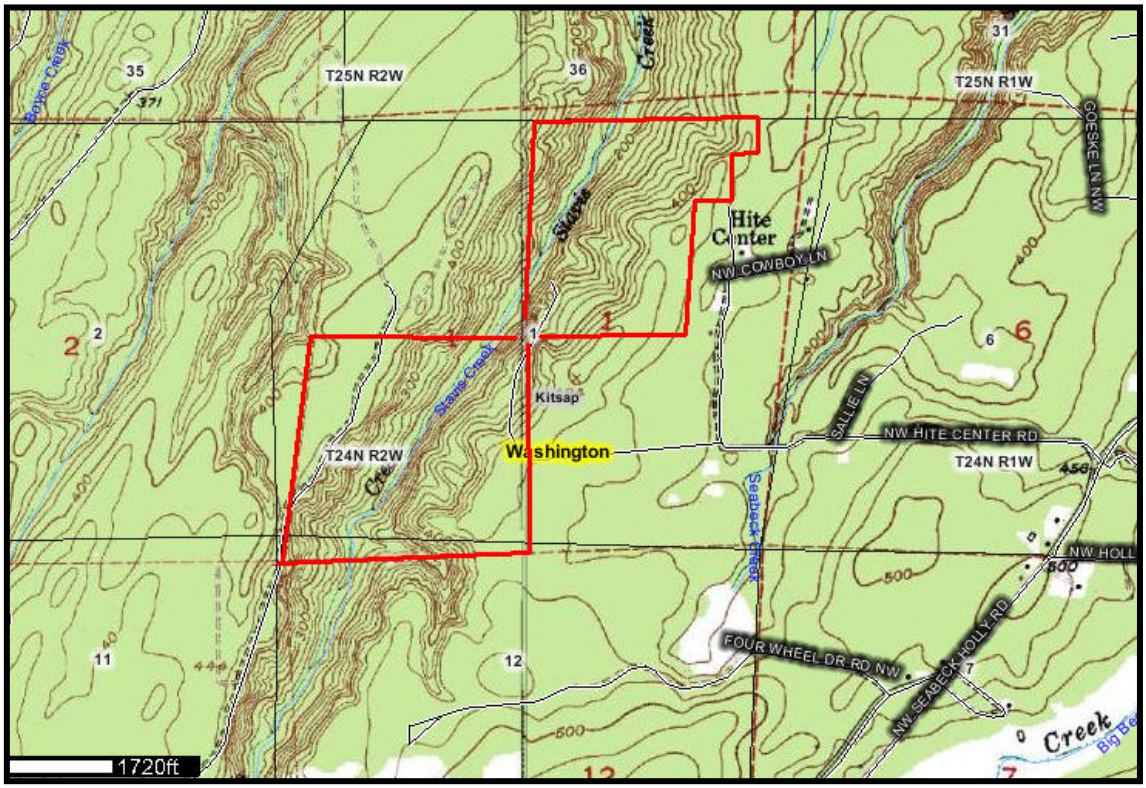
(3) TAX PARCEL NUMBER: 012402-3-002-1009

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Bremerton and Port Orchard. It is quite irregular in shape such that it is two distinct areas. It is located about a quarter mile from pave Seabeck Holly Road, and has access to that road from Hite Center Road, which is gravel. Much of the areas in both segments of the property have steep banks associated with Stavis Creek. However, there are level areas in the southeastern portions of both segments that are suitable for development.

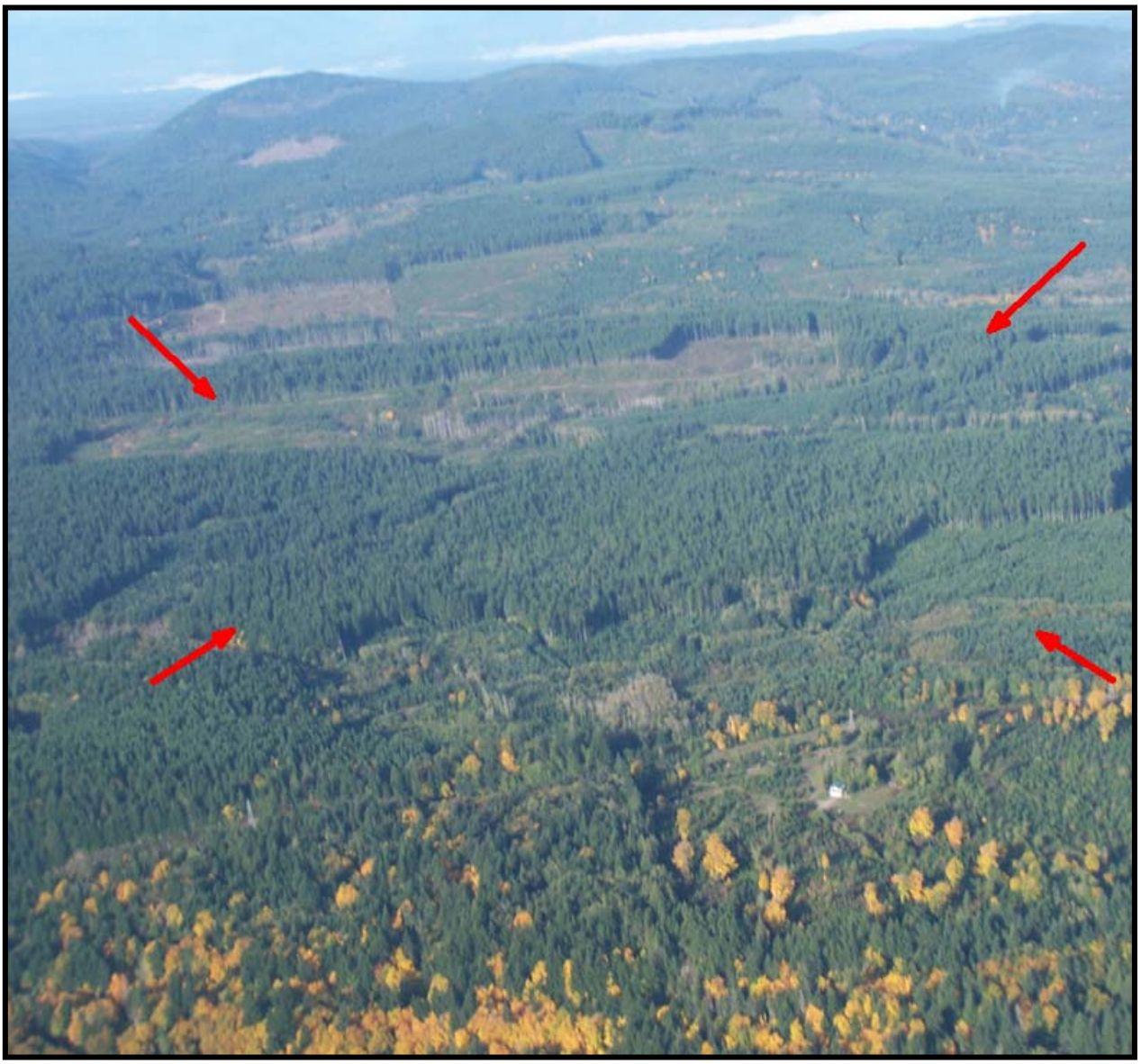
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$340,000	$4,472/ac





Land Sale Comparison #5



General Overview of Land Sale Comparison #5
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 6

(1) ADDRESS or LOCATION: 5.5 miles Northeast of Poulsbo, Kitsap County

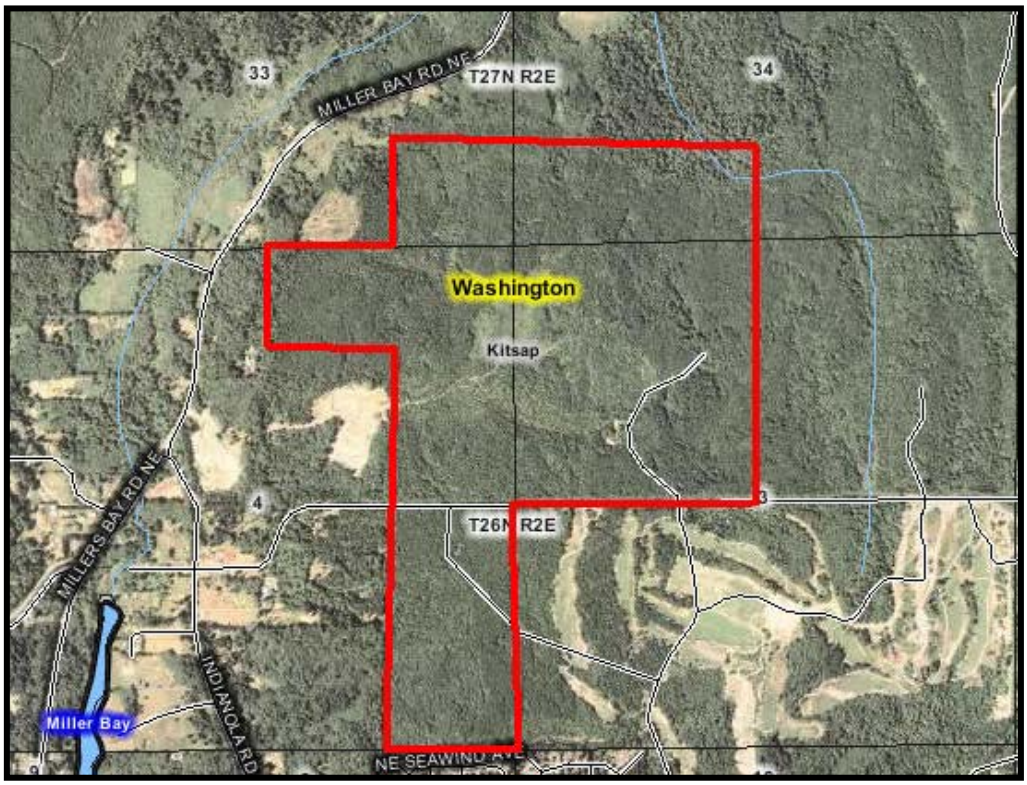
(2) a. Access: Near paved public road, interior gravel roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d.Zoning: Rural Wooded
e. Area: 349.6acres
f. Sale Date: June 4, 2004
g. Price: $1,870,623
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Tax #: 2004EX04462
k. Seller: Pope Resources Inc
l. Buyer: Kitsap County
m. Confirmed with: Rick Fackler, formerly with Kitsap County Dept of Parks & Recreation
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

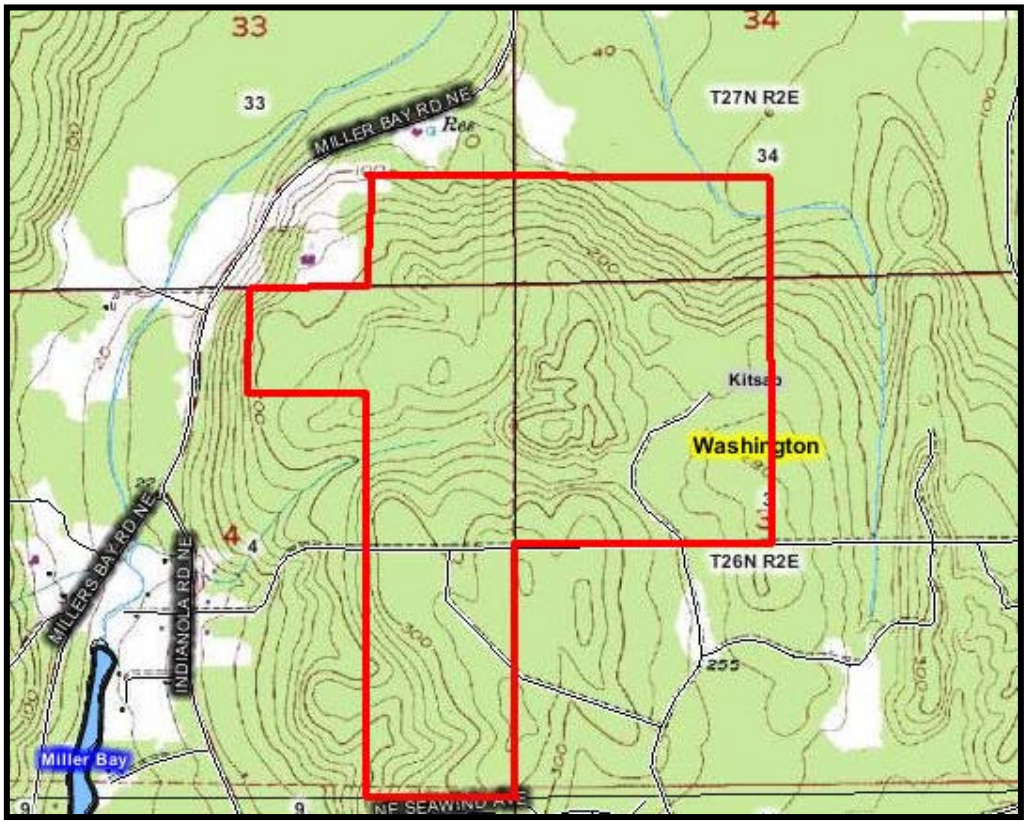
(3) TAX PARCEL NUMBER: 3427 023 007 2000

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located within commuting distance of Kingston and Poulsbo. The northwest corner is within a few hundred yards of Miller Bay Road, which is a paved arterial street. The property is a mix of level areas and hills, rising to about 300' on the north side. There are no significant creeks or water bodies on the property. There are a number of logging roads on the property that are partially grown over.

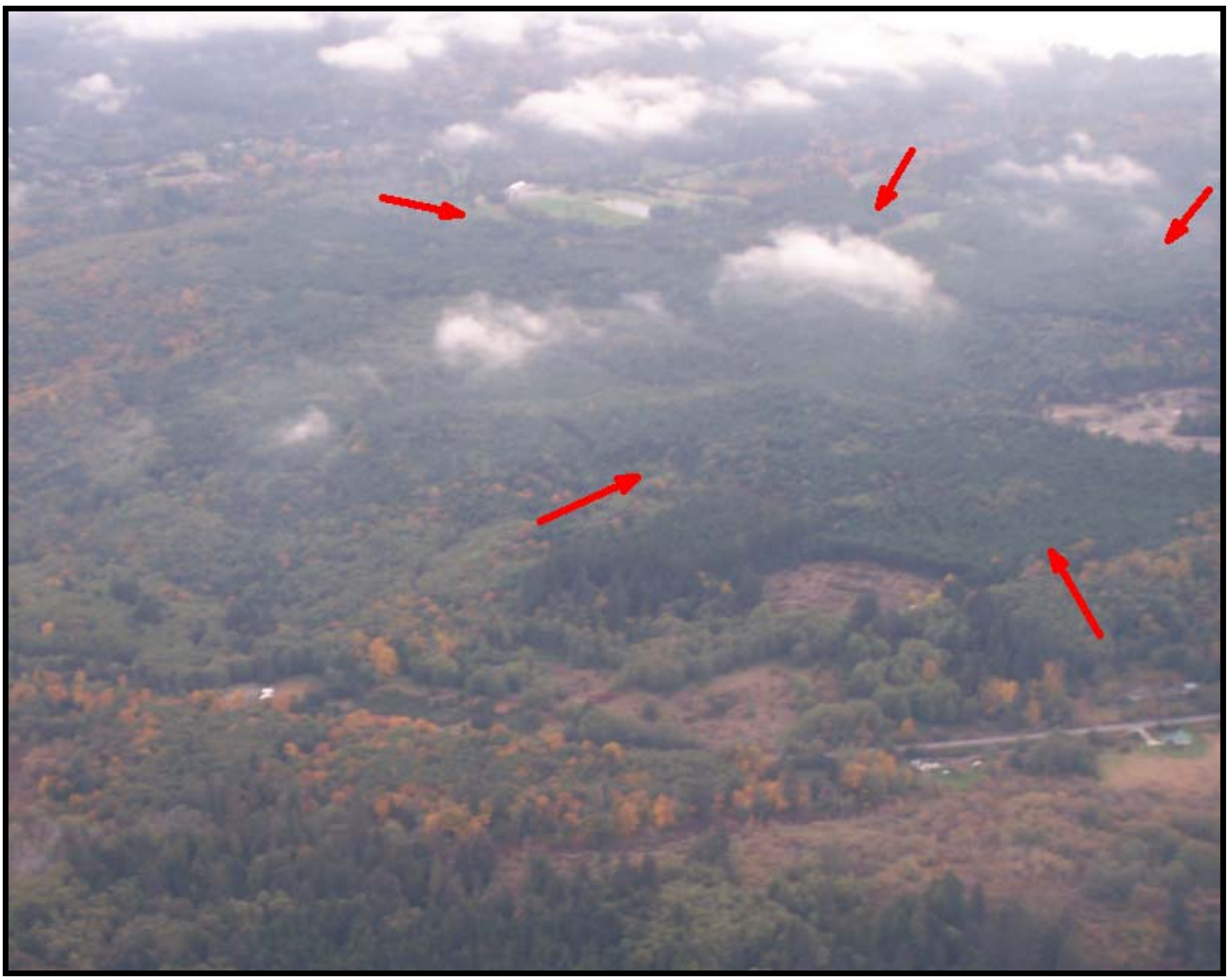
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$1,870,623	$5,345/ac





Land Sale Comparison #6



General Overview of Land Sale Comparison #6
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 7

