

Executive Summary Report

Appraisal Date: 1/1/08 – 2008 Assessment Roll

Specialty Name: Bio-Tech, Area 800-10

Previous Physical Inspection: March 2007 – April 2007

Sales – Improved Summary

Number of sales: 1

Sale Date: 10-26-06

Ratio Study: A ratio study was not performed because of the dearth of sales. The number of sales does not meet I.A.A.O. standards for the population.

Population – Average Improved Parcel Summary Data:

	Land	Imps	Total
2007	\$213,670,100	\$1,292,258,300	\$1,505,928,400
2008	\$238,470,800	\$1,397,654,000	\$1,636,124,800
% Change	+11.6%	+8.2%	+8.6%

Number of improved parcels in population = 31

Conclusion and Recommendation

The values recommended in this report improve values and improves equity, I recommend posting them for the 2008 assessment roll.

Client and Intended Use of the Appraisal:

*This mass appraisal report is intended for use only by the King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a **mass appraisal report** as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessor's Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.*

The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The Revaluation Plan is subject to their periodic review.

Definition and date of value estimate:

Market Value

The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65). The true and fair value of a property in money for property tax valuation purposes is its "market value" or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)

Highest and Best Use

RCW 84.40.030 *All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.*

An assessment may not be determined by a method that assumes a land usage or highest and best use not permitted, for that property being appraised, under existing zoning or land use planning ordinances or statutes or other government restrictions.

WAC 458-07-030 (3) True and fair value -- Highest and best use. *Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of possibility, but not reasonably*

probable of occurrence, shall not be considered in valuing property at its highest and best use.

If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922)) The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922)) The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))

Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)

Date of Value Estimate

All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law. [1961 c 15 §84.36.005]

The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year. [1989 c 246 § 4]

Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date a valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.

Property rights appraised:

Fee Simple

Wash Constitution Article 7 § 1 Taxation: *All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word "property" as used herein shall mean and include everything, whether tangible or intangible, subject to ownership. All real estate shall constitute one class.*

Trimble v. Seattle, 231 U.S. 683, 689, 58 L. Ed. 435, 34 S. Ct. 218 (1914) *“the entire [fee] estate is to be assessed and taxed as a unit”*

Folsom v. Spokane County, 111 Wn. 2d 256 (1988) *“the ultimate appraisal should endeavor to arrive at the fair market value of the property as if it were an unencumbered fee”*

The definition of fee simple estate as taken from The Third Edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute. "Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat."

Assumptions and Limiting Conditions:

1. *No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.*
2. *No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.*
3. *No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.*
4. *Rental areas herein discussed have been calculated in accord with generally accepted industry standards.*
5. *The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.*
6. *The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.*
7. *The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.*
8. *No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.*
9. *Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.*
10. *The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, easements adversely affecting property value were not considered.*

11. *An attempt to segregate personal property from the real estate in this appraisal has been made.*
12. *Items which are considered to be “typical finish” and generally included in a real property transfer, but are legally considered leasehold improvements are included in the valuation unless otherwise noted.*
13. *The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.*
14. *I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.*
15. *Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.*

Scope of Work Performed:

Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement by law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.

CERTIFICATION:

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

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or 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 predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*
- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the “appraisal team” and provided significant real property appraisal assistance to the person signing this certification.*

Alan Hashimoto – Commercial Appraiser II

Date

Analysis Process

Effective Date of Appraisal: January 1, 2008

Date of Appraisal Report: June 16, 2008

Responsible Appraiser

The following appraiser did the valuation of this specialty:

Alan Hashimoto, Appraiser II

Highest and Best Use Analysis

As if vacant: Market analysis of this area, together with current zoning and current anticipated use patterns, indicate the highest and best use of the majority of the appraised parcels as commercial use. Any opinion not consistent with this is specifically noted in the records and considered in the valuation of the specific parcel

As if improved: Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. The current improvements do add value to the property, in most cases, and are therefore the highest and best use of the property as improved. In those properties where the property is not at its highest and best use, a token value of \$1,000 is assigned to the improvements and the property is returned to the geographical appraiser.

Standards and Measurement of Data Accuracy: Each sale was verified with the buyer, seller, real estate agent or tenant when possible. Current data was verified and corrected when necessary by field inspection, review of plans, marketing information, and rent rolls when available.