(1) ADDRESS or LOCATION: 9 mi S of Shelton, Mason County

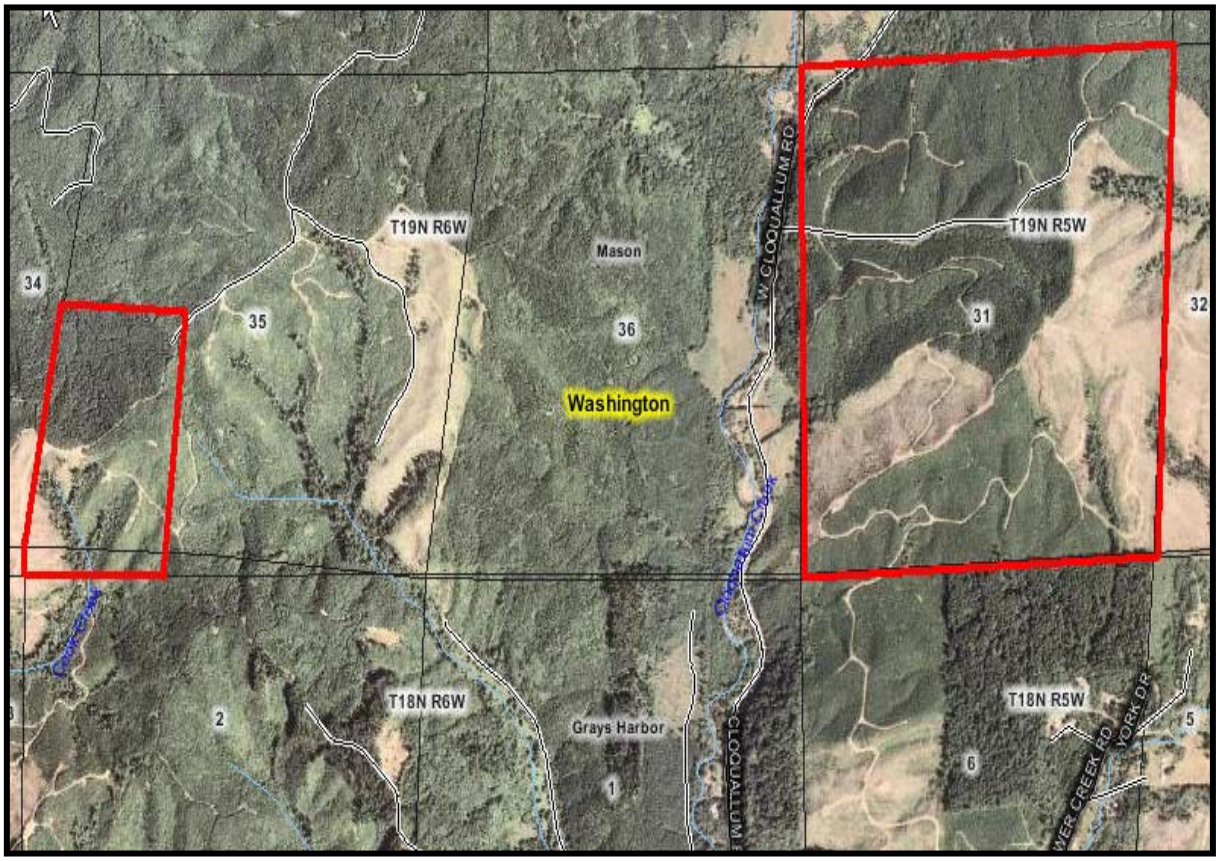
(2) a. Access: Somewhat remote, interior gravel roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management
d. Zoning: LTCF,
e. Area: 646.42 acres
f. Sale Date: September 26, 2007
g. Price: $971,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j Excise Affidavit #: 312
k. Seller: Weyerhaeuser Co.
l. Buyer: Port Blakely Tree Farms.
m. Confirmed with: Steve Ketz, Weyerhaeuser Director of Timberland Portfolio, (253) 924-2345.
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

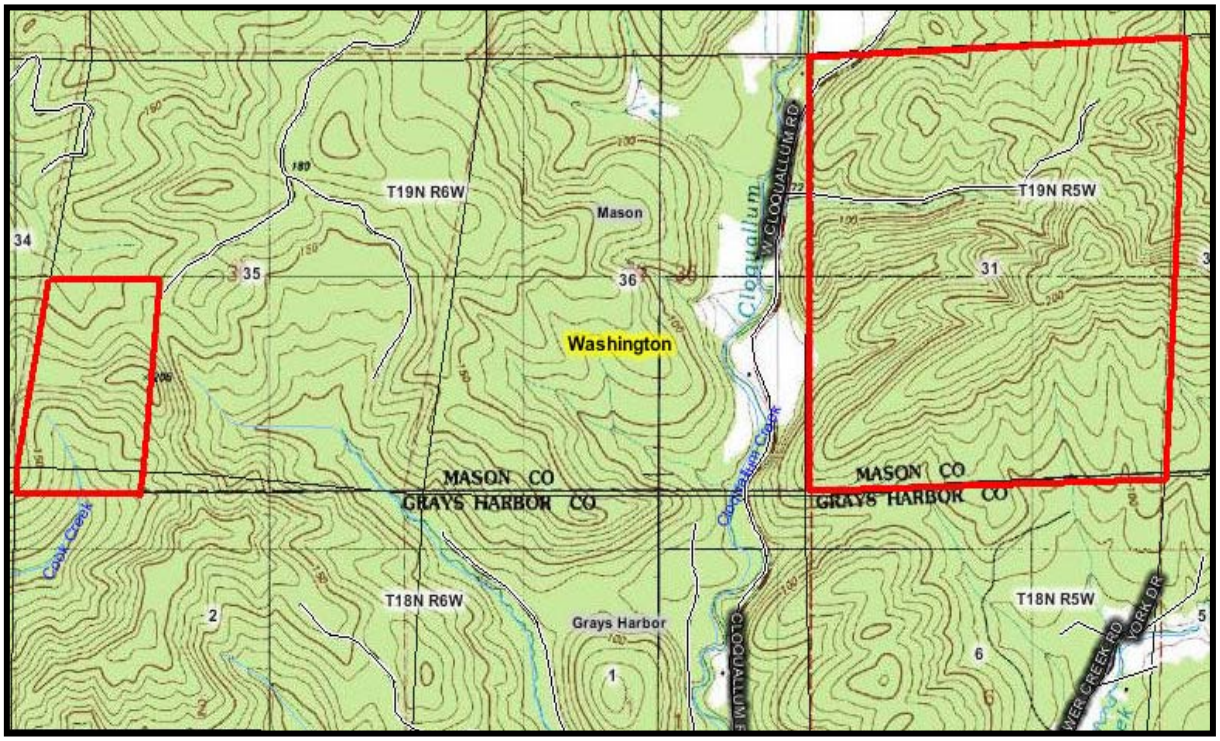
(3) TAX PARCEL NUMBER: 419353000000

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland in two separate land parcels that are within about a mile of each other. Both are located in a somewhat remote area of Mason County. There are no nearby paved roads and access is via gravel logging roads. The larger area has rolling terrain that rises somewhat steeply in the center of the property to around 200'. The smaller area is more level. There are no significant streams or water bodies on either area.

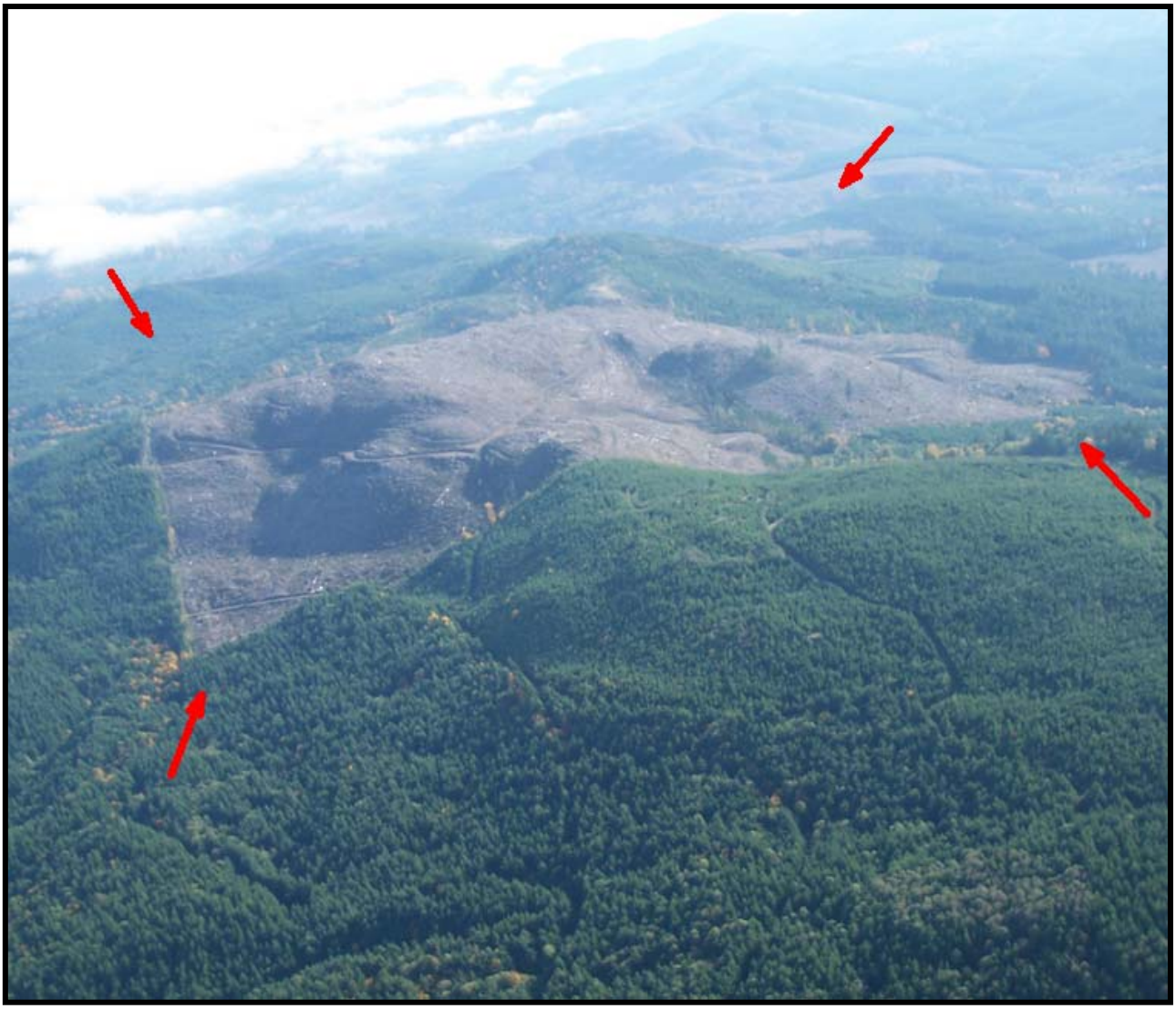
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$971,000	$1,503/ac





Land Sale Comparison #7



General Overview of Land Sale Comparison #7
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 8

(1) ADDRESS or LOCATION: 1.5 mi SW of Hoodsport, Mason County

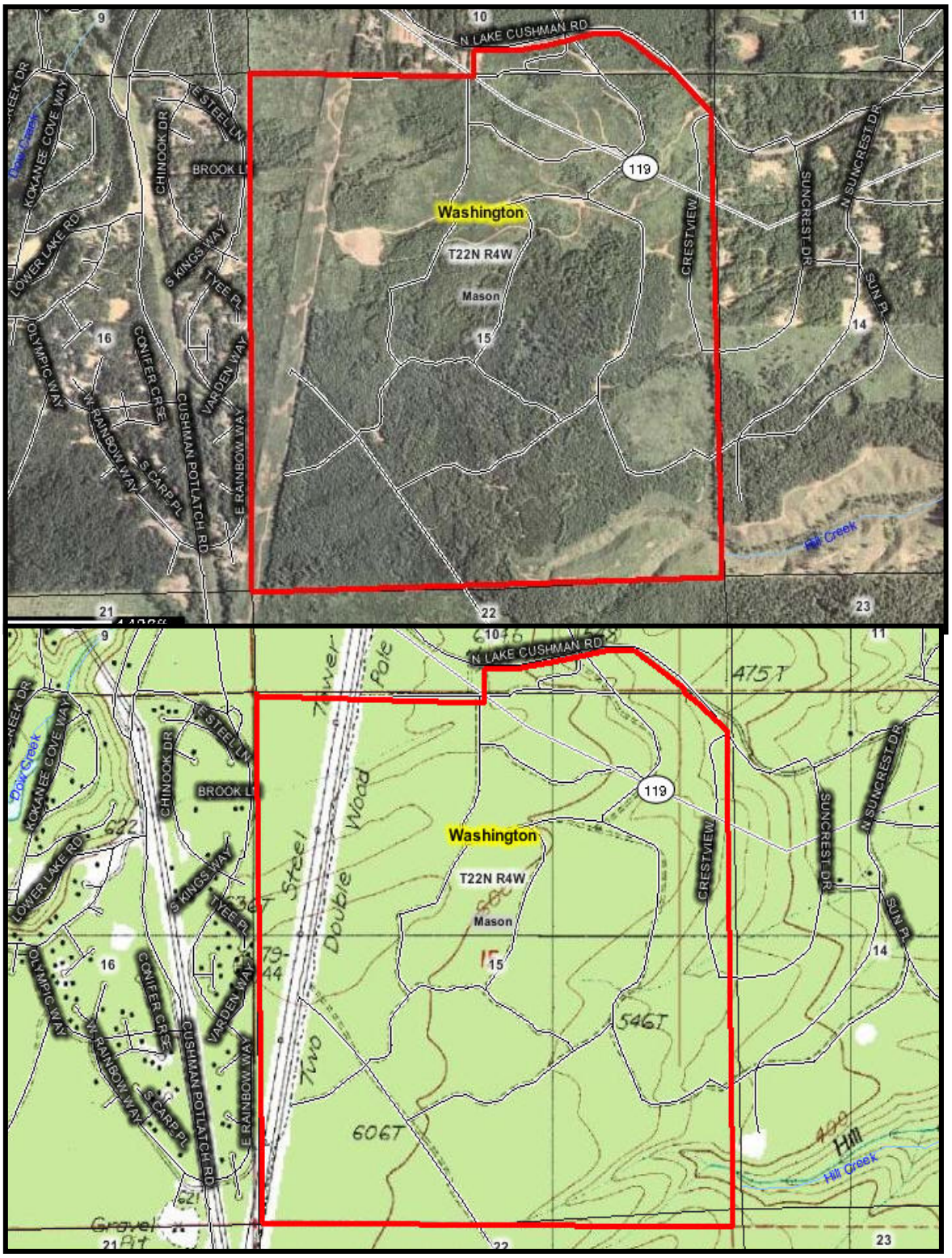
(2) a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forrest Management
c. H & B Use: Forest Management/Residential
d. Zoning: R-20
e. Area: 654.11 acres
f. Sale Date: July 27, 2007
g. Price: $3,200,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Affidavit #: 90784
k. Seller: Sheldon Properties
l. Buyer: The Ridge at Hoodsport
m. Confirmed with: Jeff Gonzales, Project Manager for The Ridge at Hoodsport (360) 956-0710
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

(3) TAX PARCEL NUMBER: 42210440001

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located just to the south of paved Lake Cushman Road very near Hoodsport on the West Side of Hood Canal. While this is in some respects somewhat remote, it is also a recreational destination. In fact, the property was purchased for development of residential and recreational lots. The property has good gravel logging roads on the site and is extremely level.

(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUES	LAND VALUE $/AC
$0	$3,200,000	$4,892/ac



Sales Comparable #8

General Overview of Land Sale Comparison #8
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 9

(1) ADDRESS or LOCATION: 4.5 mi NW of Shelton, Mason County

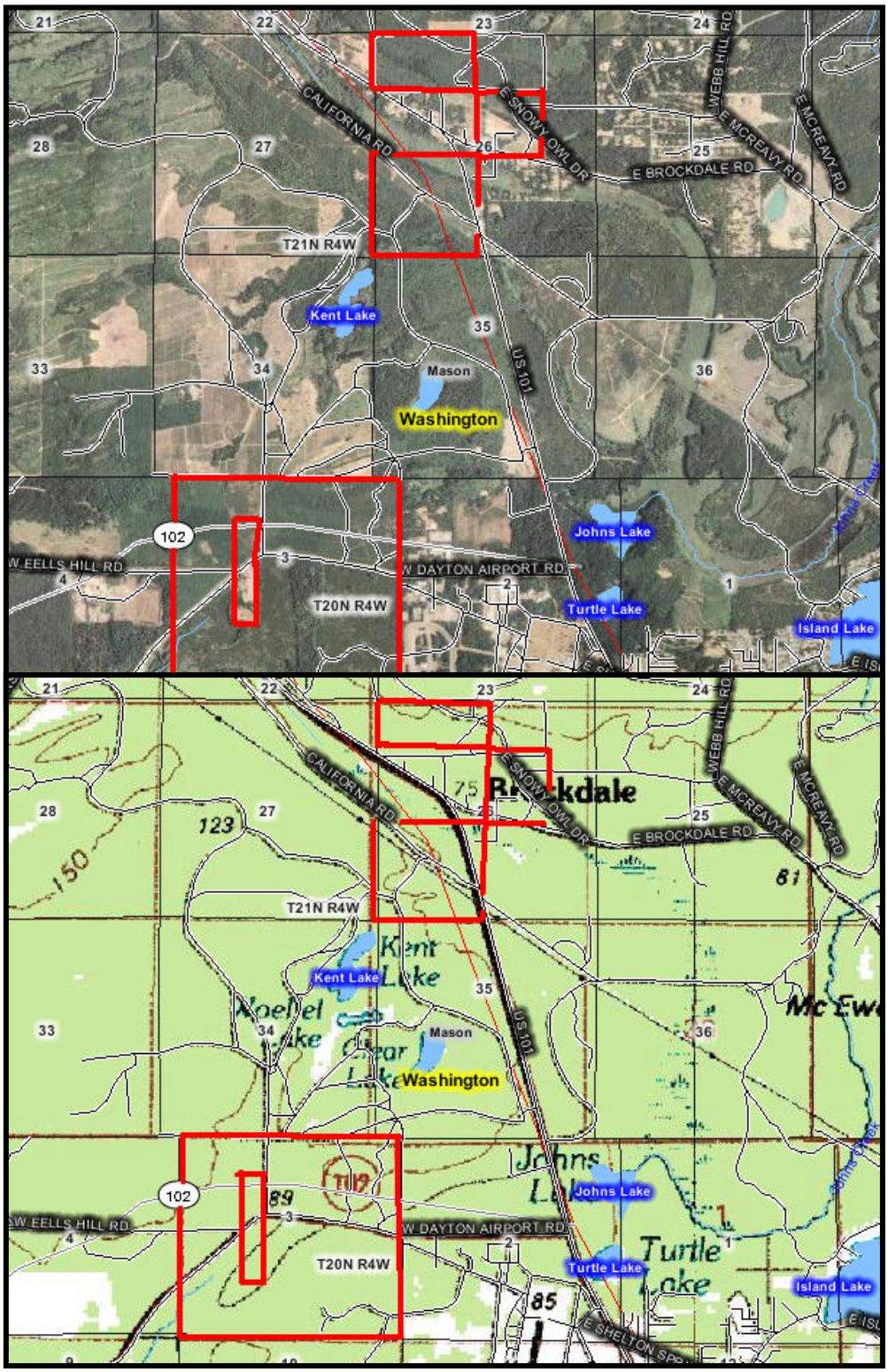
(2) a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: R-10, R-20
e. Area: 839.66acres
f. Sale Date: October 22, 2004
g. Price: $1,320,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Affidavit #: 74823
k. Seller: JHC Liquidation Co.
l. Buyer: James and Joan Hunter
m. Confirmed with: Joan Hunter (360) 426-7700
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

(3) TAX PARCEL NUMBER: 420030000000

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland in two separate land parcels that are within about a mile of each other. Although this is located in a somewhat remote area of Mason County, there are paved roads nearby as well as gravel roads on both property segments. Both areas are quite level and have no significant creeks or water bodies.

(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$1,320,000	$1,572/ac



Land Sale Comparison #9

General Overview of Land Sale Comparison #9
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 10

(1) ADDRESS or LOCATION: 6 mi SE of Shelton, Mason County.

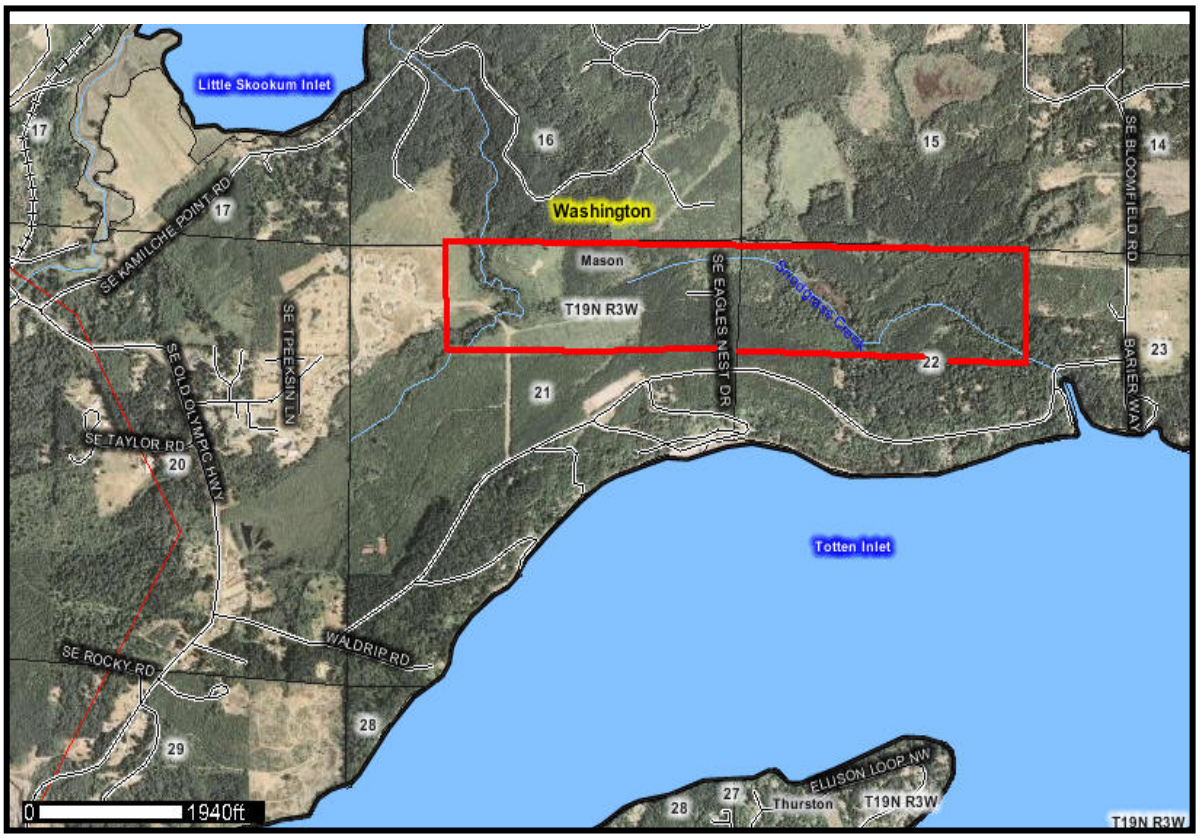
(2) a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: R-10 & R-20
e. Area: 240 acres
f. Sale Date: March 30, 2005
g. Price: $772,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Affidavit #: 77175
k. Seller: Mason County
l. Buyer: Squaxin Island Indian Tribe
m. Confirmed with: Jeff Dickison (360) 426-9781
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

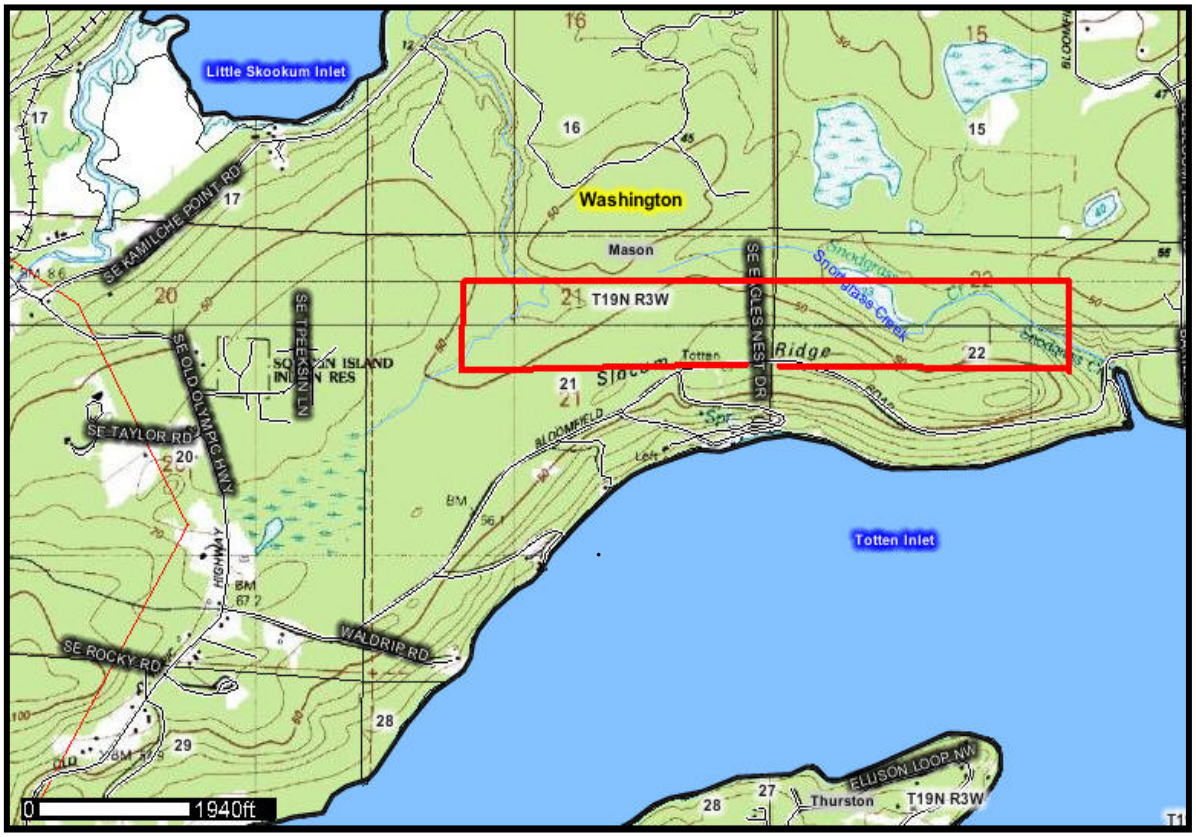
(3) TAX PARCEL NUMBER: 319210000000

(4) PHYSICAL CHARACTERISTICS/COMMENTS: The subject parcel is unimproved timberland located adjacent to land owned by the Squaxin Tribe just to the north Totten Inlet. While this is in some respects somewhat remote, it was purchased to create home sites for tribal members. The property is about 2 miles from SR 101 and just to the north of a paved count road. It is generally level and has one creek on it.

(5) ANALYSIS

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$772,000	$3,215/ac





Land Sale Comparison # 10

General Overview of Land Sale Comparison #10
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 11

(1) ADDRESS or LOCATION: 8.5 mi S of Olympia in Thurston County

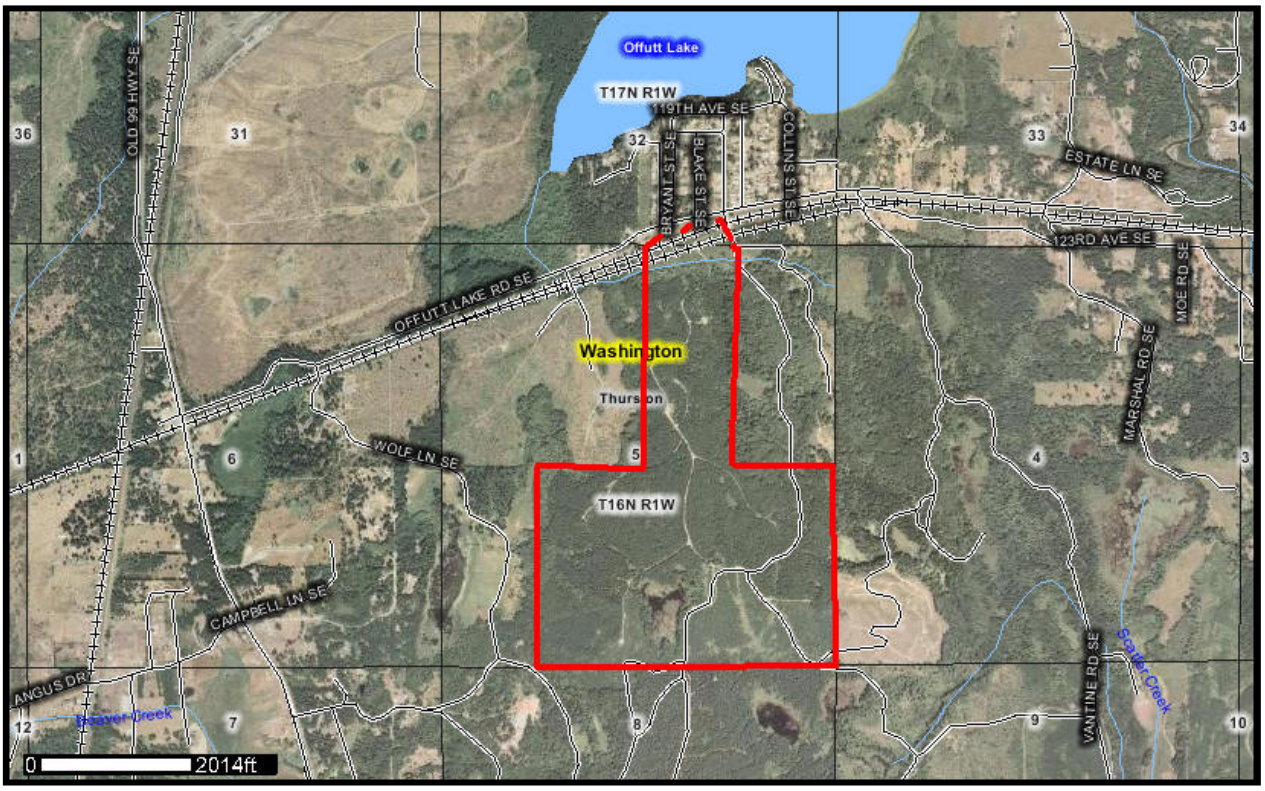
(2) a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: R-5
e. Area: 323 acres
f. Sale Date: October 26, 2006
g. Price: $2,100,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Tax #: 357431
k. Seller: TCT Profit Sharing Plan
l. Buyer: Gordon L Boe & Myron A Struck
m. Confirmed with: Myron A Struck (360) 459-7714 (Buyers would not disclose information and said to rely on public records)
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

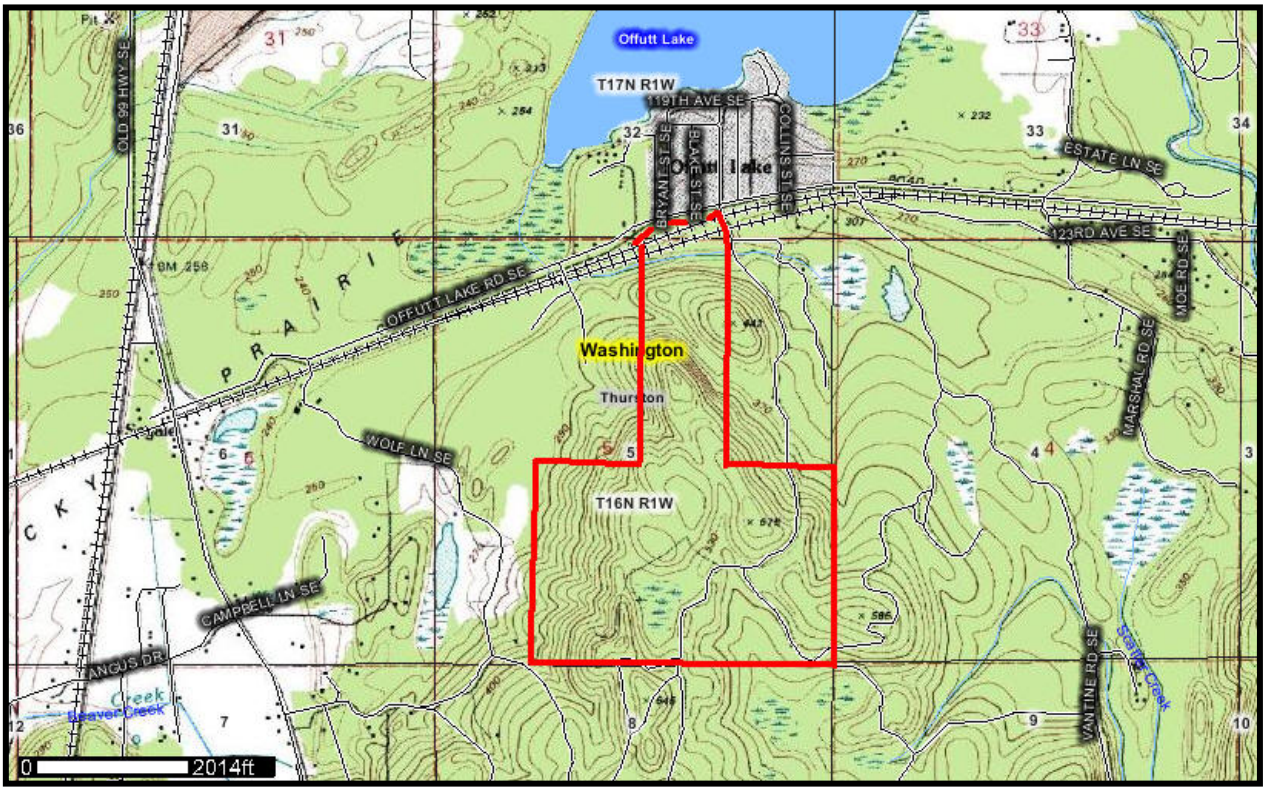
(3) TAX PARCEL NUMBERS: 11605120000; 11732430300

(4) PHYSICAL CHARACTERISTICS: The subject parcel is unimproved timberland located just south of Tumwater in an area of rural residential development. Its northern boundary is adjacent to paved Lake Offutt Road. There are minimal logging roads on the property. The topography rises to about 300' in the center of the property, which is rather level and would afford views of the surrounding area. There are somewhat steep areas on the west side of the property and in the north central area. There are no creeks on the property.

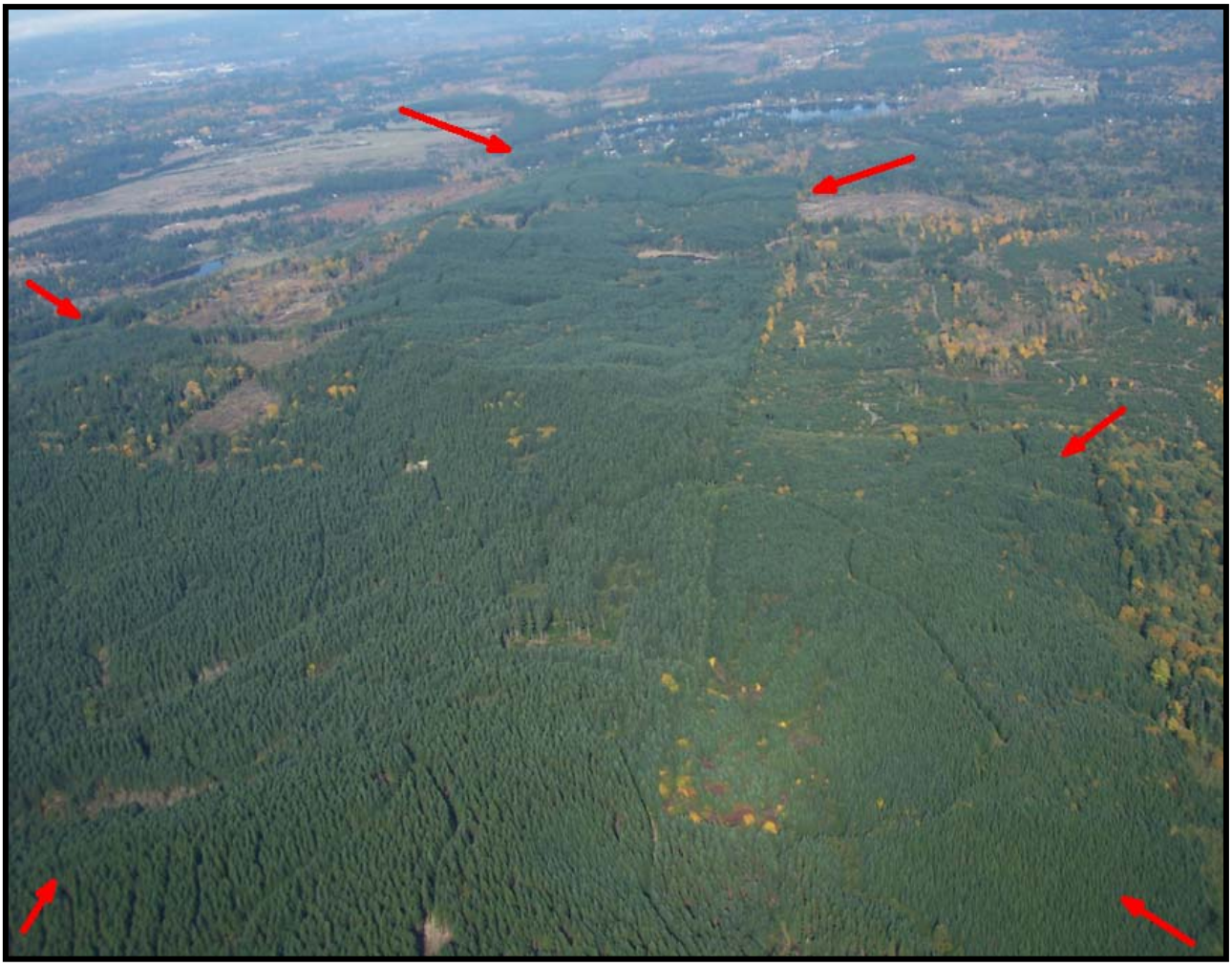
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$2,100,000	$6,502/ac