Special Assumptions and Limiting Conditions

All three approaches to value were considered in this analysis.

The following Departmental guidelines were considered and adhered to:

- No market trends (market condition adjustments, time adjustments) were applied to sales prices. Models were developed without market trends. The utilization of a minimum of three years of market information without adjustment for time averaged any net changes over that time period.
- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

Identification of the Area

Name or Designation: Specialty Area 800 – Biotech

Boundaries: All of King County

Maps:

Detailed Assessor's maps are located on the 7th floor of the King County Administration Building.

Area Description:

This specialty includes all biotech lab facilities of over 1,000sf of building area that meets the definition in King County.

Puget Sound Economic Conditions

Although rental activity remains strong with new facilities currently in construction, market capitalization is down for local companies and the industry as a whole. The largest are affected the greatest.

The Seattle area has become the fifth largest biotech center in the nation. Washington has 190 companies dedicated to biotechnology:

- 37% pursue the research and development of therapeutic products
- 27% focus on diagnostics
- 21% specialize in contract manufacturing
- 9% focus on plant, agriculture and animal research
- 4% focus on natural resources
- 2% other

In King County, biotech properties have been a hotbed of small, private startups. Some of which have been absorbed by major international research and pharmaceutical companies. The University of Washington and the Fred Hutchinson Cancer Research Center drives many of these companies. They provide the research and technology necessary for these startups. The area has six Nobel Prize winning scientists and is known for its high level of bio-tech education and experience. Collier's International Elements 2007 says "Seattle ranks in the top tier of life sciences markets in the country, with a currently expanding array of competitive advantages." Although there have been setbacks in "Big Pharma", local companies saw \$253M pumped into local startups last year. That is an 80% increase from the prior year. On the downside, market capitalization of area companies is down from last year and the difficulties with getting a product to market have increased.

The Seattle Mayor and the Washington State Governor strongly support the development of the local bio-tech industry. The Washington Biotechnology & Medical Association and the Washington State Investment Board are actively promoting the area as a biotech hub. The establishment of the \$350 Million Washington State Life Science Discovery Fund to support life science research over the next ten years bolsters this effort. The growth of funding for institutions like University of Washington Medical, The Fred Hutchinson Cancer Research Center, Seattle Biomedical Research Institute, Institute For Systems Biology, Benaroya Research Institute and others demonstrate local industry growth as they acquire, convert and construct more bio-tech space. More new biotech space is being created in the South Lake Union area with three new biotech “spec” buildings under construction with brisk rental activity. The South Lake Union Transit began running earlier this year. Demand for space is still quite high. Recent biotech sales include the purchase of the downtown Life Sciences Building by Children’s Hospital as well as their purchase of another adjacent block and a half for future development.

Physical Inspection Identification:

Biotech valuations were performed on all facilities within all areas of King County. Approximately 50% of the population was inspected.

Preliminary Ratio Analysis

No ratio study was performed because of insufficient quantity of sales in the population to meet IAAO standards.¹

Scope of Data

Land Value Data:

The geographic appraiser in the area in which the specialty property is located is responsible for the land value used by the specialty appraiser. See appropriate area reports for land valuation discussion.

Almost all the bio-tech facilities in King County are research laboratories. There is one production plant which manufactures a drug. Production facilities require greater safety measures and have all of the above but to a greater degree.

¹ Mass Appraisal of Real Property, IAAO, 1999, p. 271-274

Improved Parcel Total Value Data:

Sales information is obtained from excise tax affidavits and reviewed initially by the Accounting Division, Sales Identification Section. Information is analyzed and investigated by the appraiser in the process of revaluation. Verification consists of contact with Buyer, Seller, or Broker if possible, or information from the Costar InfoSystems, Inc., a real estate sales verification service. Characteristic data is verified for all sales if possible. Due to time constraints, interior inspections were limited. Sales are listed in the "Sales Used" and the "Sales Not Used" sections of this report.

Improved Parcel Total Values:

Sales comparison approach model description

The sales comparison approach was not used because there was only one sale in the population. Generally, the market approach is utilized when an adequate sales market exists. Standards are set by the International Association of Assessment Officers.