Land Sale Comparison #11



Land Sale Comparison #11
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 12

(1) ADDRESS or LOCATION: 16 mi S of Olympia in Thurston County

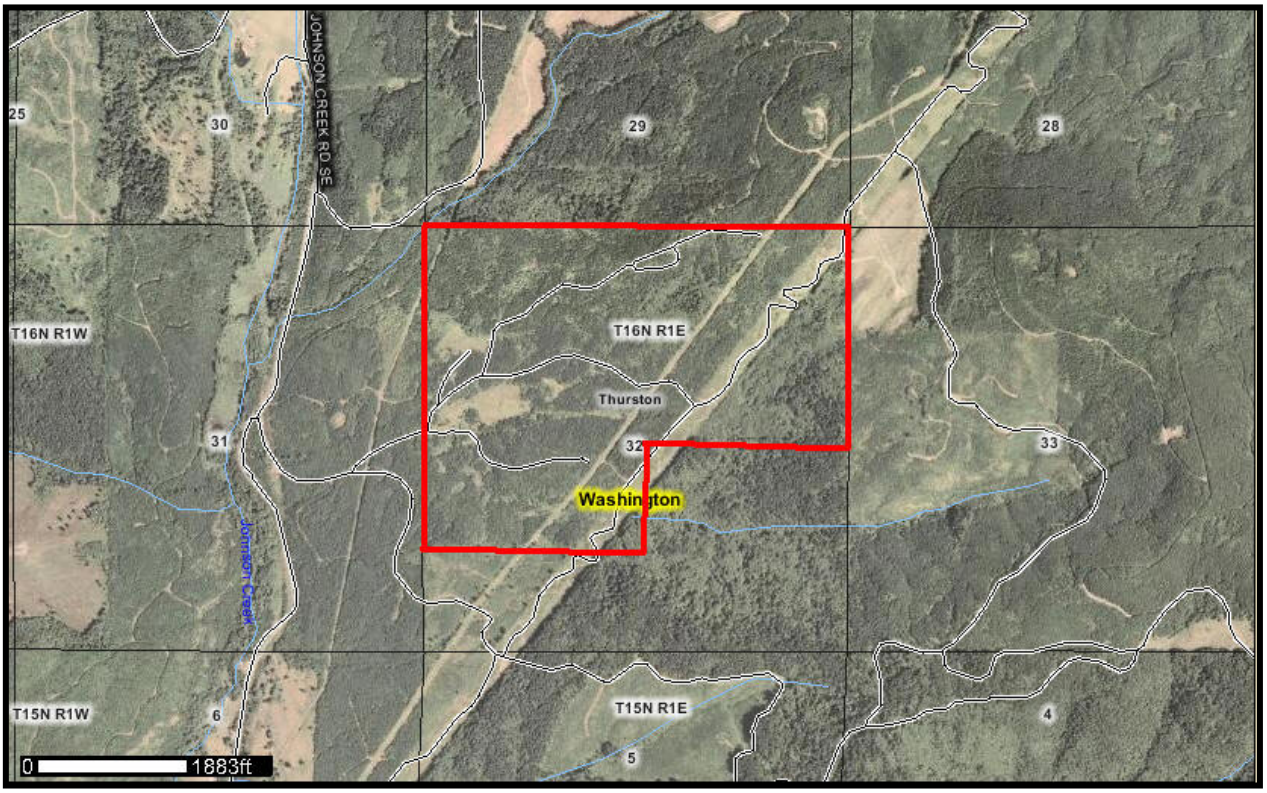
(2) a. Access: Somewhat remote interior gravel roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: LTF
e. Area: 400 acres
f. Sale Date: May 30, 2008
g. Price: $812,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Tax #: 505034
k. Seller: Rainier Forest Products, Inc.
l. Buyer: Weyerhaeuser Company
m. Confirmed with: Steve Ketz, Weyerhaeuser director of western timberland portfolio (253) 924-2345
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

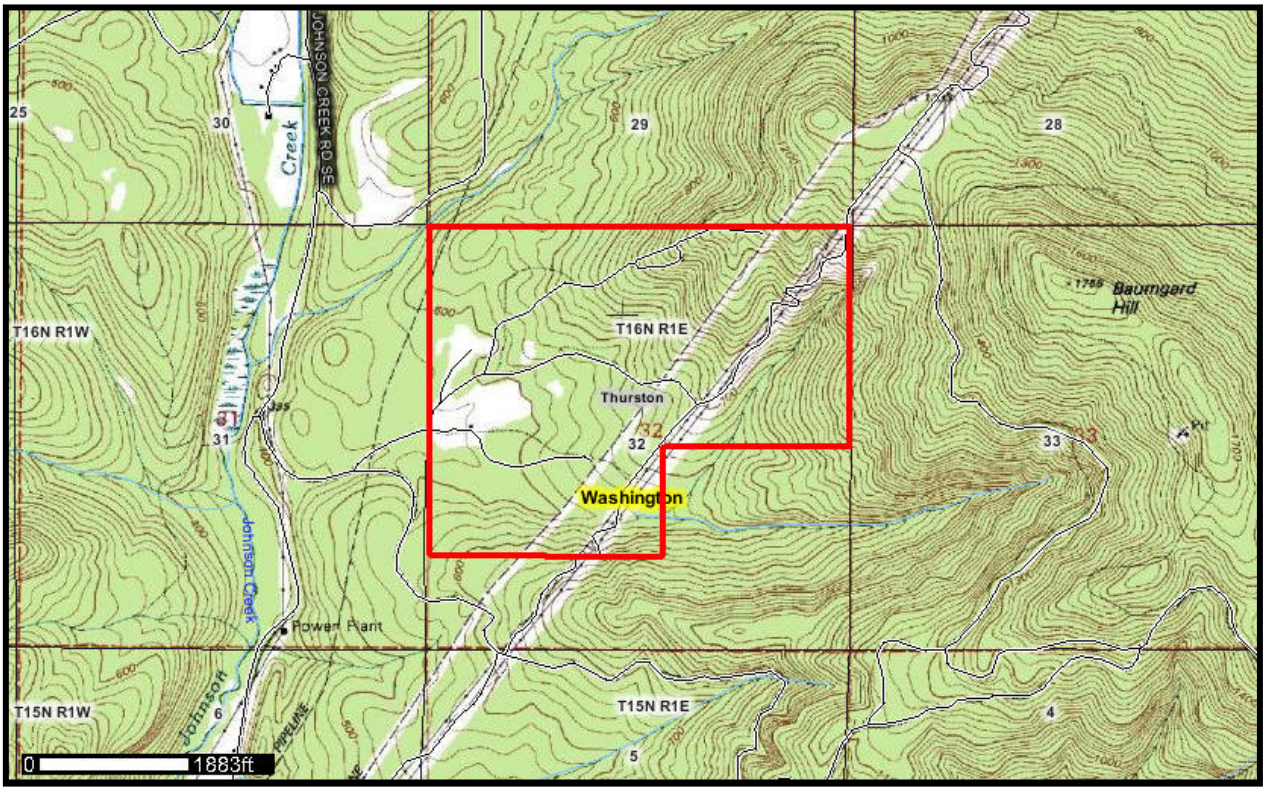
(3) TAX PARCEL NUMBERS: 21632200100; 21632200100

(4) PHYSICAL CHARACTERISTICS: The subject parcel is unimproved timberland located just in a somewhat remote area to the south of Tumwater. It is about 4 miles south of SR 507, which is the nearest paved road. Although it is not too distant from rural residential development to the north, this property does not have good access and is not well suited to that use. Further, it is situated on the western slope of a low lying mountain at an elevation of around 1,000' and has some relatively steep slopes. There are no creeks on the property.

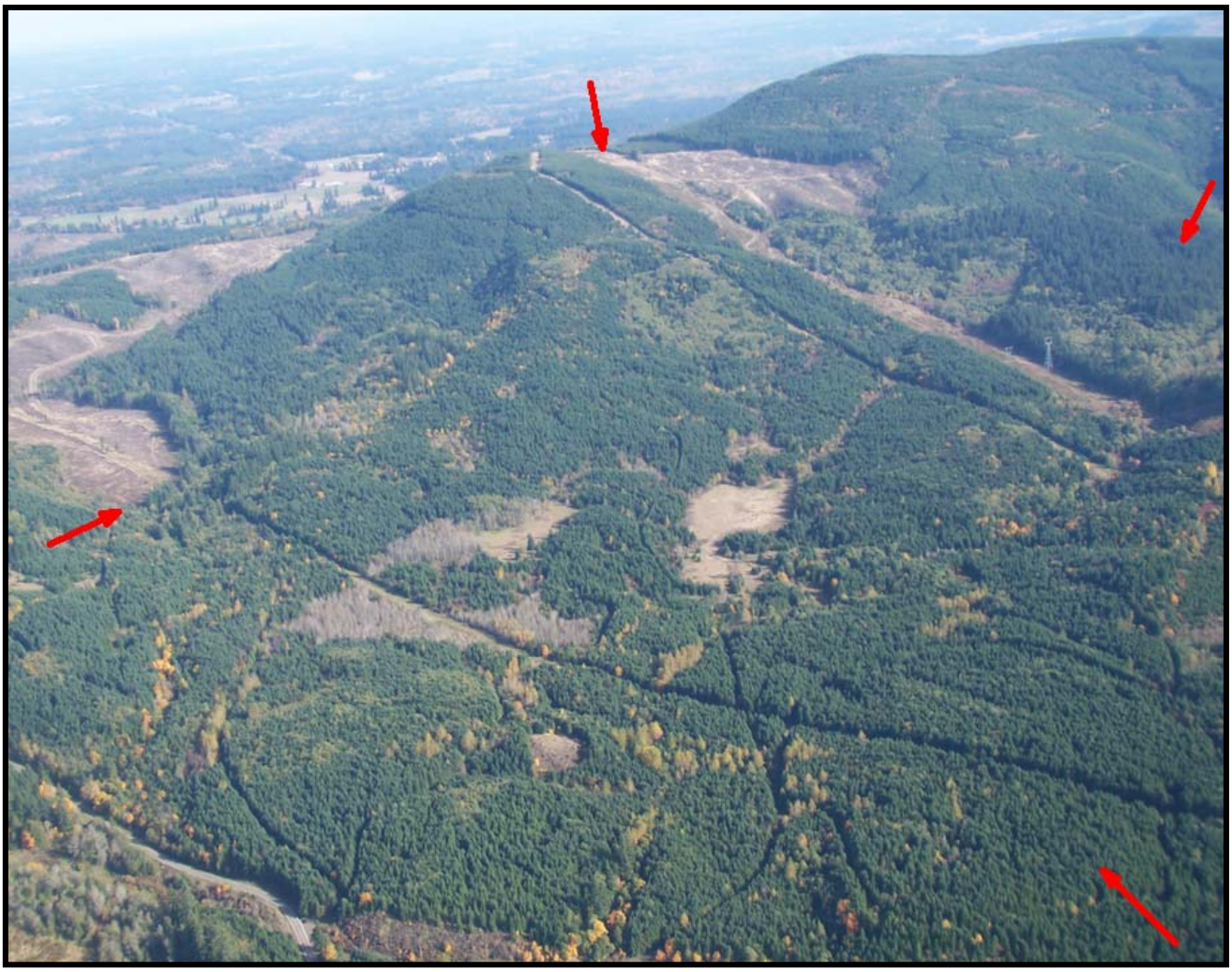
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$0	$812,000	$2,030/ac





Land Sale Comparison #12



General Overview of Land Sale Comparison #12
Photo taken by Stephen Shapiro October 24, 2008

MARKET DATA – SALE COMPARABLE 13

(1) ADDRESS or LOCATION: 9.5 mi SE of Yelm in Thurston County

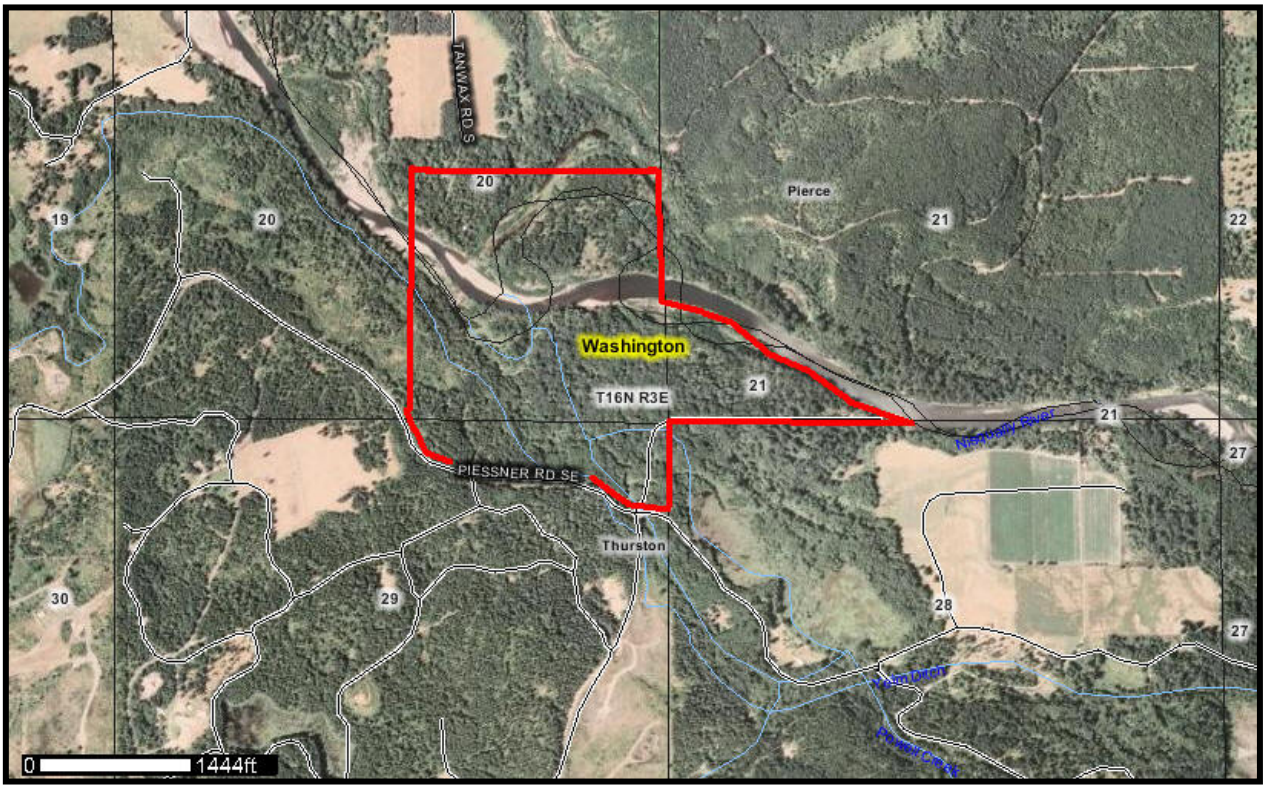
(2) a. Access: Paved public roads and gravel FS roads
b. Use at Sale: Forest Management
c. H & B Use: Forest Management/Residential
d. Zoning: R-5
e. Area: 240 acres
f. Sale Date: June 30, 2006
g. Price: $1,200,000
h. Instrument Type: Warranty Deed
i. Terms: Cash
j. Excise Tax #: 353067
k. Seller: North Pacific Conference of the Evangelical Covenant
l. Buyer: Nisqually Land Trust
m. Confirmed with: Joe Kane, Nisqually Land Trust Executive Director (360) 458-1111
n. Confirmed by: Stephen Shapiro, appraiser
o. Aerial inspection by Stephen Shapiro October 24, 2008

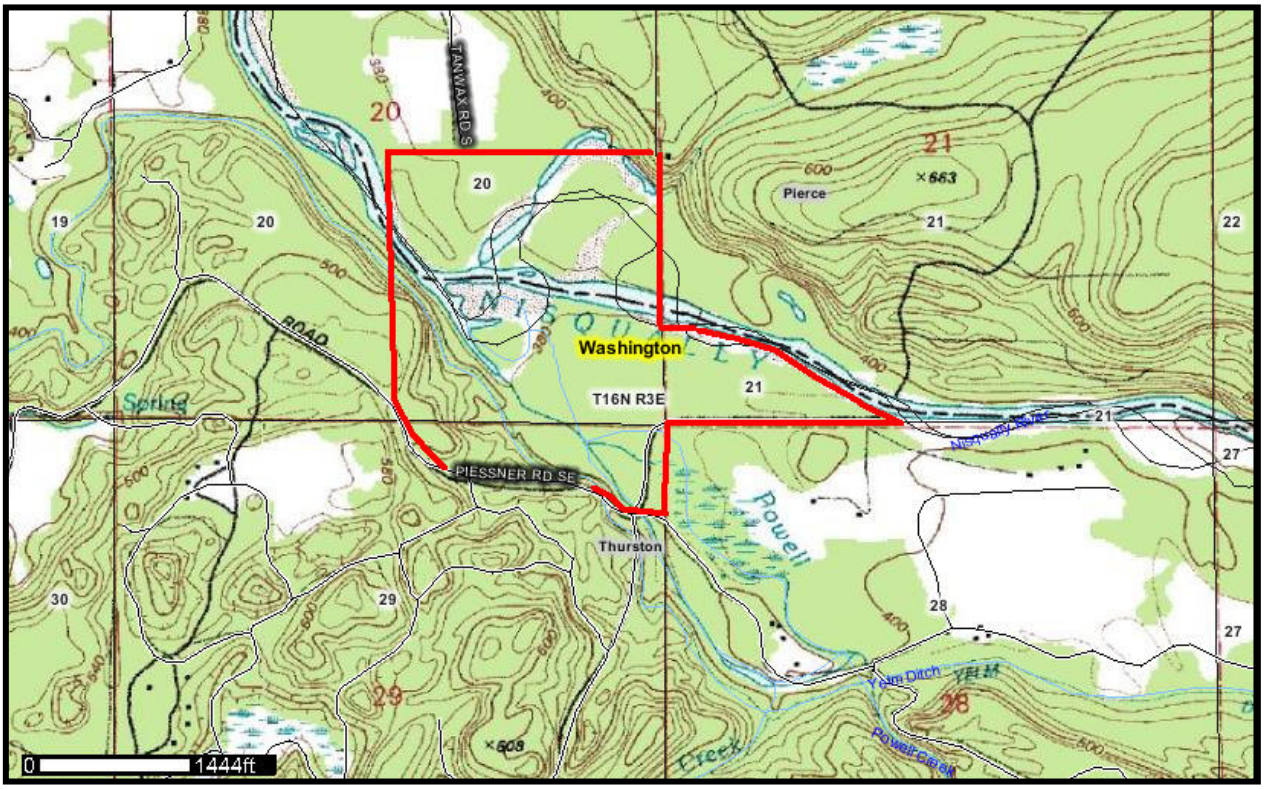
(3) TAX PARCEL NUMBERS: 236-21-000000 and portions of other Thurston County parcel numbers available in our work file.

(4) PHYSICAL CHARACTERISTICS: The subject parcel is unimproved timberland located south of Yelm in an area of mixed farmland and timberland. The property has frontage on the Nisqually River, which runs through the middle of the property, and is very level except for a steep area on the southwest corner of the property. There is paved access along the southern boundary onto Pressner Road.

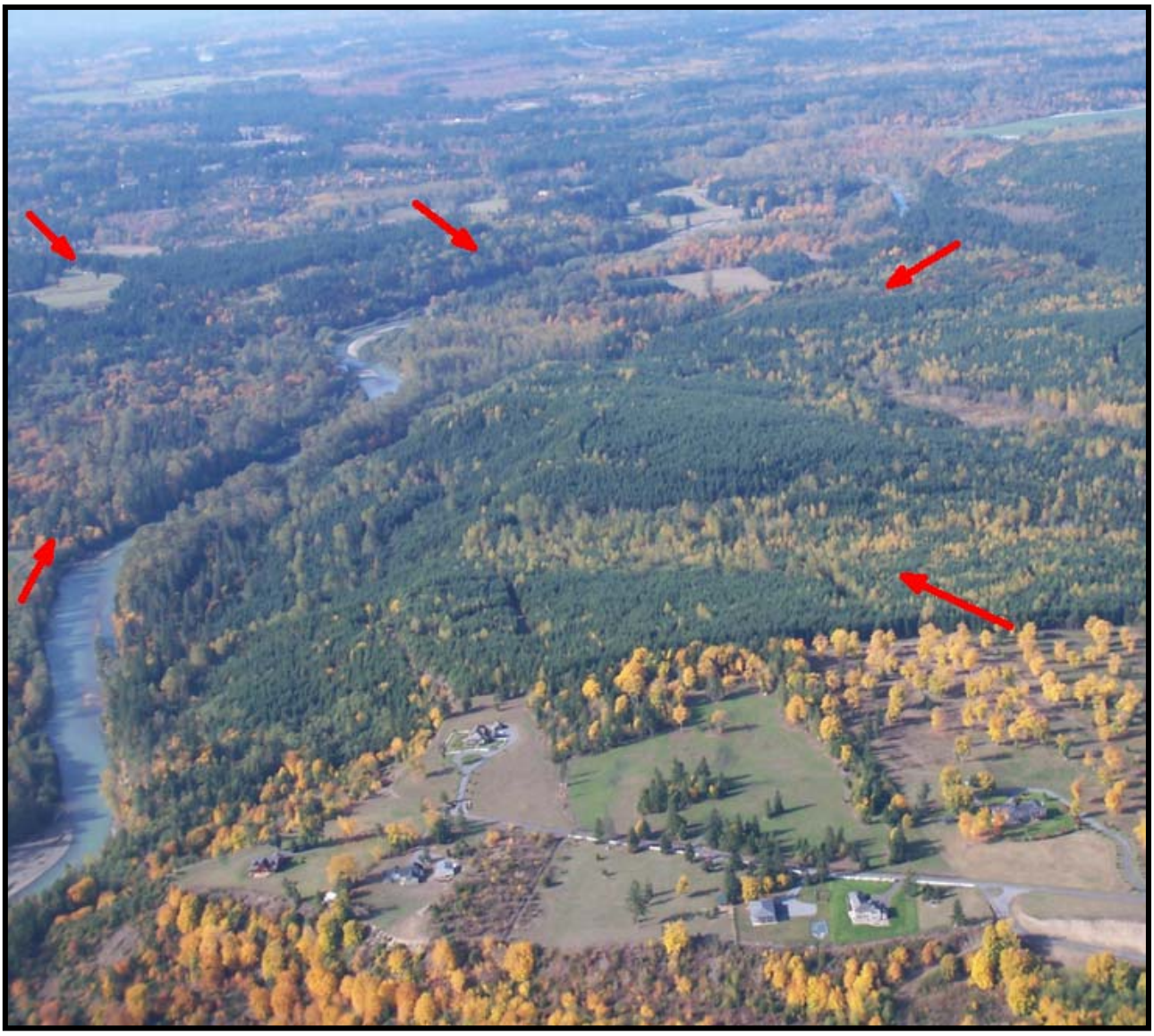
(5) ANALYSIS:

MERCHANTABLE TIMBER	LAND VALUE	LAND VALUE $/AC
$430,000	$770,000	$3,208/ac





Land Sale Comparison #13



General Overview of Land Sale Comparison #13
Photo taken by Stephen Shapiro October 24, 2008

LAND VALUATION—SALES COMPARISON APPROACH

Introduction

The most typical valuation methodology for raw land is the direct sales comparison approach. This valuation analysis assumes that the entire subject would be sold to a single buyer who would utilize the property under the highest and best use for rural residential development after a conversion timber harvest. Additionally, it is also appropriate to analyze the subject's value through the development approach (also known as subdivision analysis) as this follows the thinking of likely prospective buyers of the property. I have performed this approach following the direct sales analysis.

On the preceding pages I have provided a Sales Comparison Map, Sales Comparison Summary Table, as well as additional information on each comparable transaction in the form of photos, maps, data tables and written descriptions. Details regarding each sale transaction were confirmed with the buyer, seller or broker when possible, but all sale details are considered to come from credible sources. Additionally, I performed an aerial inspection of each comparable property with photographs provided.

Identifying the relevant elements of comparison between a given subject and the sale comparison properties is essential in the valuation process, and any significant differences must be adjusted either quantitatively or qualitatively in the analysis. In this instance, the salient characteristics that differentiate value between the subject and the comparable properties would include location, size, availability and condition of roads (both public and private), ability of the land to grow trees (productivity), extent of existing timber resources that considers the respective value of merchantable versus premerchantable timber, impact of critical areas and the potential for conversion to an alternate highest and best use inherent in the zone.

Both the Uniform Standards of Professional Appraisal Practice and the Uniform Appraisal Standards for Federal Land Acquisitions allow for quantitative as well as qualitative adjustments between a subject and sales comparables. Although this report is not required or intended to be fully compliant with UASFLA standards, I am aware that the Washington State Department of Natural Resources policy is to follow these standards with respect to treatment of sales comparables.

Referring to page 96 I have provided a Sales Comparisons Adjustment Summary Grid that delineates all of the relevant adjustments. In this instance, the only element of comparison with a strong basis for a quantifiable adjustment is merchantable timber. It is a common convention among professional forest managers to consider the value of the underlying land and pre-merchantable timber resource as being more or less inseparable until such time as the timber resource nears a harvestable condition. At that point the value of the merchantable trees is treated as a separate economic unit apart from the underlying land and premerchantable timber, which makes implicit sense since the whole point of forestland management is to market trees like a crop when they reach their optimal economic condition. With this in mind, I have commissioned the attached timber valuation of the subject by S.A. Newman that has derived the value of the subject's merchantable timber. Similarly, I have separated out the value of the merchantable timber on the sales comparables. This is considered to be very reliable since I was able to obtain actual timber valuations from the buyers or sellers of these properties that were performed by professional foresters at the time of sale.

Quantitative adjustments for timber value are shown on the table. All other adjustments are qualitative. If a comparable property has a superior attribute to the subject this warrants a downward adjustment, and vise versa.

Since all of the transactions pertain to the fee simple interest in the properties there is no adjustment warranted for property rights. Similarly, all of the comparables transacted on a cash equivalent financing basis, which would be similar to the subject.

Conditions of sale pertains to the motivation of the buyer and seller. Typical market transactions are at arm's length in which both parties are inclined to maximize their economic gain and have no unusual influences or motivations. The market definition used in this report assumes any transaction of the subject would be under these circumstances. However, this was not the case for all of the sale comparables. In particular, it is reasonable to suggest that where a governmental agency or conservation organization is involved in a transaction there may be atypical motivation. This can be difficult to assess since most transactions by government and conservation groups for property require a market based purchase. On the other hand, when such an entity engages in the purchase of a property it is typically for an identified reason such as conservation or a public interest that may motivate the acquisition irrespective of the cost.

Among the thirteen sales comparables described in the preceding pages are several transactions between a private company and a governmental agency, and one is between a private company and a conservation organization. Although this appraisal report is not intended or required to be compliant with the Uniform Appraisal Standards for Federal Acquisitions, that set of standards does provide useful guidance regarding this issue and I have noted the following citation:

> *Government is a different type of player, not constrained to follow market economic rule; thus, sales to the government should be immediately viewed by appraisers as suspect. When appraisals for federal land acquisitions are conducted, sales to the government should not be used as comparable sales unless there is such a paucity of private market data as to make a reliable estimate of market value impossible without the use of government purchases. However, the types of transactions conducted and lands acquired by governments are often unique. For instance, in the acquisition of lands for conservation or preservation, the acquired lands are often located in remote areas, are of extraordinary size, have little economic utility or value, and are located in areas of little market activity. To develop a reliable and supportable estimate of market value in these situations, appraisers may be forced to consider sales to the government in the sales comparison approach to value.*

In this instance, I have used a number of sales involving a governmental agency because they had particularly good characteristics relevant to valuation of the subject. Since there are other good comparables that did not include governmental agencies, these are intended to corroborate the private party sales. However, as per the requirements of UASFLA, I have documented the particulars of the transactions that included a governmental agency and made a determination that they represented market value.

Additionally, I used one sale of property between a private party and a conservation organization. While the UASFLA does not appear to comment upon the appropriateness of using sales in which a conservation group is a party to the transaction, it is worth noting that the motivation of such an organization may be similar to the government with respect to acquiring such property in the public interest. Here again, this sale was useful in the valuation analysis of the subject owing to their similarities in characteristics, although they are intended to corroborate the private party sales. Details regarding this sale have been well documented, and it is my opinion that it represents market value. Further, in the analysis below I have considered any necessary adjustments for atypical motivations of the buyer or seller with respect to conditions of sale in this transaction.

Among the sale comparables I have confirmed all of the transactions that included governmental and conservation agencies and concluded that there is likelihood that some were atypically motivated. This would include comparables 4-6. As noted on the Adjustment Summary Grid I have applied a downward adjustment as two of these were acquisitions by the Washington State Department of Natural Resources and one by Kitsap County, both of whom appeared to have strong motivation for these purchases. By contrast, although comparables 2 and 3 were also purchased by governmental agencies I have concluded that no adjustment is warranted. Comparable 2 was purchased by Kitsap County as the sole bidder in an auction of property owned by Port Blakely Tree Farms who was also atypically motivated to dispose of the property quickly and this effectively canceled out any opposite motivation on the part of the buyer. A similar circumstance occurred for comparable 3 in which Washington State was the buyer and the seller was an out of state corporation that wanted a quick sale was the seller. Comparable 1 shows an upward adjustment. This was a purchase of property owned by Port Blakely Tree Farms by Craig Ueland, a private buyer. Mr. Ueland noted that he was the sole bidder in an auction and he believes that he paid considerably below market value for the property owing to a lack of competition for it. All of the other transactions were at arm's length and thus have no adjustments.

With regard to market conditions, while some of the comparables are recent sales from 2007 and 2008, several date back as far as 2004, and thus it is necessary to consider whether an adjustment is necessary. A market adjustment is not actually based upon the passage of time, but rather upon appreciation or depreciation over time (if any). Appreciation is the result of positive changes with respect to a property that results in increased demand for it (by means other than a change in the utilization of the property), whereas depreciation is the opposite. By virtue of being remote, most timberland is not typically impacted by forces that result in significant appreciation. However, changes in market conditions do occur in forestland over time. By virtue of having rural residential development potential the subject will also be more influenced by market conditions than property that only has utility as forestland.

The best way to document changes in market conditions for land is through matched pair analysis of the sale and resale of the same property or the sale of two very similar properties at different times. Typically, however, forestland is subjected to timber harvest prior to resale so it is very difficult to obtain reliable matched pairs. Discussion with professional timberland managers indicates that there was steady appreciation in timberland in Kitsap County (and throughout Puget Sound in general) into the middle of 2008 that has since halted with the current demise of the housing market and a subsequent subsiding of demand for lumber. Lacking a means to derive a quantitative adjustment, I have noted a qualitative adjustment for the market conditions impact of older sales on the adjustment grids.

The location of the subject and the comparables has been noted on maps previously provided. Additionally, the summary table and adjustment grid indicates the distance of each comparable from the nearest town or city. Clearly, location is a significant element of comparison with respect to highest and best use for residential development. While a property that has historically been utilized as forestland may have some characteristics for utility as rural residential land including level terrain, road access and a zone that allows for division into 20 acre lots, if market participants perceive the property as being too remote from infrastructure such as electrical power, jobs, schools and commercial services this would have a very negative impact upon demand. The matter of location is of less significance to forestland since it is typically assumed that this type of property will be remotely located. However, once again, the subject's viability for rural residential use makes this element of comparison more significant as some locations would be better than others for such use.

Similarly, good road access is critical for residential use as well as forestland use; although, obviously the latter use can thrive where access is limited to remote roads. I have noted the type of access available for each comparable. Additionally, I have addressed the issue of road maintenance and quality. As previously discussed, Washington State requires all forestland owners to keep their roads in good repair. Further, large forestland owners are required to submit Road Maintenance and Abandonment Plans with the State. While most of the properties used in this analysis are too small to provide RMAPs, some are not. In cases where I was able to confirm the sale transaction details (which was most cases) I specifically asked about RMAP obligations and the conditions of the on site roads at the time of sale. Perhaps not surprisingly, I was told in all cases that the roads were good (either because the roads actually were in good condition or because the party asked did not feel that it was prudent to acknowledge that this was not the case). Although I have inspected all of the sale comparables from the air, this did not provide a prospective from which I could verify the conditions of the comparable sale properties' roads. Thus, I have depended upon the information available to me.

Subject Area	Site Class 1	Site Class 2	Site Class 3	Site Class 4	Site Class 5/Wetland	Site Class Index
36 25N 1W	0%	5%	70%	5%	20%	**3.40**

Sale Comparables	Site Class 1	Site Class 2	Site Class 3	Site Class 4	Site Class 5	Site Class Index
1	0%	0%	94%	5%	1%	**3.07**
2	0%	2%	81%	15%	2%	**3.17**
3	0%	0%	15%	65%	20%	**4.05**
4	0%	33%	50%	17%	0%	**2.84**
5	0%	0%	82%	15%	0%	**3.06**
6	0%	50%	45%	0%	5%	**2.60**
7	10%	25%	45%	0%	20%	**2.95**
8	0%	0%	100%	0%	0%	**3.00**
9	0%	0%	25%	65%	10%	**3.85**
10	0%	30%	55%	0%	15%	**3.00**
11	0%	0%	94%	2%	4%	**3.10**
12	0%	0%	90%	0%	10%	**3.20**
13	0%	45%	10%	20%	25%	**3.25**

FORESTLAND SITE CLASS INDEX

The site class index is a measure of forestland productivity that considers such factors as soils conditions, topography, elevation and rainfall. In western Washington the index is based upon a 50 year growing cycle with Class I growing trees to at least 137', Class II growing trees to 119'-136', Class III growing trees to 97'-118', Class IV growing trees to 76'-96' and class V growing trees from 1'-75'. On the previous page is a Site Class Index analysis for the entire subject and each of the sales comparables. While the site class maps for the subject are provided on page 39, I have not provided the actual site class maps for the subject because there are over fifty of them (the DNR site class maps are broken out by section as the largest possible unit). However, they may be provided upon request. Within each property is a wide mix of site class indices. I have provided a breakdown of these for each of the subject's individual sections and an overall composite for each of the comparable properties that is noted on the summary grids.

Perusal of Kitsap County Critical Areas and Building Limitations maps and well as FEMA flood plain maps indicates that the subject is encumbered by critical areas (primarily wetlands and streams) that cover approximately 20% of the property. As discussed in this report it is not permissible to harvest timber in critical areas or associated buffers. It is also not permitted to build improvements in these areas. While this can impose significant constraints upon residential development, the impact is much less in areas with low density zoning. As is illustrated on the development scenario map on page 111, where the minimum lot size is 20 acres such as on the subject, it is usually possible to find a suitable home site outside the critical areas. Nevertheless, even under this circumstance, prospective users of the land will generally place a lower value on wetlands than non-wetland property. The critical areas adjustment is based upon perusal of critical areas and flood plain maps for the comparables. While the percentage of area noted on the grid for each property is primarily for wetlands, it also accounts for streams and steep slopes if these happen to exist upon a given property.

All of the zones are noted for the various properties since residential use is more feasible in some zones than in others. Although forestland zones do allow for single family residential use it is at such a low density (i.e. requires a very large minimal lot size) that there is very low market demand for this purpose. However, it is important to note that even where a zoning designation allows for a minimal lot size of 20 acres, this still may not result in any particular demand for residential use. This occurs, for example, when land under such a zone is in a remote location with poor road access and lack of proximity to electrical power. In fact, perusal of the zoning maps for Kitsap County shows expansive areas with zones that allow for 20 acre residential development that have extremely low potential for actual application to this end, which is not the case for the subject.

The final major element of comparison noted pertains to the size of the sale comparables relative to the subject. It is a well established tenet of real estate valuation that all other things being equal a large property will tend to show a lower $/unit value than a small property. The reason for this is based upon the concept of marginal utility that suggests that a typical user gains somewhat less utility from each additional incremental unit added. Thus, it would be expected that properties would show a higher value in the market if they are small enough that the entire property can be absorbed more quickly and a lower value if the opposite is the case. With respect to forestland use size differential is also a factor since, for similar reasons of diminishing marginal utility a prospective buyer will typically place a lower unit value on a larger parcel than a smaller one.