Cost approach model description

Cost estimates are automatically calculated via the Marshall & Swift cost modeling system. Depreciation was based on studies done by Marshall & Swift Valuation Service. The cost was adjusted to the Western Region and the Seattle area. Marshall & Swift cost calculations are automatically calibrated to the data in place in the Real Property Application. The cost approach was considered for all properties but used only for new construction.

Cost calibration

The Marshall & Swift cost-modeling system built into the Real Property Application is calibrated to this region and the Seattle area.

Income capitalization approach model description

The income approach to value was considered the most reliable valuation approach for Biotech properties. Separate rates are developed for newly developed facilities and converted facilities. Rates were taken from the market. The attached spreadsheets included within this report details the valuation of each property.

Income: Income parameters were derived from the market place through fair market sales as well as through published sources (i.e. Office Space.com, Commercial Brokers Association, Costar, Multiple Corporate Real Estate Websites), and opinions expressed by real estate professionals active in the market.

Vacancy: Vacancy rates used were derived mainly from published sources tempered by personal observation. Vacancy is currently lower for biotech than the downtown office market.

Expenses: Expense ratios were estimated based on industry standards, published sources, and personal knowledge of the area's rental practices. Within our income valuation models, the assessor used full service expenses although the user usually performs some of the functions of repair and maintenance because of the nature of the industry.

Capitalization Rates: Capitalization rates were determined by the local published market surveys, such as CoStar, Real Estate Analytics, and The American Council of Insurance Adjustors, Colliers International, Integra Realty Resources and Korpaz. Other national reports include Grubb and Ellis Capital Market Update, Emerging Trends in Real Estate, Urban Land Institute, and Cushman & Wakefield – 17th Annual Real Estate Trends. The effective age and condition of each building determines the capitalization rate used by the appraiser. For example, a building with a lower effective age of lesser condition will typically warrant a higher capitalization rate and building in better condition with a higher effective age will warrant a lower capitalization rate. Biotech properties use a slightly higher rate than similar downtown office because of the added risk in this market.

The bio-tech real estate market is a mix of newly developed space and converted space. Since biotech requires certain extreme sorts of construction, conversion is only possible in select buildings. Biotech buildings generally have specific requirements to meet their function including:

- Ceiling heights of 14'-16'.
- Intensive air conditioning and ventilation.
- Intensive electrical systems.
- High load bearing floors.
- Impervious ceiling, wall and floor surfaces.
- Hazardous waste containment and disposal.
- Animal holding facilities. (Vivariums)
- Lines for compressed air, gas, liquids, etc.
- Building structure rigidity/stability-absence of vibration or movement

Income approach calibration:

The attached spreadsheets, included within this report, was calibrated after setting economic rents, vacancy, expenses and capitalization rates by using adjustments based on size, effective age, and construction quality as recorded in the Assessor's records.

The effective age and condition of each building determines the capitalization rate used by the appraiser. For example; a building with a lower effective age of lesser condition will typically warrant a higher capitalization rate and building in better condition with a higher effective age will warrant a lower capitalization rate.

See the attached spreadsheet.

Reconciliation and or validation study of calibrated value models including ratio study of hold out samples.

All parcels were individually reviewed by the specialty appraiser for correctness of the model application before the final value selection. All factors used to establish value by the model were subject to adjustment.

Model Validation

Typically the Market Sales Approach is considered the best reliable indicator of value when comparable sales are available. Since there were too few sales to develop of model for sale comparison, this approach was not used.

The Cost Approach was considered on all of the Biotech facilities. Cost estimates served as value indicators for new construction projects and some special remodel projects.

The Income Approach to value was considered the most reliable valuation approach for Biotech properties in this revalue cycle.

Appraisal judgment prevails in all decisions regarding individual parcel valuation. Each parcel in the physical inspection neighborhood was field reviewed and a value selected based on general and specific data pertaining to the parcel, the neighborhood and the market. The appraiser determines which available value estimate may be appropriate and may adjust for particular characteristics and condition as they occur in the valuation area.

The Specialty Appraiser recommends application of the Appraiser selected value, as indicated by the appropriate model or method.

The total assessed value for the 2007 assessment year, for specialty area 800-10, was \$1,505,928,400 and the total recommended assessed value for the 2008 assessment year is \$1, 636124,800. Application of these recommended values for the 2008 assessment year results in a total increase from the 2007 assessments of 8.6%. This increase is due to upward market changes over time and the previous assessment levels.