Valuation Analysis

The various quantitative and qualitative adjustments for each comparable appropriate are shown on the Sales Comparison Adjustment Summary Grid on the previous page. At the bottom of the summary grid the quantitative adjusted sale price (which accounts for the value of merchantable timber assuming a Class IV-G harvest at the time of sale) is shown for each comparable. Below that all of the qualitative adjustments are shown. Applying the composite qualitative adjustments to the adjusted sale price provides an indication of the relative adjusted value of each comparable to the subject. For example, comparable 1, which has a quantitative adjusted price of $1,564/ac is noted as a significantly low value indicator for the subject owing to the preponderance of upward adjustments.

The sale comparables in the Adjustment Summary Grid show a range of quantitative adjusted sale prices from $1,503/ac-$6,502/ac. The values at the lower end of the range are generally associated with properties that have very low development density potential and are in remote locations. Conversely, the values at the upper end of the range pertain to properties with significantly better residential development potential than the subject owing to zones that allow for one unit per 5 acres and very good locations for residential use.

The best value indicators for the subject are comparables 10 at $3,215/ac and 13 at $3,208/ac. Further, these value indications are very well bracketed by the other eleven sales comparables. Based upon the foregoing data and analysis I have concluded with a value opinion for the subject at $3,200/ac. Applying this value to the subject's 522 acres amounts to a total value indication of $1,670,400. *However, it is important to note that this is a value indication for the underlying land and pre-merchantable timber, since the value of the sales comparables' merchantable timber was deducted as a quantitative adjustment. Therefore, the value of the subject's merchantable timber must be added.*

With the addition of the subject's $696,000 estimated merchantable timber value the total subject value indication amounts to $2,366,400.

VALUE ESTIMATE OF 522 ACRE SUBJECT (ROUNDED) $2,370,000 ($4,540/ac)

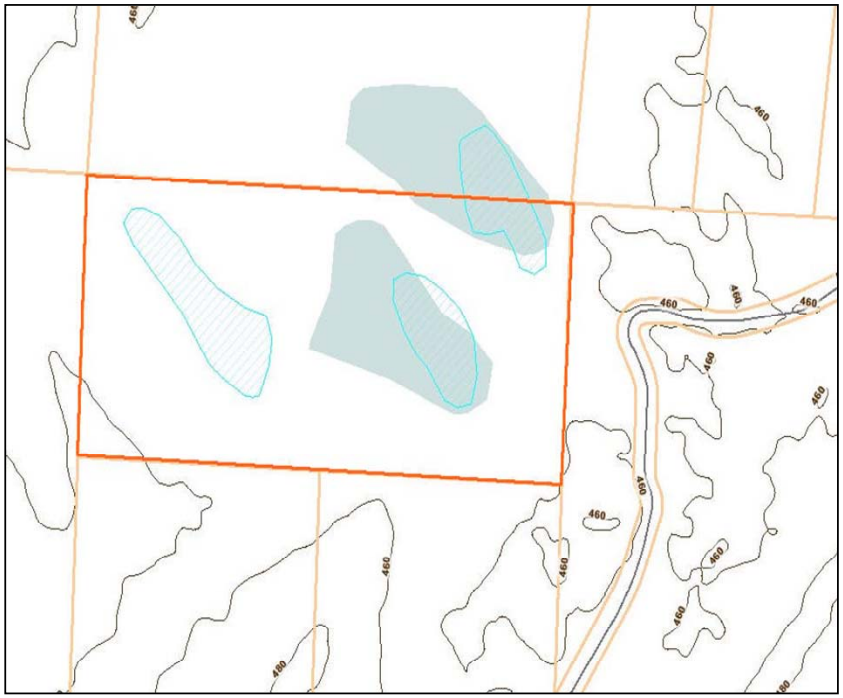
DEVELOPMENT APPROACH

DEVELOPMENT LOT SALES COMPARISONS MAP

20-Acre Lot Sale Comparisons

No.	Location	Lot Characteristics Zoning Units/ac	Acreage	Sale Details Date	Price	Market Adjustment 2007 5%	2008 0%	Comments
1	Lot NE Tajuya/Blacksmith Mason County	RW	20.00ac	28-Apr-08	$120,000	$120,000 $6,000/ac		Wooded lot in remote area of Mason County.
2	Lost Highway Kitsap County	RW	23.99ac	6-Aug-08	$135,000	$135,000 $5,627/ac		Gravel road to rolling land with some wetlands. Lacked established access at time of sale.
3	Cooper Property Kitsap County	RW	23.64ac	5-Aug-08	$135,000	$135,000 $5,711/ac		Adjacent to #2; purchased at same time with intent to perfect access and resell both lots
4	Old Clifton Road SW Kitsap County	RR	15.00ac	24-Apr-08	$165,000	$165,000 $11,000/ac		Some wetlands, little tree cover, near entrance to Bremerton Raceway.
5	Clair Road Kitsap County	UR	42.00ac	11-May-07	$190,000	$196,063 $4,668/ac		Steep slopes and creek limits to one development site.
6	Peter Hagen Road W Kitsap County	RW	14.87ac	17-Oct-07	$195,000	$196,991 $13,248/ac		Mostly level wooded land. Access easement across neighboring property.
7	15156 NW Hite Center Road Kitsap County	RR	17.56ac	2-Jul-07	$249,950	$256,140 $14,587/ac		Terr view potential, septic plans and approval, well and power on property, developed as a single lot.
8	NW Gross Road Kitsap County	RW	19.54ac	2-Jan-07	$250,000	$262,465 $13,432/ac		Paved access to heavily wooded site. Possi ble territorial view with clearing.
9	Green Mountain Rd Kitsap County	RW	21.00ac	13-Feb-08	$355,000	$355,000 $16,905/ac		Secluded wooded parcel with Hood Canal and Olympic Mt view.

Development Comparable 1



1) Lot NE Tahuya/Blacksmith, Tahuya

2)

a.	Access:	Gravel
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RR 1/20
e.	Land Area	20.00ac
f.	Sale Date:	April 28, 2008
g.	Price	$120,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	AFN#:	1919287
k.	Seller:	Mason County
l.	Buyer	Daniel & Anne Pickens
m.	Confirmed with:	Pamela R Murker Reid Real Estate Belfair (360) 277-5106

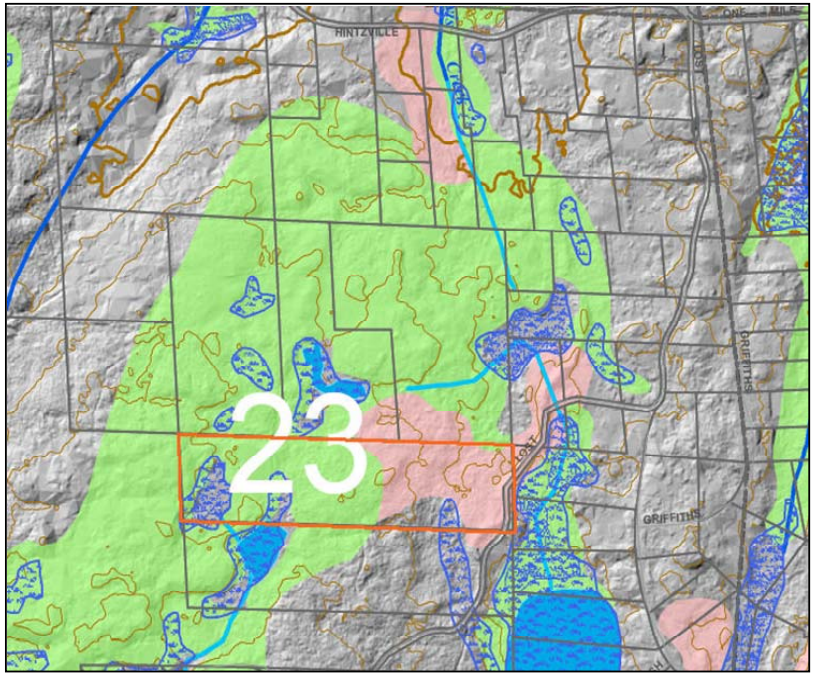
3) Tax Parcel #: 2231-912-00000

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	20.00ac	
Buildings:		
Other:		
Total Sale Price:		$120,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 2



1) Lost Highway W, Seabeck

2)

a.	Access:	Gravel
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RW
e.	Land Area	23.99ac
f.	Sale Date:	August 6, 2008
g.	Price	$135,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2008EX04549
k.	Seller:	Pope Resources
l.	Buyer	Emcee In.
m.	Confirmed with:	Jim Thompson Arrowhead Realty (360) 830-0122

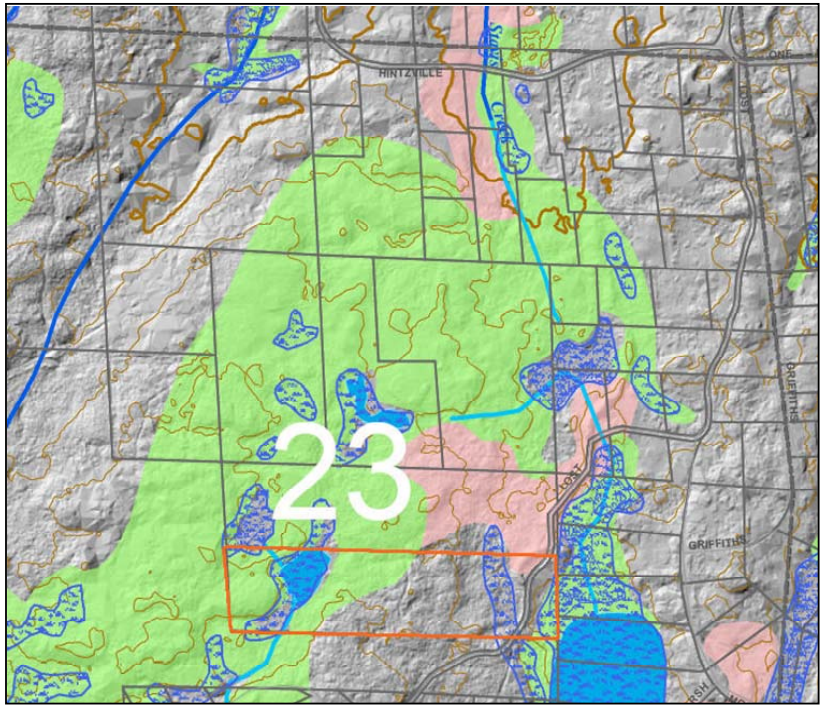
3) Tax Parcel #: 2324-024-039-1008

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	23.99ac	
Buildings:		
Other:		
Total Sale Price:		$135,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 3



1) Lost Highway W, Seabeck (second parcel)

2)

a.	Access:	Gravel
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RW
e.	Land Area	23.64ac
f.	Sale Date:	August 6, 2008
g.	Price	$135,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2008EX04548
k.	Seller:	Pope Resources
l.	Buyer	Mary Cooper
m.	Confirmed with:	Assessor's Data, Metroscan

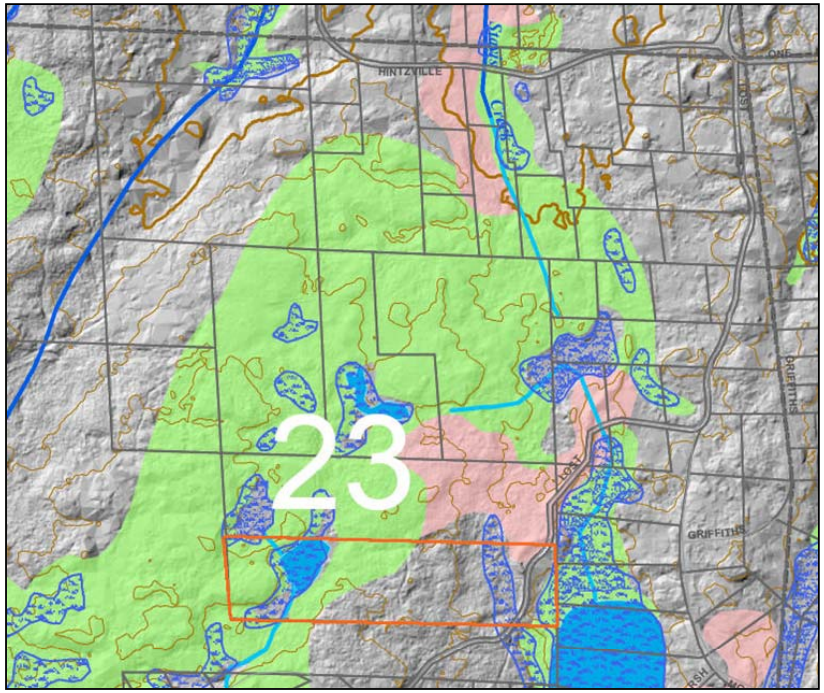
3) Tax Parcel #: 2324 024-040-1005

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	23.64ac	
Buildings:		
Other:		
Total Sale Price:		$135,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 4



1) **Old Clifton Rd SW, Port Orchard**

2)

a.	Access:	Paved
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RR
e.	Land Area	15.00ac
f.	Sale Date:	April 24, 2008
g.	Price	$165,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2008EX02356
k.	Seller:	Herbrand Company
l.	Buyer	Earl & Mary Jane Harman
m.	Confirmed with:	Joseph P. Mercado Properties NW of Gig Harbor (253) 851-2511

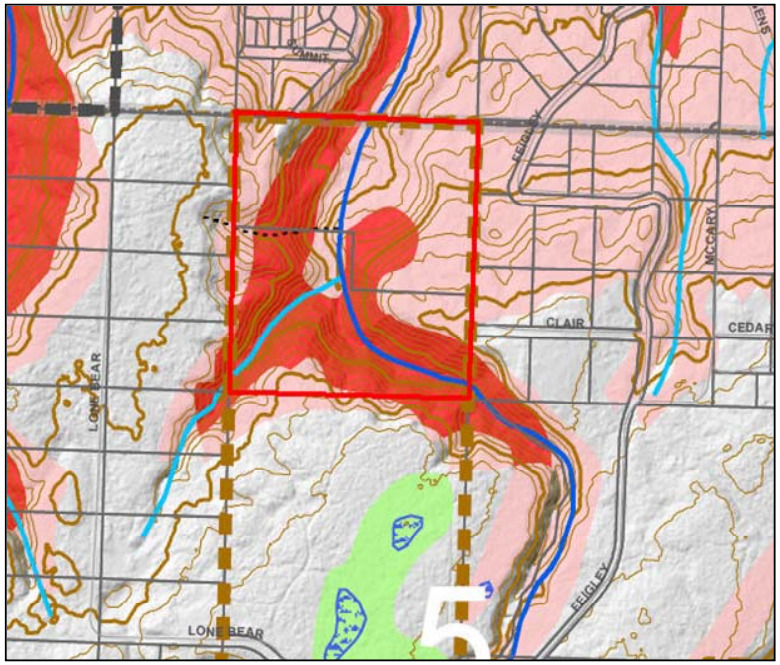
3) **Tax Parcel #: 2324 024-040-1005**

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	15.00ac	
Buildings:		
Other:		
Total Sale Price:		$165,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 5



1) **Clair Road, Port Orchard**

2)

a.	Access:	Paved, with gravel easement
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	UR
e.	Land Area	42.00ac
f.	Sale Date:	May 11, 2007
g.	Price	$190,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2007EX03455
k.	Seller:	Gemi LLC
l.	Buyer	Amalani, Aretz & Amiyon LLCs
m.	Confirmed with:	Fred M Depee John L. Scott (360) 895-5218

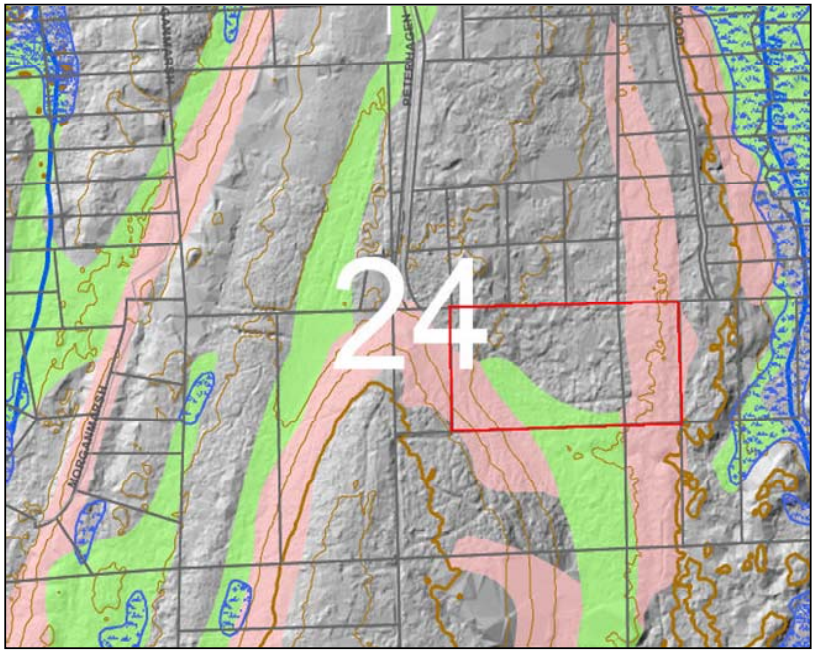
3) **Tax Parcel #: 2324 024-040-1005**

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	42.00ac	
Buildings:		
Other:		
Total Sale Price:		$190,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 6



1) Peter Hagen Rd W, Seabeck

2)

a.	Access:	Gravel with access easement
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RW
e.	Land Area	14.87ac
f.	Sale Date:	December 7, 2007
g.	Price	$195,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2007EX8851
k.	Seller:	Tucker
l.	Buyer	Billie Jo & Johann Schoberl
m.	Confirmed with:	Penny C. Jones Windermere RE Gig Harbor (253) 677-2665

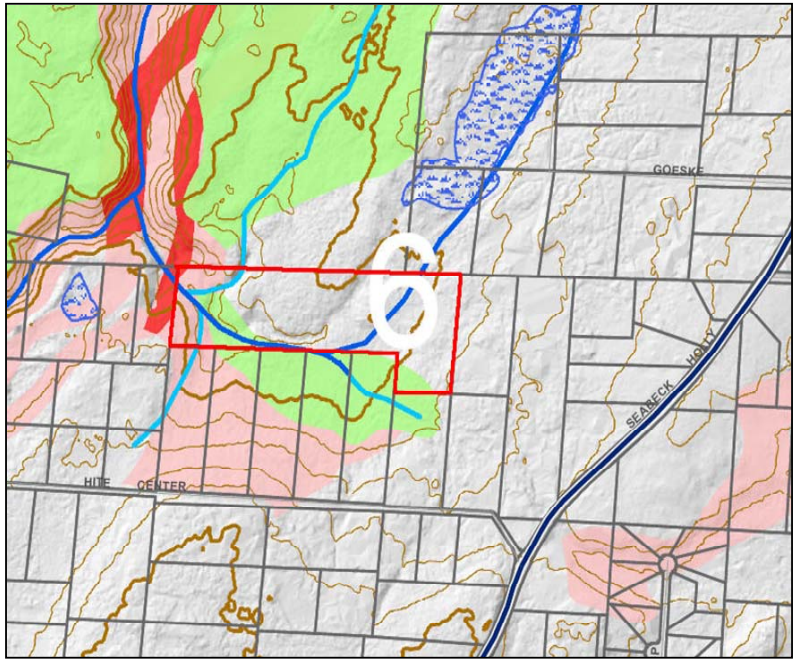
3) Tax Parcel #: 2324 024-040-1005; 1004

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	14.87ac	
Buildings:		
Other:		
Total Sale Price:		$195,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 7



1) 15156 NW Hite Center Rd, Seabeck

2)

a.	Access:	Gravel with maintenance agreement
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RR
e.	Land Area	17.56ac
f.	Sale Date:	July 2, 2007
g.	Price	$249,950
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2007EX04953
k.	Seller:	Scott P. Moren
l.	Buyer	Johnathon W Miller
m.	Confirmed with:	Rich Jacobson Windermere RE Silverdale (360) 440-4758

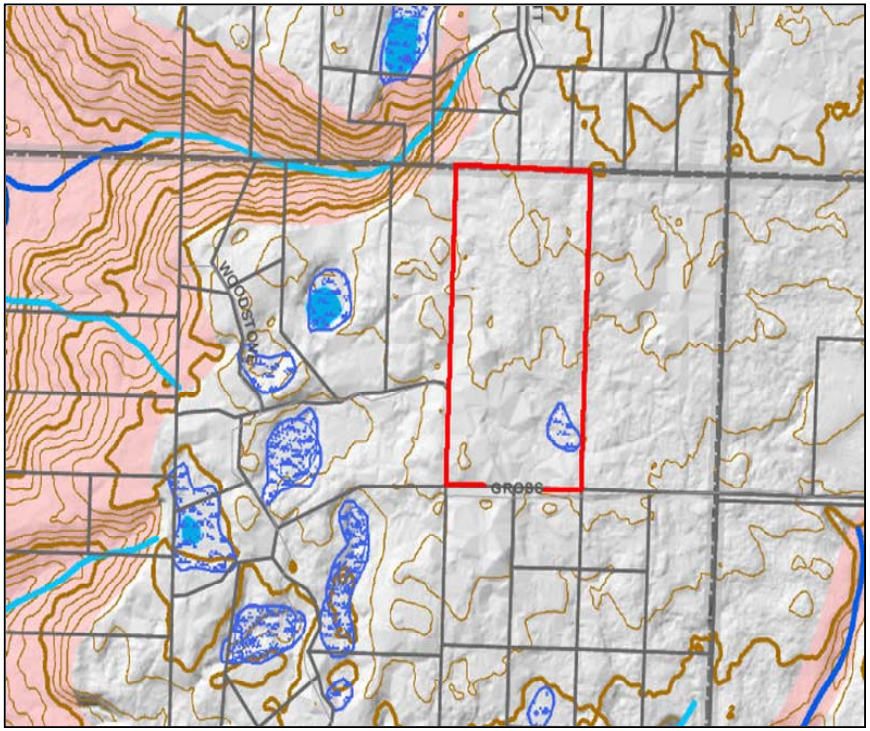
3) Tax Parcel #: 0624-013-044-1005

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	17.56ac	
Buildings:		
Other:		
Total Sale Price:		$249,950

5) Property Description: Refer to valuation analysis in report.

Development Comparable 8



1) Gross Road, Bremerton

2)

a.	Access:	Paved
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RW
e.	Land Area	19.54ac
f.	Sale Date:	January 2, 2007
g.	Price	$250,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2007EX00020
k.	Seller:	Charles Diesen
l.	Buyer	John & Ellen Hough
m.	Confirmed with:	Assessor's Data, Metroscan

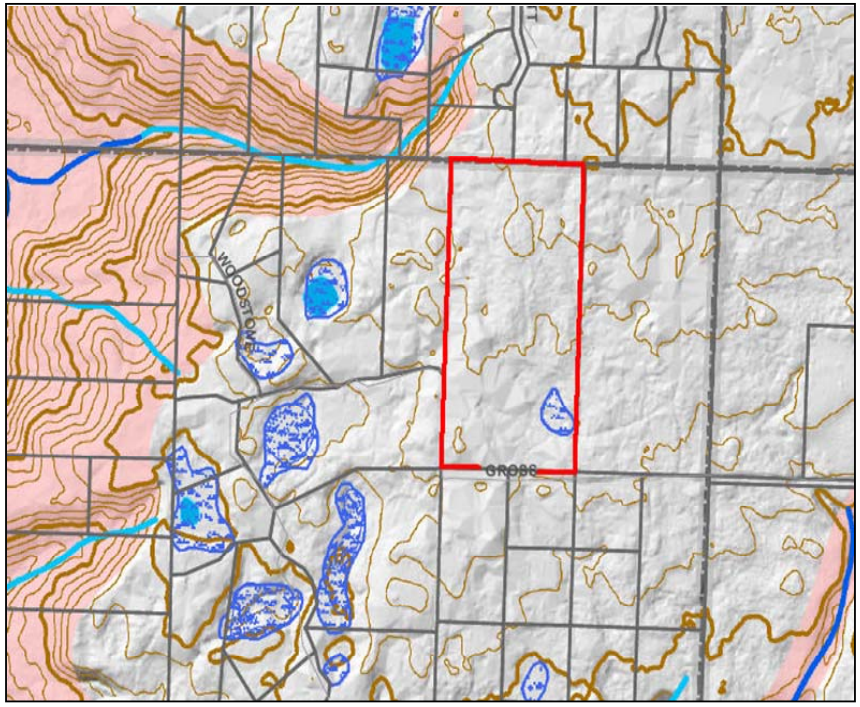
3) Tax Parcel #: 3425-011-034-1006

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	19.54ac	
Buildings:		
Other:		
Total Sale Price:		$250,000

5) Property Description: Refer to valuation analysis in report.

Development Comparable 9



1) Green Mountain Rd NW, Bremerton

2)

a.	Access:	Gravel
b.	Use at Sale:	Vacant Land
c.	H & B Use	SFR
d.	Zoning:	RW
e.	Land Area	21.09ac
f.	Sale Date:	February 13, 2008
g.	Price	$355,000
h.	Instrument Type:	Warranty Deed
i.	Terms:	Cash
j.	ETN:	2008EX831
k.	Seller:	EMCEE Inc
l.	Buyer	Robert Merz & Kelsey Laughlin
m.	Confirmed with:	Assessor's Data, Metroscan

3) Tax Parcel #: 0924-011-004-1004

4) ***ANALYSIS:***

Item		Contribution Value
Land (total):	21.09ac	
Buildings:		
Other:		
Total Sale Price:		$355,000

5) Property Description: Refer to valuation analysis in report.

LAND VALUATION—DEVELOPMENT APPROACH

Introduction

An alternate approach to valuing raw land that is the very common is the development approach (also known as subdivision analysis). I have performed this approach through a discounted cash flow analysis that arrives at a value conclusion through enumeration of the retail sellout prices of the subject's individual lots along with an accounting of costs and an estimate of profit incentive. The benefit of using a DCF analysis is that it lays out the development costs and sales receipts over the time period in which they are anticipated to occur and accounts for the developer's profit as a function of the internal rate of return that a typical investor would apply.

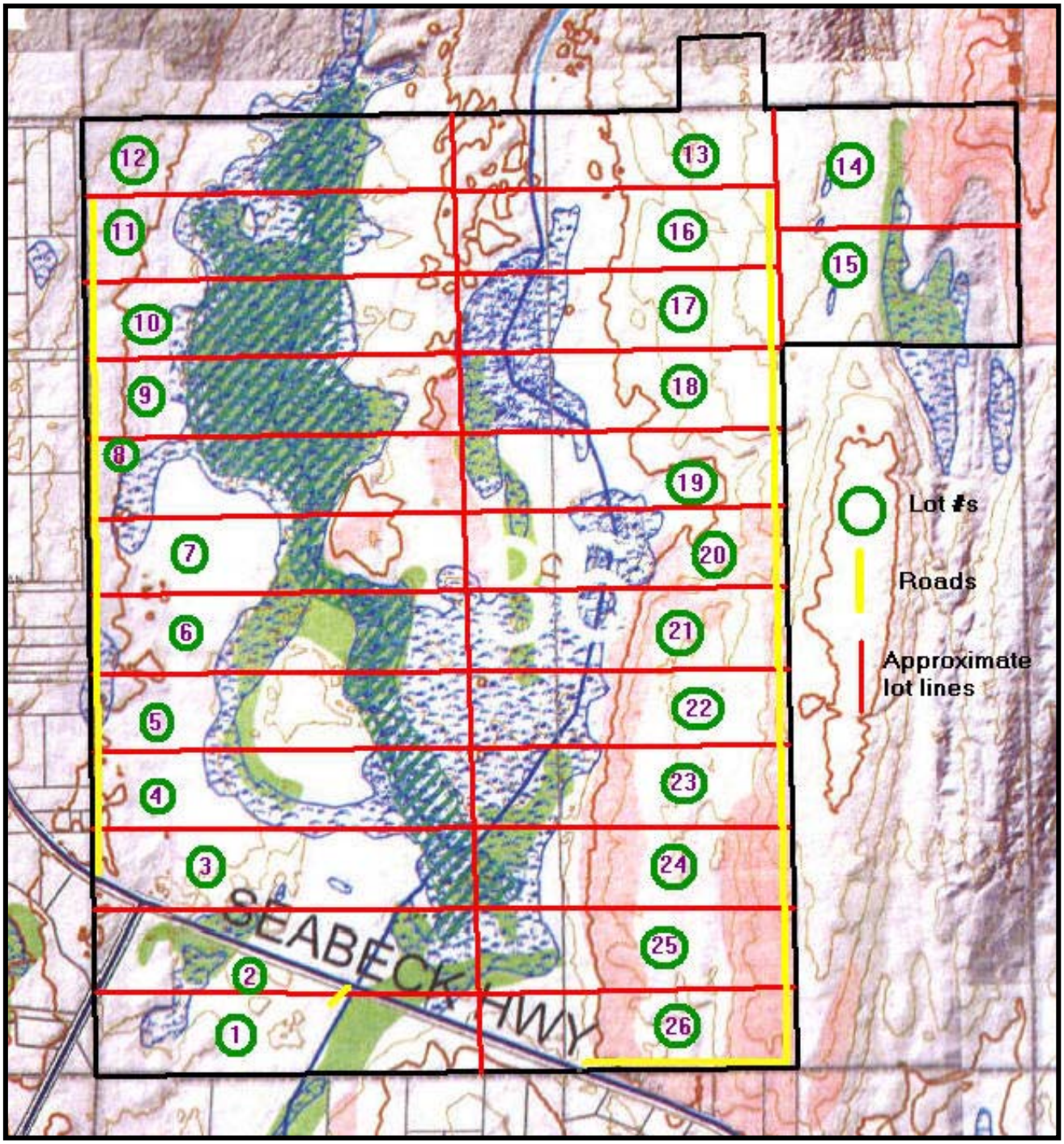
Revenue Projection

Projection of revenue over time requires assignment of lot yield and retail prices. I have projected a total yield of 26 total lots as depicted on the map on the following page. It should be noted that while there are areas of wetlands on most of the development lots, all of them nevertheless have multiple acres outside the wetland and buffer areas that could accommodate house sites. This scenario assumes that the subdivision would be served by 20' wide private gravel roads with underground power and phone lines. As is typical in rural areas water would be provided by private on site wells and waste would be handled by septic systems. The cost of providing wells and septic systems to each house is not included in the development approach as these would typically be provided by the builder who would amortize the costs in the sale price of the improved property.

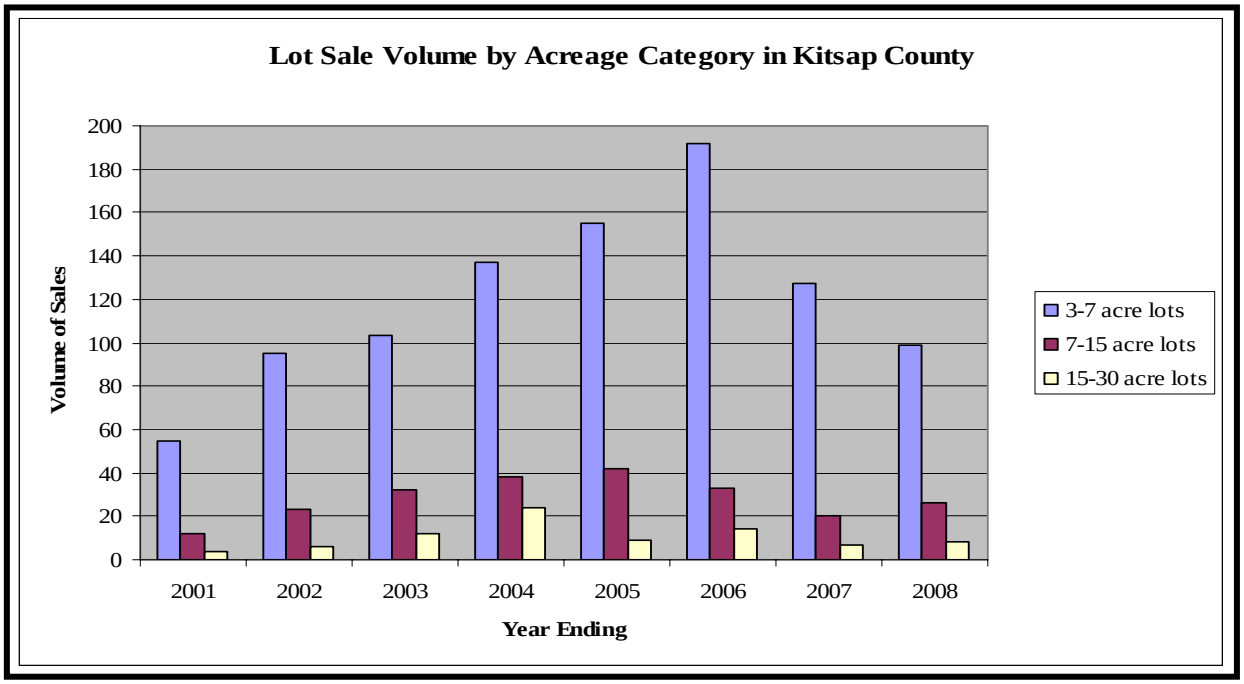
The scenario that follows provides a good indication of how many residential development lots could be built out on the subject. *However, it is important to note that it is intended solely for illustrative purpose. While it is considered to be a credible estimate of lot yield based upon the analysis of this report, in no way does it guarantee that such a development would actually be permitted by Kitsap County.*

The next step is to project the rate of absorption of the development lots. In the course of this analysis, I performed an extensive search of the sales record in Kitsap County for lots between 3ac-30ac using data from the Northwest Multiple Listing Service and Metroscan. A summary of that data is provided in the table and graph on page 112. Nearly all of these lots were zoned for potential rural subdivision into 5 acre, 10 acre or 20 acre lots. Further, nearly all had access to roads the permitted a reasonable commute to a town or city.

The data investigated fell into three size ranges: 3-7 acres, more than 7 acres to 15 acres, and larger lots of more than 15 acres to 30 acres. Comparing the volume of sales in these three categories from 2001-2008 shows that the smaller lots sell out at many times the rate of the largest, with the 7-15 acre lots falling between the two but closer to the sales volume of the largest lots. The lots in the 15-30 acre category, which corresponds to the lot size that would result from residential development of the subject, sold at a rate of 4-14 units in all years except 2004. In that year there is an unexplained bulge in the sale of larger lots totaling 24. However, this has since tapered off such that the recent rate of sales is similar to the rate at the beginning of the decade. Overall, the data suggests that lots of around 20 acres in size in the subject's market area sell at the rate of around 12 per year or about one per month.



LARGE LOT SUBDIVISION SCENARIO MAP



Lot Sale Volume by Acreage Category in Kitsap County, 2000-2008								
	Dec-01	**Dec-02**	**Dec-03**	**Dec-04**	**Dec-05**	**Dec-06**	**Dec-07**	**Dec-08**
3-7 acre lots	55	95	103	137	155	192	127	99
7-15 acre lots	12	23	32	38	42	33	20	26
15-30 acre lots	4	6	12	24	9	14	7	8

Referring to the discounted cash flow summary on page 116, in year one of the analysis the merchantable trees would be harvested, the lots would be entitled, and road and power infrastructure would be built. Lot sales would commence in year 2 with six transactions in that year and the following year. Seven lots are projected to be sold in years 3 and 4.

It should be noted that the annual anticipated rate of sales is close to the total number of 20 acre lots that sold in 2007 and 2008 and thus it could be argued that subject's lots would result in oversupply that would fail to achieve this degree of absorption. However, the graph shows a number of years in which there was ample demand for lots of this size. And while the current climate for residential lot sales is much diminished from the torrid years of the real estate housing boom, MLS data as well as anecdotal information from local brokers indicates that the reduction in sales appears to have leveled out and will likely begin to increase as the general economy and local real estate market recovers. Further, it should be noted that a key reason for low demand of 20 acre lots is that they tend to be in remote places. By contrast, the subject is very accessible to a number of cities and towns, and would likely create additional demand for such lots as a result.

The price of the subject's development lots is based upon the sales comparables detailed in the beginning of this section on the Sales Comparison Map, Sales Comparison Summary Table, as well as additional information on each comparable transaction in the form of photos, maps, data tables and written descriptions. Details regarding each sale transaction were confirmed with the buyer, seller or broker

when possible, but all sale details are considered to come from credible sources. Additionally, I performed a ground inspection of each comparable property.

Since the rural residential land market is quite active in south Kitsap County there is a good record of recent sales of multi-acre rural lots. Among the nine sales comparables five were transacted in 2008 and four in 2007. Given current market conditions I have accorded no appreciation during 2008 and 5% in 2007, which is representative of the slowing market throughout that year. The range of market adjusted sales prices for those lots is $120,000-$355,000.

At the low end of the range is comparable 1, which is situated in central Mason County. The sale of this 20 acre property occurred in April 2008 at a price of $120,000. Although is accessible by county roads, it is considerably more remote from population centers than the other sale properties or the subject and is therefore considered to be inferior. It is a low value indicator for the subject.

Comparables 2 and 3 are two separate but adjacent lots of about 23.5 acres each that were purchased at the same time by the same buyer and for the same price of $135,000 each. According to the sales broker there was a legal right of way to these parcels from Lost Highway at the time of sale but no established access. Lost Highway is a gravel road that is not maintained by Kitsap County. The buyer substantially improved the access along the road and also constructed a good interior road to access each parcel. The entire 47 acre property was recently listed for $380,000. While these are attractive rural lots within about five miles of the subject the issue of access at the time of sale makes the sales price a low value indicator for the subject. The current list price would be more indicative of an appropriate list price for the subject. However, given that it is not an actual sale it is not an appropriate indication of market value.

Comparable 4 is the sale of a 15 acre parcel located near the Bremerton Airport. It is situated at the end of a paved dead end road, which would be a benefit to privacy except that it also happens to be next to the Bremerton Motor Sports Raceway. The property is zoned RR, which would nominally allow for 3 development rights. However, there are about 6 acres of wetlands on the site. Further, there is minimal tree cover on the property and three residences on this property would not create much privacy for any of them. Given the constraints associated with this parcel it is considered to be a good value indictor for the subject, which is itself constrained by wetlands.

Comparable 5 is the sale of a 42 acre parcel that nominally allows for two development rights in accordance with the RW zone. However, there are significant critical areas impacts on the property including a creek that runs through the center of it and extensive steep areas. This effectively limits the development area to a small portion of the property. According to the selling agent it is very unlikely that two homes could be built on the property and the buyer purchased it with that expectation. In other respects this is a heavily wooded parcel at the end of a dead end road in a good location about three miles from Port Orchard. It sold for a market adjusted price of $196,000.

Comparable 6 is a 15 acre parcel located about six miles southwest of the subject in a rural neighborhood. This is a level and heavily wooded parcel situated just past the end of Peter Hagen Road. This is a paved road that turns to gravel and dead ends near the subject. Access from the end of the road is via an easement across the neighboring property. The market adjusted sale price was $197,000.

Comparables 7 and 8 both sold at the higher end of the value range with the former at about $256,000 and the latter at about $262,000. Number 7 is a fairly level 18 acre property with mixed trees and clearing that affords a territorial view to the west. It is zoned RR, which would nominally allow three development units on the property. However, the parcel has since been developed with only one residence. The market adjusted sale price amounted to about $256,000. Comparable 8 is the sale of a 20 acre parcel situated within about a mile and half of the subject. This is a level and heavily wooded parcel with access off a paved road through a large lot subdivision. Both of these parcels are located within a few miles of the subject and have reasonable commute times to Silverdale, Port Orchard and Bremerton. They are considered to be superior value indicators to the subject owing to the fact that number 7 has a superior zone, number 8 has a paved road and neither has critical areas impacts.

The final sales comparable, number 9, is a 21 acre parcel located at the end of a gravel road about 2.5 miles from the subject and within good commuting distance of Silverdale, Bremerton and Port Orchard. This parcel is partially wooded and partially cleared. It has a prevailing slope to the northwest, but is not so steep as to be a critical area. However, the slope with clearing below it does afford a very good view of the Olympic Mountains and a partial view of Hood Canal. This property sold at the top of the value range for $355,000 and is a very high value indicator for the subject.

In comparing the sale properties with the subject's development lots I have concluded with an average retail sales price in year one of the analysis of $165,000/lot for the twenty-six potential development lots on the subject. This price considers that while the critical areas on the site are not expected to limit the number of lots that could be developed and there is enough land on these lots to accommodate a house site and septic system, the reduction in useable area does warrant a downward adjustment to the price of the individual lots. Good evidence of this is provided by comparables 4 and 5, which were both heavily impacted by critical areas.

Escalation Rate

This analysis is keyed to an annual escalation rate of 3.0%, which would be consistent with most long-term inflationary expectations for the market area according to the federal Bureau of Labor Statistics. This rate applies to income from lot prices as well as expenses over time.

Costs

In addition to a projection of revenue, the discounted cash flow analysis requires an estimate of all costs associated with creating a residential subdivision.

Soft Costs/Hard Costs

The soft costs include items necessary to perfect entitlement of the individual lots. This would include such things as a feasibility study, critical areas delineation and survey. As was discussed in the site data section of this report the subject qualifies under the provision of a large lot subdivision that allows for entitlement of 20 acre lots simply by recording surveys of them. This significantly diminishes the cost, time and risk associated with subdividing the subject. I have estimated a cost of $3,000 per lot to accomplish this, which amounts to a total of $78,000 in year 1.

The hard costs consist of interior road construction and installation of power and phone lines. Kitsap County does not regulate the construction of private roads. Thus, gravel would be both permissible and typical for the interior roads. A standard road width of 20' would apply as this is suitable to accommodate two lanes of local traffic. The road bed would average 4" of gravel and the total length of the interior roads is estimated as 11,130 linear feet based upon the development scenario provided on page 111.

Construction of the interior roads would require clearing and grading as well as gravel covering. In estimating this cost I consulted with a road engineer at Sound Earth Construction Company, Susan Seaberg of the DNR and the Marshall & Swift Construction Cost Manual. All three sources were fairly consistent at around $1.25/sf. Applying this to the subject's 222,600sf of interior roads results in an estimated cost of $278,250. The other significant hard cost is provision of power and phone. As was discussed in the site data section on page 33, this was estimated at $18,000 per lot or a total of $468,000.

While it is common for roads and power in a subdivision to be phased in over time as new lots are developed, in this instance I have assumed that the entire construction cost would occur in year 1. The reason is that this is a very simple infrastructure requirement compared to higher density subdivisions that typically rely upon phased construction to save on up front costs. In this case, it is likely that provision of the entire infrastructure at the same time would result in economies of scale that would off set the benefit of phasing in construction.

Marketing Costs/Commissions and Closing Costs

Marketing costs assume a standard commission of 10% for land and closing costs of 2%. These fees are sufficient to cover all costs of marketing, from production of brochures (the responsibility of the listing broker), to title costs and excise tax. Marketing costs are broken out on an annualized basis according to the number of sales made in a given year.

Other Costs

Additional costs incurred over time include a 10% contingency against expense over runs in the soft and hard costs, recovered property taxes to convert one acre of each development lot out of its present forestland status, and holding costs over the duration of the lot sell out period. The latter cost is essentially real estate taxes on unsold parcels. These additional costs are detailed on the DCF summary table.

Reversion

No reversion is associated with this cash flow projection as no physical asset remains to revert to the developer at the end of the sell out.

Profit/Discount Rate

In the selection of an appropriate discount rate for this property, I have considered various investor surveys. In particular, I note the Korpacz Real Estate Investment Survey, which provides a semi-annual survey of return expectations for development land. Profit requirements for bare land by developers tend

DISCOUNTED CASH FLOW ANALYSIS - 26 UNIT SCENERIO

Discounted Cash Flow Analysis Assumptions

26 Single Family Residential Units @ 20 Acres Each
Class IV Timber Harvest

				Year	1	2	3	4	5
APPRECIATION	Annual Rate				3.0%	3.0%	3.0%	3.0%	3.0%
SALES REVENUE	Merchantable Timber				$696,000				
	26 SFR Lots								
	Total Lots Sold					6	6	7	7
	Total Lots Remaining				26	20	14	7	0
	Ave Lot Price				$165,000	$169,950	$175,049	$180,300	$185,709
	Gross Sale Proceeds				$0	$1,019,700	$1,050,291	$1,262,100	$1,299,963
	TOTAL REVENUE				**$696,000**	**$1,019,700**	**$1,050,291**	**$1,262,100**	**$1,299,963**
ALL COSTS	*Development Costs*								
	Initial Soft Costs (Large Lot Subdivision Feasibility, Engineering, Permitting)		$3,000/lot		$78,000				
	Subdivision Hard Costs - Gravel Roads	222,600 sf	$1.25/sf		$278,250				
	Electrical Power & Phone	26 Units	$18,000/unit		$468,000				
	Marketing Costs								
	Commissions	10.0% of Gross			$0	$101,970	$105,029	$126,210	$129,996
	Closing Costs (incl tax)	2.00% of Gross			$0	$20,394	$21,006	$25,242	$25,999
	Other Costs								
	Contingency: Hard & Soft Costs	10.00% Hard & Soft Costs			$82,425		$0		
	Recovered Property Taxes				$25,862				
	Holding Expenses (R.E Taxes)	$130/Unsold Lot			$3,380	$2,600	$1,820	$910	
	TOTAL DEVELOPMENT COSTS				**$935,917**	**$124,964**	**$127,855**	**$152,362**	**$155,996**
NET CASH FLOW									
	NET CASH FLOW WITH NO PROFIT DEDUCTION				**($239,917)**	**$894,736**	**$922,436**	**$1,109,738**	**$1,143,967**
	(Profit is Accounted for in Internal Rate of Return)								

ANNUAL IRR (Including Developer's Profit)	**15.0%**
PROPERTY VALUE NET PRESENT VALUE	**$2,277,692**
TOTAL PROPERTY VALUE ROUNDED	**$2,280,000**
27 Units	**$84,444/unit**

to be much higher than for improved land owing to the risk of entitling the property. With respect to risk assessment the subject that is not platted, lacks roads and utility infrastructure and is also impacted by critical areas. However, this would be significantly tempered by the fact that the property qualifies as a large lot subdivision that only requires recording a survey to plat the individual lots. Infrastructure requirements are relatively simple and do not require crossing any critical areas as shown on the development scenario map. While most of the development lots do have critical areas on them, all have sufficient multi-acre areas free of environmental impacts to support rural residential use. Thus, the impact of critical areas would be accounted for in the lot price, which would be lower than an unimpacted lot, rather than in the developer's discount. Finally, the DCF analysis already accounts for the risk of holding costs by assigning a low absorption rate.

DISCOUNT RATES (IRRS)
Second Quarter 2008

	CURRENT QUARTER	FOURTH QUARTER 2007
FREE & CLEAR		
Range	10.00% - 25.00%	10.00% - 25.00%
Average	17.50%	17.21%
Change		+ 29

a Rate on unleveraged, all-cash transactions, including developer's profit

The table above shows Korpacz data for the 2nd quarter of 2008 (the most recent available for the national development land market). The range of investors' anticipated IRRs (internal rates of return) is 10%-25%. These rates include developer's profit, which is taken at the completion of a development project and therefore is inherent in the overall risk.

It is often difficult to apply discount rates drawn from sales or surveys directly to a subject property owing to lack of knowledge regarding forecast assumptions. Some investors build significant risk hedge into a cash flow forecast. In other situations, investors can make unrealistic projections about income potential. In this case, developer's face an uncertain market due to the ongoing economic difficulties that have reduced overall demand for housing. At the same time, there is some level of demonstrated demand for rural residential development in south Kitsap County and the subject offers the unusual benefit of very large parcels close to several cities and commercial centers.

With the foregoing factors in mind, I have concluded that an appropriate internal rate of return that includes developer's profit amounts to 15%. This is slightly below the mid-point in the range, which is appropriate for a low risk development project with low entitlement and infrastructure costs.

Final Opinion of Value

The discounted cash flow analysis has derived a value for the 522 acre subject with a highest and best use of rural residential development after a Class IV timber harvest at a value of $2,277,692.

VALUE ESTIMATE OF 522 ACRE SUBJECT (ROUNDED) $2,280,000 ($84,444/unit)

RECONCILIATION &

FINAL VALUE ESTIMATE

RECONCILIATION AND FINAL VALUE ESTIMATE

Approaches to Value

The subject property has been valued through the sales comparison and subdivision analysis approaches. Both of these assume a Class IV-G timber harvest that allows for immediate conversion of the residual land to residential use. The results are summarized below.

Sales Comparison Approach	$2,370,000
Subdivision Analysis Approach:	$2,280,000

The sales comparison approach is a well established market-based approach that implicitly reflects the considerations by actual buyers and sellers of all the inputs and variables associated with the sale of property. The subdivision approach is also market based and is predicated upon stipulating a specific analysis of income and costs associated with development of a given property. It relies upon market sales of the subject's potential retail lots. Both of these approaches are well-established tools for valuation analysis and I have placed equal weight upon them in my conclusion of value for the subject.

Based upon the foregoing analysis, I have concluded with the following value estimate for the subject:

FINAL VALUE ESTIMATE OF 522 ACRE SUBJECT $2,325,000 ($4,454/acre)

Date of Value

The date of value is March 19th, 2009, which is the most recent date of inspection. This appraisal report was performed in March of 2009.

Property Exchange Consideration

I have estimated the market value of the fee simple interest in the subject real estate that is owned by the Washington State Department of Natural Resources and under a separate report I have provided an estimate of the market value of the fee simple interest in the property defined as the Kitsap County subject. In the event that the resulting values are not identical, the appraiser has then been directed to provide an opinion of possible changes to boundaries in the respective properties that would result in an exchange of land that is more or less of equal value. My analysis indicates that the Kitsap County and DNR properties are more or less of equal value and therefore no adjustment is warranted.

ADDENDA

Title Report

S.A. Newman Timber Appraisal

Provided Under Separate Cover

Kitsap Rifle and Gun Club Lease

Wesley-Harris Sale

Appraiser's Experience Data

STEPHEN L. SHAPIRO, MAI

Stephen Shapiro graduated in June 1986 from the University of Washington in Seattle, Washington. He was awarded an Honors Degree as Bachelor of the Arts in Communications with a major in Journalism and a minor in Economics. Since that time he has worked as a writer, editor and research consultant specializing in land and marine resource issues. Mr. Shapiro was asked to join the firm of **Wronsky, Gibbons & Riely** in March of 1999 by Anthony Gibbons. In July of 1999 Mr. Gibbons formed Anthony Philip Gibbons PLLC, doing business under the new company name of **RE◆SOLVE** – a company providing Real Estate Appraisal, Counseling and Mediation services. Mr. Shapiro joined Mr. Gibbons in his company at that time.

In his capacity as an appraiser for **Wronsky, Gibbons & Riely** and **RE◆SOLVE**, Mr. Shapiro has developed a broad range of experience over a wide variety of property types. Appraisals have been performed on office and industrial buildings; commercial and industrial land; residential subdivision property; natural resource and habitat land, including timberland and wetland property; and high-end estate homes. In addition, he has provided mediation and expert witness services for legal purposes.

Mr. Shapiro is licensed as a certified general real estate appraiser by the State of Washington (license no. 1101561) and is listed on the Washington State Department of Transportation's Approved List of Appraisers and Reviewers. He was awarded the highly regarded MAI designation of the Appraisal Institute in June 2006 (member no. 12394). He has successfully completed the following Appraisal Institute courses, as well as numerous additional professional seminars:

- Appraisal Principles
- Appraisal Procedures
- Standards of Professional Appraisal Practice, Parts A and B
- Highest and Best Use and Market Analysis
- Basic Income Capitalization
- General Applications
- Advanced Sales Comparison and Cost Approaches
- Report Writing and Valuation Analysis
- Advanced Applications
- Advanced Income Capitalization
- Uniform Appraisal Standards for Federal Land Acquisitions
- Condemnation Appraising: Advanced Topics and Applications
- Attacking and Defending an Appraisal in Litigation
- Forestland Road Cost Obligations

Mr. Shapiro has performed appraisal services for a wide variety of clients, and a brief client list follows.

- City of Bainbridge Island
- WA State Dept. of Natural Resources
- Bainbridge Island Parks and Recreation
- Group Health Cooperative of Puget Sound
- Port of Seattle
- Cascade Land Conservancy
- U.S. Forest Service
- NC Power Systems Co.
- City University
- Trust For Public Land
- Bainbridge Island Land Trust
- The Mark A. Robinson Trusts
- Commerce Bank
- First American Title Insurance Co.
- Tulalip Tribes
- Tousley Brain Stephens PLLC
- Ryan, Swanson and Cleveland, PLLC
- Pope Resources, Inc.
- Hockett & Olsen Brothers, Inc.
- Great Peninsula Conservancy
- Central Kitsap School District
- Riddell Williams P.S.
- Whidbey Camano Land Trust
- Michael A. Goldfarb Law Office
- Lawler Burroughs & Baker, P.C.
- Harnish Group, Inc
- Development Services of America
- Preston Gates & Ellis LLP
- Pacific Investment Co.
- Column Financial
- GVA Kidder Mathews
- American Marine Bank
- Batavia Holdings LLC
- Kinzer Real Estate Services
- Knowles/Turner Real Estate Group
- Warren G. Harding Temple Board Assoc.
- GEM1 LLC
- Kitsap County Dept. of Public Works
- Washington State Parks Commission
- Livengood, Fitzgerald & Alskog PLLC
- American Eagle Communities
- McGavick Graves Attorneys at Law
- Wal-Mart
- Black Equities Group LTD
- Methow Conservancy
- Seattle Yacht Club
- Northwest Watershed Institute
- Transnation Title Insurance Co.
- The Ketcham Family
- City of Burien
- Open Space Resources
- Kitsap Conservation District
- Lawyers Title Insurance Corp.
- Kitsap County Dept. Parks and Recreation
- McCormick Land Company
- Trammell Crow Co.
- Pike Place Market PDA
- City of Edmonds Parks and Recreation
- WA State Department of Transportation
- MacMillan-Piper, Inc.
- Port of Allyn
- Pacific Medical Center and Clinics
- Commonwealth Land Title Insurance
- Port Gamble S'Kllallam Tribe
- Madison Ave Real Estate, LLC
- Kitsap County Dept. of Admin. Services
- Olympic Property Group
- Prosperity Treatment Center
- Old Republic Title Co.
- Cullen Law Office LLP
- Port of Olympia
- Washington First International Bank
- Rogers Deutsch & Turner
- Frontier Bank
- Credit Suisse First Boston
- The Mountaineers
- Bainbridge Public Library
- GMAC Commercial Mortgage
- Farm Bureau Life Insurance Co.
- Starbucks
- Seattle Automotive Dist., Inc.
- Pacific Northwest Title Insurance Co.
- WA State Office of the Attorney General
- Aoki Sakamoto and Grant LLP
- AnMarCo
- King Count Dept. Natural Resources & Parks
- Montgomery Purdue Blankinship & Austin PLLC
- Ogden Murphy Wallace PLLC
- Puget Sound Energy
- Kenyon P. Kellogg, Attorney at Law
- Mundt MacGregor PLLC
- City of Poulsbo
- JWJ Group
- Olympic Resource Management